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Building International Sales in a Digitized Economy: Best Practices for SMEs





Building International Sales in a Digitized Economy: Best Practices for SMEs

by A. Rebecca Reuber and Eileen Fischer

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Preface

Increasingly, advances in information and communications technologies should be enabling Canadian small and medium-sized enterprises (SMEs) to sell in foreign markets earlier and more extensively. Even the smallest businesses use the Internet, and this should give thousands of businesses the potential to internationalize their sales. Despite this potential, however, relatively few Canadian SMEs are selling in international digital markets. The available evidence suggests that many business owners lack confidence in their ability to do so. Accordingly, this research was undertaken to identify effective practices that help SMEs sell in international digital markets.

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EXECUTIVE SUMMARY

Building International Sales in a Digitized Economy: Best Practices for SMEs

At a Glance

- ♦ Although most Canadian small and medium-sized enterprises (SMEs) use the Internet, only some use it to sell in foreign markets.
- ♦ SMEs most likely to prosper from international digital markets develop a favourable online reputation, strong online technological capabilities, and an engaged online brand community.
- ♦ In digital markets, SME owners need to be cautious about relying exclusively on online interactions; entering foreign markets haphazardly; being market pioneers; and being perceived as too Canadian.

Digital markets seem poised to help Canadian small and medium-sized enterprises (SMEs) sell internationally. We define a digital market as a setting that enables buyers and sellers to exchange information, conduct transactions, or perform other sales-related activities online, via Internet or wireless technologies. This definition encompasses companies that produce digital goods and services, as well as those that use Internet or wireless technologies to sell tangible goods and services. It was once common to distinguish “e-businesses” from other firms. However, as these technologies become more widely used, many firms think of their efforts in digital markets as part of a continuum of activities that create value for customers. Digital markets increase

access to international customers and can improve the quality, speed, and cost-effectiveness of communications and transactions.

Despite the potential, the most recent evidence suggests that Canadian business owners are reluctant to sell in digital markets. Many do not know how to reach foreign customers online or how to adapt their business model to take advantage of digital markets.

Digital markets increase access to international customers and can improve the quality, speed, and cost-effectiveness of communications and transactions.

This report seeks to address this knowledge gap by identifying the factors that have enabled Canadian SMEs to internationalize effectively via digital markets. It is based on a survey of over 500 papers published during the past decade in 33 academic journals, supplemented by interviews with select Canadian entrepreneurs who are successfully selling online in foreign markets.

The report shows that the competitive context for SMEs in international digital markets differs from that in traditional markets. Online, buyers are more apt to imitate the purchasing behaviour of previous buyers. Strong technological capabilities increase in importance, even for companies that are not otherwise technologically intensive. In addition, online buyers are interested in participating in online communities. As a result, three main factors

contribute to success in international digital markets: a favourable online reputation, strong online technological capabilities, and an engaged online brand community.

A favourable online reputation includes visibility, trustworthiness, and signals of high product or service quality. Companies can enhance their online visibility in several ways. For instance, they can try to improve their firm's ranking in online searches through search engine optimization; join an international online market; or foster discussion of their company by prominent online influencers. To develop online trustworthiness, they can list their physical location online, use a familiar payment system, and outline their experience in international markets. Online product quality signals include awards, third-party certifications, and online ratings, reviews, endorsements, and testimonials.

While there are benefits to being seen as a Canadian company, the CEOs we talked to wanted to make national borders as invisible as possible.

Companies develop strong online technological capabilities only when the CEO and other top managers champion such development. Initiatives most likely to give firms a competitive advantage are those that are difficult for competitors to imitate. These include integrating back-office processing with web applications, using web-based analytical tools, and customizing the web experience for different markets.

Online brand communities can help customers use a company's products and services, and can enhance perceptions of its brand. To succeed in this area, companies must build relationships with online influencers, design engaging online content, and interact with online communities.

The research indicates there are challenges, as well as opportunities, associated with internationalizing via digital markets. For instance, SME owners and managers may rely on online interactions to the exclusion of offline interactions, or may see different geographic markets as more homogeneous than they really are. Some firms

may enter diverse foreign markets too quickly, in response to random, unsolicited orders; such a scattershot approach may not provide a basis for sustained growth. Further, being an online pioneer in a market can be costly and enable slower-moving rivals to learn from the pioneer's mistakes. Finally, SME owners need to think about how "Canadian" they want their image or brand to be. While there are benefits to being seen as a Canadian company, the CEOs we talked to wanted to make national borders as invisible as possible.

Finally, the report identifies eight policy-related implications of this research.

- ♦ Programs and policies, such as trade missions and trade shows, that foster offline interactions between buyers and sellers should be maintained.
- ♦ Programs and policies to support Canadian SMEs in international digital markets should not prioritize a wide geographic scope of sales. It is better to focus first on foreign markets with high growth potential than to simply respond to unsolicited online orders.
- ♦ Canadian SMEs require affordable access to high-capacity Internet and wireless networks.
- ♦ Policy initiatives to support firms' digital strategies are more likely to influence young firms than established firms, which would need to change their business model and key operations.
- ♦ Opportunities for particular Canadian SMEs to affiliate with prominent organizations in foreign markets are likely to benefit Canadian SMEs in general, because they indicate that Canadian firms are successfully doing business in these markets.
- ♦ Organizations such as banks and government agencies that provide resources to Canadian SMEs need to be able to assess intangible resources, such as a firm's reputation and online community, to value SME performance in international digital markets.
- ♦ These organizations may have to rethink the way they categorize firms, because innovative SMEs are changing the nature of competition and do not fit neatly into traditional categories.
- ♦ More recent data should be collected about the international activities of Canadian SMEs in digital markets, and the barriers to greater adoption of Internet-based and wireless practices.

CHAPTER 1

Introduction

Chapter Summary

- ◆ The emergence of digital markets is promising for the greater internationalization of Canadian small and medium-sized enterprises (SMEs).
- ◆ However, although most Canadian SMEs use the Internet, online selling is not widespread; the barrier to online sales seems to be a lack of knowledge.
- ◆ The objective of this report is to shed light on the practices Canadian SMEs are using to sell successfully in international digital markets.
- ◆ The findings are based on an extensive literature review and interviews with Canadian business owners.

Prosperous, growth-oriented small and medium-sized enterprises (SMEs)¹ are vital to the health of the Canadian economy. Since Canada has a small domestic market for many goods and services, the most promising growth opportunities for many SMEs lie in foreign markets. In a world where trade is increasingly globalized, innovative firms can target international customers to fuel their growth objectives.

However, although greater internationalization provides growth opportunities, doing business in foreign markets can be difficult and costly for resource-constrained SMEs,² and most of them operate solely in the domestic market. Even though 85 per cent of Canadian exporters are small businesses,³ only 5 per cent of small businesses, and 34 per cent of medium-sized businesses, are exporters, compared with 69 per cent of large businesses.⁴ These numbers may even be overstated, since SMEs often export sporadically, so international markets are not an integral part of their business.⁵

Since Canada has a small domestic market for many goods and services, promising growth opportunities for many SMEs lie in foreign markets.

The emergence of digital markets may help SMEs sell internationally. We define a digital market as a setting that enables buyers and sellers to exchange information, conduct transactions, or perform other sales-related activities online, via Internet or wireless technologies.⁶ This definition encompasses companies that produce digital goods and services, as well as those that use Internet or wireless

1 We follow Industry Canada's approach, which defines a small enterprise as one with fewer than 100 employees, a medium-sized enterprise as one with 100 to 499 employees, and a large enterprise as one with 500 or more employees. Industry Canada, *Key Small Business Statistics*, 46.

2 Fischer and Reuber, *Survival of the Fittest*, 11.

3 Industry Canada, *Key Small Business Statistics*, 46.

4 Ibid., 45.

5 Tal, *Canadian SMEs: It's Time to See the World*, 2.

6 This definition has been adapted from Varadarajan and others, "First-Mover Advantage," 296.

technologies to sell tangible goods and services. It was once common to distinguish “e-businesses” from other firms. However, as these technologies become more widely used, many firms think of their efforts in digital markets as part of a continuum of activities that create value for customers.⁷ Digital markets, and the technologies upon which they are based, increase access to international customers and increase the quality, speed, and cost-effectiveness of communications and transactions. These benefits suggest that SME owners will increasingly use Internet-related technologies to internationalize their sales.

Surveys of Canadian business owners suggest that the reluctance to sell online stems from a lack of knowledge of how to sell effectively in digital markets.

Despite this potential, the most recent evidence suggests that Canadian SMEs are reluctant to sell in digital markets. The barrier seems not to be primarily technological, as Canadians are adopting Internet-related technologies and using them for an increasing array of activities.⁸ For instance, almost 60 per cent of Canadian Internet users participated in social networking sites in 2010—one of the highest rates in the world.⁹ Table 1 shows the increase in Internet access and use from 2001 to 2007 among Canadian firms of different sizes. The proportion of firms that have Internet access, have a company website, or purchase online has increased substantially. In contrast, except among large firms, there has been almost no increase in the extent to which Canadian firms are selling online. Although no 2001 data are available, Table 1 also shows that few firms in 2007 were using online systems to do marketing or manage customer relations.

There could be a number of explanations for these numbers. Canadian SMEs may not be reluctant at all but may instead have faced a long learning curve before they could sell online, so the 2007 data may not reflect the current situation. Business owners may be reluctant to increase their dependence on expensive, and increasingly inadequate, broadband.¹⁰ The data may understate online sales activity by focusing on sales transactions and not taking into account other sales activities, such as customer acquisition and after-sales service. However, surveys of Canadian business owners suggest that the reluctance to sell online stems from a lack of knowledge of how to sell effectively in digital markets.¹¹ Only 36 per cent of Canadian business owners believe doing business over the Internet would allow them to reach new customers.¹² Roughly the same percentage are reluctant to change their business model to accommodate online sales.¹³

Accordingly, the objective of this report is to shed light on the practices Canadian SMEs are using to sell successfully in international digital markets. Through a comprehensive review of the most recent and relevant scholarly literature, supplemented with examples of successful Canadian SMEs, we address the following questions.

- ♦ What are the key differences between digital markets and traditional markets that influence the internationalization opportunities available to SMEs?
- ♦ What factors enable SMEs to take advantage of opportunities for making international sales in digital markets?
- ♦ What challenges should SMEs anticipate when competing internationally in digital markets and how can these be mitigated?
- ♦ What policy initiatives can foster the internationalization of Canadian SMEs in digital markets?

7 Ouellet, *The Deployment of Electronic Business Processes in Canada*, 18.

8 Statistics Canada, *Internet Users at Home*.

9 eMarketer, *Canada Social Media Marketing*.

10 Wolfe and Bramwell, *Growing the ICT Industry in Canada*, 45.

11 This statement is also consistent with recent studies showing a gap in business use of technology. For a discussion of this phenomenon, see Goldfarb, *Canada's Trade in a Digital World*, 12–13. This gap is at least partially due to complacent attitudes and a reluctance to change practices; see Task Force on Competitiveness, Productivity and Economic Progress, *Today's Innovation, Tomorrow's Prosperity*, 13.

12 Statistics Canada, *The Daily*.

13 Noce and Peters, *Barriers to Electronic Commerce in Canada*, 7.

METHODOLOGY

Two research methodologies were used in this study: a literature review and interviews with successful Canadian entrepreneurs.

We examined only studies published since 2000, on the assumption that research published more than 10 years ago is likely to be dated in such a rapidly changing technological environment. Indeed, even research published 5 to 10 years ago is getting dated, which we took into account when selecting the articles for detailed study. To include the strongest journals in the fields of entrepreneurship, international business, management, management information systems, and marketing, while keeping the systematic search manageable, we focused on the 33 journals shown in Table 2. We chose these journals because they appeared on the *Financial Times* list of journals used for the 2010 MBA program rankings or because they scored highly on the 2008 Thomson Reuters ranking of journal impact.

Two research methodologies were used in this study: a literature review and interviews with successful Canadian entrepreneurs.

We examined all issues of these journals published from 2000 through 2010 and found 569 articles related to the broad topic of companies doing business in digital markets. In the second phase of the review, we read each of these articles closely to determine whether and where it enhanced understanding of how SMEs are selling effectively in digital markets today. In the third phase of the review, we analyzed the resulting collection of articles, looking for patterns in theoretical conceptualizations and empirical findings that suggest important factors related to Internet-enabled internationalization. We identified three key factors that enable small young firms to sell effectively in international digital markets: online reputation, online technological capabilities, and online brand communities.

Table 1
Internet Access and Use by Firms of Different Size Classes, 2001 and 2007
(per cent)

Internet Access and Use	Size of Firm*	2001	2007
Has Internet access	Small	68	85
	Medium	91	95
	Large	94	99
Has own website	Small	24	36
	Medium	57	74
	Large	74	90
Purchases online	Small	20	45
	Medium	30	69
	Large	52	74
Sells online	Small	6	7
	Medium	12	13
	Large	15	22
Online marketing and customer relations	Small	n/a	10
	Medium	n/a	19
	Large	n/a	32

*These size classes differ from those in the rest of this report. For most industries, small firms are defined as those having fewer than 20 employees, medium-sized firms as those having 20 to 99 employees, and large firms as those having 100 or more employees. However, for manufacturing firms, small firms are defined as those having fewer than 20 employees, medium-sized firms as those having 20 to 499 employees, and large firms as those having 500 or more employees.

Sources: Industry Canada, *Key Small Business Statistics*, 44; Ouellet, *The Deployment of Electronic Business Processes in Canada*, 10.

To illustrate the concepts identified in the literature review, we interviewed eight Canadian entrepreneurs who have increased their firms' international sales through digital markets. (See box, "Case Studies Examined.") We explicitly chose a diverse set of firms, representing tangible and digital offerings, products, and services; business-to-business (B2B) and business-to-consumer (B2C) customer bases; and a range of sales volumes. All of these firms had digital strategies from their earliest days, which could be a factor in their success. Since organizations tend to exhibit some inertia, it is likely easier for young firms to develop effective online practices than for established firms to change the way they do things.

Table 2
Journals Published Between 2000 and 2010 Reviewed in This Report

Field	Journal Name	Field	Journal Name
Entrepreneurship	<i>Entrepreneurship Theory and Practice</i>	Management (con't)	<i>Organization Science</i>
	<i>Journal of Business Venturing</i>		<i>Organization Studies</i>
	<i>Journal of International Entrepreneurship</i>		<i>Research Policy</i>
	<i>Small Business Economics</i>		<i>Sloan Management Review</i>
	<i>Strategic Entrepreneurship Journal</i>		<i>Strategic Management Journal</i>
International business	<i>International Business Review</i>	Management information systems	<i>Communications of the ACM</i>
	<i>Journal of International Business Studies</i>		<i>Information Systems Research</i>
	<i>Journal of World Business</i>		<i>Journal of MIS</i>
	<i>Management International Review</i>		<i>Management Science</i>
Management	<i>Academy of Management Journal</i>		<i>MIS Quarterly</i>
	<i>Academy of Management Perspectives</i>	Marketing	<i>International Marketing Review</i>
	<i>Academy of Management Review</i>		<i>Journal of the Academy of Marketing Science</i>
	<i>Administrative Science Quarterly</i>		<i>Journal of International Marketing</i>
	<i>California Management Review</i>		<i>Journal of Marketing</i>
	<i>Harvard Business Review</i>		<i>Journal of Marketing Research</i>
	<i>Journal of Management</i>		<i>Marketing Science</i>
	<i>Journal of Management Studies</i>		

Source: The Conference Board of Canada.

ORGANIZATION OF THE REPORT

Chapter 2 describes the competitive context inherent in digital markets and briefly explains why online reputation, online technological capabilities, and online communities are key resources and capabilities for firms competing in that context. The next three chapters describe each of these three resources and capabilities in greater detail.

In each of these chapters, we discuss insights from the literature and provide examples from Canadian SMEs. Chapter 6 outlines challenges that SMEs should anticipate when competing internationally in digital markets. It concludes by summarizing the implications of the findings for policy development.

Case Studies Examined

DIGITAL PRODUCT OR SERVICE

ClearFit

Website: www.clearfit.com

ClearFit sells an online hiring solution to SMEs. All its sales are online. Foreign markets—particularly the U.S.—account for 90 per cent of its customers and 80 per cent of its sales revenues.

ECHOage

Website: www.echoage.com

ECHOage sells a birthday party service that is charity-driven, eco-friendly, and convenient for parents. All its sales are online and over 25 per cent are to U.S. customers.

FreshBooks

Website: www.freshbooks.com

FreshBooks sells online invoicing and time-tracking services. All its sales are online. Of the firm's 2 million customers, just over 60 per cent are from the U.S., 14 per cent are from Canada, and 25 per cent are from other English-speaking countries.

Polar Mobile

Website: www.polarmobile.com

Polar Mobile sells a technology platform that enables businesses to launch mobile applications that work across smartphone devices. It acquires customers online but does not sell online. Of its sales, 60 per cent are to U.S. customers, 30 per cent are to Canadian customers, and 10 per cent are to customers elsewhere.

TANGIBLE PRODUCT OR SERVICE

Admiral Road

Website: www.admiralroad.com

Admiral Road sells handmade fleece baby blankets. Online orders represent 80 per cent of sales. International sales represent 25 per cent of sales. Admiral Road has sold to a dozen countries, but the U.S. accounts for the majority of its foreign sales.

Beyond the Rack

Website: www.beyondtherack.com

Beyond the Rack is a shopping club that sells designer merchandise to its 3 million members through shopping events that typically last 48 hours. All its sales are online, with 60 per cent to customers in the U.S. and 40 per cent to Canadians.

LPR Global

Website: www.lprglobal.com

LPR Global specializes in international trade between world markets and South Korea. Consulting services account for 68 per cent of its sales, while online product sales comprise the remaining 32 per cent. The proportion of revenue from foreign markets is 90 per cent, with most of the service-related revenue coming from South Korea and most of the product-related revenue from the U.S.

Mabel's Labels

Website: www.mabel.ca

Mabel's Labels sells a wide variety of sticky labels and clothing labels. Forty-two per cent of its sales come from outside Canada, and 95 per cent of these foreign sales come from the U.S. The company makes 93 per cent of its sales over the Internet.

Source: The Conference Board of Canada.

CHAPTER 2

The Competitive Context of International Digital Markets

Chapter Summary

- ♦ In digital markets, there is a high degree of imitation among buyers, so SMEs must develop a favourable online reputation.
- ♦ In digital markets, online technological capabilities are important.
- ♦ In digital markets, buyers gain power, so SMEs need to pay attention to online brand communities.

Markets change as they become increasingly digital, and these changes alter the competitive context for SMEs. Three key changes are particularly consequential for SMEs competing internationally in digital markets: increasing imitation among online buyers; the operational importance of technology; and buyers' increased power. (See Exhibit 1.) In this chapter, we discuss all of these changes and their implications.

IMITATION AMONG ONLINE BUYERS

When a market becomes more digital, there can be “herding behaviour.”¹ In other words, buyers tend to

imitate the purchasing decisions of previous buyers. Herding behaviour is a result of information overload among buyers. To avoid sifting through the large volume of online information about unknown sellers, buyers tend to follow the choices other people have made because that is more efficient. When herding behaviour is extreme, there can be “winner take all” markets, where one seller becomes an overwhelming market leader. This is particularly common when consumer demand for product/service variety is low, as is the case for online auctions, where eBay satisfies most consumers. A rapidly expanding customer base can also attract third-party suppliers of value-added products and services, which benefits both buyers and sellers.

Because of herding behaviour, SMEs must be visible online, provide high-quality goods and services, and be seen as trustworthy. In short, they need to develop a favourable online reputation.

TECHNOLOGY GAINS OPERATIONAL IMPORTANCE

When a market becomes more digital, information technology becomes more important to competitive advantage, for several reasons.² First, there are additional requirements to manage privacy, security, and online payments.

¹ These changes are described more fully in Duan and others, “Informational Cascades”; Varadarajan and Yadav, “Marketing Strategy and the Internet”; Varadarajan and others, “First-Mover Advantage.”

² These changes are described more fully in Barua and others, “An Empirical Investigation”; Chen and Hitt, “Measuring Switching Costs”; Varadarajan and Yadav, “Marketing Strategy and the Internet.”

Exhibit 1**Characteristics of Digital Markets and Their Implications for Competition****CHARACTERISTICS OF DIGITAL MARKETS****IMPLICATIONS FOR COMPETITION
IN DIGITAL MARKETS**

- Herding behaviour
- “Winner take all” markets
- Third-party suppliers of add-ons



Online reputation is consequential for online sales because online buyers tend to imitate each other.

- Higher needs for privacy, security, online payments
- Pressure to gather personalized customer knowledge
- Differentiation that can lower price sensitivity
- Cost pressures for digitization of products and channels
- Rising importance of standards
- Technological change that is often demand-driven



Online technological capabilities are consequential for online sales because the technology is complex and changing.

- Prominent role of third-party intermediaries
- Expansion of thin markets
- Lower information search costs
- Lower switching costs
- Desire among buyers to communicate with sellers



Online communities are consequential for online sales because buyers gain power.

Source: The Conference Board of Canada.

Second, when firms understand personalized buyer profiles, they can retain more customers by increasing customer switching costs and adopting individualized pricing mechanisms. Third, greater digitization of products and services can reduce channel and distribution costs. Fourth, as technology becomes more complex, and because it changes quickly, SME owners need to integrate different elements of their technologies and operations. As a result, online technological capabilities are critical for SME owners attempting to sell internationally through digital markets.

BUYERS GAIN POWER

When a market becomes more digital, buyers tend to gain power, for a number of reasons.³ First, search costs decrease: more information is generally available about

more sellers, and third-party intermediaries emerge to provide buyers with comparative information on prices and quality. Second, “thin” markets (those with few buyers) expand as the geographic scope of search and trade expands. Third, because more sellers are available and are simpler to find, buyers face lower switching costs and so can change sellers more easily. Fourth, because the Internet permits two-way communication, buyers can more readily communicate with sellers; they can even participate in product-related decisions. As buyers gain power, SME owners attempting to sell internationally through digital markets need to pay attention to the online brand communities where buyers find and provide information.

In summary, these three characteristics of digital markets suggest that three factors will be important to the online internationalization of SMEs: a favourable online reputation, strong online technological capabilities, and an engaged online brand community. We will discuss each of these factors in more detail in the next three chapters.

³ These changes are described more fully in Chen and others, “Referral Infomediaries”; Moe and Yang, “Inertial Disruption”; Schau and others, “How Brand Community Practices Create Value.”

CHAPTER 3

Online Reputation

Chapter Summary

- ◆ Firms can increase their online visibility by using search engine optimization techniques, selling through an established online channel, and encouraging a prominent online influencer to discuss them.
- ◆ Companies can improve perceptions of their online trustworthiness by disclosing identifying information about the firm online, using a familiar payment system, and communicating on the website that the firm has experience in selling to foreign buyers.
- ◆ It is important to signal product quality through online ratings and reviews, awards the firm has won, endorsements from third parties, and testimonials from buyers whom the firm's customers want to imitate.

In theory, digital markets increase an SME's geographic reach. However, with a large number of international sellers competing for attention, it can be difficult for any one firm to stand out. To do so, the firm needs to garner an online reputation. There are three aspects of an organization's reputation—visibility, trustworthiness, and quality—and online sellers need to develop all three to succeed globally.

ONLINE VISIBILITY

SMEs must be visible online because customers can buy only from businesses they are aware of and can access. This may seem obvious but, in practice, it is not. For example, Canadian mobile application developer [Polar Mobile](#)'s online analytical tools indicate that the firm's first Indian and Indonesian customers found Polar Mobile through its website. Ideally, a company's website should appear at the top of the list when a buyer does an online search on the product category. This rarely happens unless companies take conscious action, though, and many businesses appear too far down the list of search results to be visible to potential buyers.

Firms can increase their website's rankings through techniques known collectively as search engine optimization (SEO). Rather than purchasing keywords (ads) from information services such as Google, a company manipulates website content using SEO techniques so that its website gets "free" placement at the top of the list of online search results.

Elements of an Online Reputation

- ◆ Online visibility
- ◆ Online trustworthiness
- ◆ Online product quality signals

Few SME owners have specialized SEO skills. The owners of [Admiral Road](#), a Toronto-based company that produces fleece baby blankets, faced this predicament. Although they were Internet savvy—they updated their own website, sent out e-newsletters to customers, and were active on Facebook and Twitter—they did not have sufficient SEO skills to improve their firm’s online visibility. They had tried buying Google AdWords but found they were expensive and that relatively few people who clicked on the ads actually became customers. So the owners purchased specialized SEO skills from an outside consultant. For an investment of roughly \$600, Admiral Road acquired a high ranking on Google searches and online sales have increased noticeably. [LPR Global](#), on the other hand, sells online marketing services, so it is more important that it has these skills in-house. The firm has even developed its own web analytics tools.

SMEs can become more visible online by becoming prominent international online influencers themselves and/or getting prominent online influencers to discuss them.

A second way that SMEs can become more visible online is by joining an online channel. Such channels can reduce transaction costs, for example, by providing a platform for search, review, payment, and even, for digital products like software, distribution.¹ Examples of online channels include [Download.com](#) (for software), [Etsy.com](#) (for handmade products), and [Abebooks.com](#) (for second-hand books). An online channel may be a third party that neither buys nor sells, such as [eBay.com](#), or it can be a market participant itself, such as [Amazon.com](#) or iTunes.

When firms join an online channel, they become affiliated with the other sellers on it, so it is important to ensure that the other sellers are providing high-quality goods and services. Online channels vary in their geographic coverage; for example, 67 per cent of visitors to [Etsy.com](#) are from the U.S., compared with 47 per cent of visitors

to [Abebooks.com](#) and 24 per cent of visitors to [Download.com](#).² Because of such variations in geographic range, SME owners must ensure that an online channel gets traffic from the geographic regions where they most want to do business. [Alexa.com](#) offers information about the international traffic on online channels, while [Compete.com](#) provides information on traffic from U.S. states.

Finally, SMEs can become more visible online by becoming prominent international online influencers themselves and/or by getting prominent online influencers to discuss them. One customer group in which this factor is important is the online community of mothers. An estimated 32 million moms are regularly online in the U.S., and there are 3.9 million “mommy bloggers.”³ One of the founders of Hamilton-based label maker [Mabel’s Labels](#) has a syndicated blog, and both Mabel’s Labels and [ECHOage](#), which sells a birthday party service, target mommy bloggers. Mothers who are already online are relatively easier to convert into customers than other bloggers, and mommy bloggers, in particular, can have a powerful voice on the Internet. These bloggers are also on the lookout for new content to blog about. In the early days of Mabel’s Labels, the founders asked influential bloggers to run a contest on their blog. In developing relationships with influential bloggers, the founders of ECHOage emphasize that it is important to be well prepared, with ready and rich content, as well as photos and an ECHOage logo that bloggers can put on their website.

ONLINE TRUSTWORTHINESS

With well-publicized stories of Internet fraud and identity theft, buyers can be reluctant to purchase online, especially from a foreign seller. Therefore, SMEs doing business in digital markets need to emphasize their trustworthiness. In doing so, they should keep four things in mind.

2 These data are available at the Internet traffic metric website www.alexa.com.

3 eMarketer, *Moms Who Blog*.

1 Grewal and others, “Governance Mechanisms,” 46.

First, it is important to disclose identifying information about the firm, such as its physical location and profiles of its managers. It is surprising how many online businesses do not do this, since failure to do so can lead to suspicion that the firm exists just in cyberspace. When there is no authenticating information about the business, buyers may assume it is based in a country known for unsavoury Internet practices. Further, providing a phone number will reassure potential buyers that they can reach a person to get information or discuss problems with. For example, although customers of Toronto-based [ClearFit](#) interact with the company's hiring solution online, ClearFit provides a toll-free number in case they have questions. Interestingly, although the firm listed the toll-free number to increase customer perceptions of ClearFit's trustworthiness, callers are an important source of feedback on the helpfulness and clarity of the company's website content.

SMEs should imitate the most frequently used payment system in their industry, or use a familiar and respected generic payment system, such as PayPal.

Second, it is important to use a tried-and-true payment system that buyers understand. While it is important for SMEs to differentiate their product or service online, their payment system should be familiar to prospective buyers. SMEs should imitate the most frequently used payment system in their industry, or use a familiar and respected generic payment system, such as PayPal. Firms with a large volume of U.S. sales should establish a U.S. merchant account so their American customers do not have to worry about foreign exchange rates.

Third, on their website, firms should highlight the fact that they sell internationally. For example, on its homepage—under the banner heading “Loved Everywhere”—the online invoicing company [FreshBooks](#) lists the percentages of its customers from different countries. This reassures foreign buyers that the company can support international customers. Mobile application developer Polar Mobile lists the names of its high-profile international customers, like *Time* magazine and the Shanghai World Expo, on a running bar along the bottom of its homepage. Recognizing

names from their own country, especially prominent names that can be assumed to be savvy buyers, can alleviate customers' concerns about purchasing from a foreign seller. High-profile customers can also endorse the SME's ability to serve that foreign market. In addition, firms can signal that they sell internationally by using their website to highlight any attention from foreign media they have received. For example, ECHOage's website includes a video profile of the company that appeared on the “Today Show” in the U.S., and the Mabel's Labels website features the covers of magazines that have profiled the company or run photos of its products.

It is vital for SME owners to highlight, on their website, the high quality and distinctiveness of the product or service they sell.

Finally, SME owners should recognize that trust-building tactics can vary across cultures. In a recent experiment comparing Australian and Hong Kong online book buyers, researchers found that Australians based their trust primarily on sellers' affiliation with bookstores, while Hong Kong buyers based their trust primarily on endorsements from local peers.⁴ This means that SME owners should use a variety of trust-building tactics, as one may not be sufficient for all audiences. Also, they should pay attention to the websites of successful companies in the foreign markets they want to enter, so that they understand the trust-building tactics that are being used effectively there.

ONLINE PRODUCT QUALITY SIGNALS

When Canadian SMEs are selling in international digital markets, they are competing with producers from around the world, so it is important to be seen as desirable, visible, and trustworthy. This means that it is vital for SME owners to highlight, on their website, the high quality and distinctiveness of the product or service they sell. For instance, SMEs should highlight

4 Sia and others, “Web Strategies,” 502.

any awards they have won or third-party certifications they have achieved. Just as winning an Oscar can increase movie sales,⁵ winning an award can increase interest in products. Third-party certifications, such as appearances on “best of” lists, signal to the world that a firm meets external quality standards. For example, LPR Global’s website emphasizes its accreditation by the South Korean government.

SMEs should also take advantage of opportunities to have their offerings evaluated in online ratings or reviews. Even though research has shown that online ratings and reviews tend to be overwhelmingly positive, and subject to distortion and bias,⁶ they can boost product and service trials and sales.⁷ This is especially true for unfamiliar brands,⁸ and an SME’s brand is likely to be little known in a foreign market. International online ratings and reviews can bolster a firm’s image as an international player. For example, at the top of FreshBooks’ homepage is the firm’s 4½-star Editor’s Choice rating from *PC Magazine*, a U.S. publication.

SME owners should recognize that there is herding behaviour in online markets, in that buyers imitate the purchasing decisions of past buyers. The basis of this imitation varies among types of firms.⁹ The business customers of FreshBooks want reassurance that FreshBooks’ online invoicing services work, so they

tend to imitate what large numbers of people just like them are doing. Accordingly, the company signals on its website that it has numerous buyers, including foreign buyers. “Over 2,000,000 users!” is at the top of the homepage. As potential customers scroll down, they can see articles about the company in the international press and endorsements from foreign buyers. The business customers of Polar Mobile are buying a more expensive, one-time service—a mobile app platform—so they are more influenced by a few prestigious customers in their home market, in the belief that successful, established firms make savvy decisions about important purchases. On the other hand, the household customers of Admiral Road are looking to buy a distinctive baby gift and do not want to follow the crowd. However, these customers are interested in celebrities. Accordingly, on its website, Admiral Road highlights the celebrities who are using its blankets (“Star Sightings”) and runs customer testimonials about the gifts’ uniqueness.

SME owners should recognize that there is herding behaviour in online markets, in that buyers imitate the purchasing decisions of past buyers.

Finally, the owners we spoke with emphasized the importance of clear communication on the firm’s website, because that can affect buyers’ perceptions of quality. For example, it is mission critical for Montréal-based [Beyond the Rack](#), which sells designer merchandise, to create accurate expectations regarding delivery times. The company is not a conventional e-retailer that can deliver in two days. If buyers expect two-day delivery, they will be disappointed, so Beyond the Rack provides clear and accurate delivery times for each order.

5 Nelson and others, “What’s an Oscar Worth?,” 15.

6 Dellarcas, “Strategic Manipulation of Internet Opinion Forums,” 1577.

7 Chevalier and Mayzlin, “The Effect of Word of Mouth on Sales,” 354; Reuber and Fischer, “Signaling Reputation in International Online Markets,” 380.

8 Zhu and Zhang, “Impact of Online Customer Reviews,” 144.

9 Reuber and Fischer, “The Company You Keep,” 73.

CHAPTER 4

Online Technological Capabilities

Chapter Summary

- ◆ It is critical that the CEO and other top managers champion technological development, rather than delegating it.
- ◆ Integrating back-end databases with web applications can give firms a market advantage that is difficult for other firms to copy because much of it is invisible from the outside.
- ◆ The use of web-based analytical tools can increase understanding of a firm's customer base.
- ◆ The ability to customize the online experience for different markets can provide value to customers.

The quality of a firm's online technology is important. Internally, well-deployed technology can enhance operational efficiency and effectiveness. Externally, smoothly operating online technology can signal the firm's overall trustworthiness and quality. Indeed, higher quality online technology has been associated with lower levels of online customer switching,¹

better international customer-supplier relationships,² better online market performance,³ and better overall firm performance.⁴

Because the technology itself is so important to obtaining online sales in foreign markets, it is critical that the CEO and other top managers champion its development, rather than delegating it. Research has shown that when senior managers actively participate in shaping the vision and strategies for the use of web technologies, other people in the organization are more apt to view technology as important enough to spend time and energy on.⁵ Further, delegation without close managerial understanding and oversight can lead to a situation where a very junior person—for example, a summer intern hired to work on the firm's social media presence—can have an inordinate influence on how the firm is perceived in digital markets.

1 Chen and Hitt, "Measuring Switching Costs," 272.

2 Jean and others, "Enhancing International Customer-Supplier Relationships," 1233.

3 Schlosser and others, "Converting Website Visitors Into Buyers," 144.

4 Barua and others, "An Empirical Investigation," 612; Saini and Johnson, "Organizational Capabilities in E-Commerce," p. 370; Zhu, "The Complementarity of Information Technology Infrastructure and E-Commerce Capability," 195.

5 Chatterjee and others, "Shaping Up for E-Commerce," 80.

The CEOs we talked with are constantly on the lookout for new technological developments in their industry, particularly those that leading firms are using. The CEO of LPR Global estimates that her company spends 20 per cent of its resources to evaluate how online marketing in her industry is evolving. At Beyond the Rack, all initiatives involve information technology, and the company has a full-time chief technology officer.

The CEOs we talked with are constantly on the lookout for new technological developments in their industry, particularly those that leading firms are using.

It is important to assess new technologies before adopting them. Although innovation and internationalization tend to go hand in hand, SME owners are wary of jumping on technological bandwagons. Commitment to particular technologies can be expensive and hard to back out of. The firms we talked with often experiment in a small way with new initiatives before adopting them wholesale. For example, LPR Global is going to experiment with social media at the product level to gain experience with it before using it across the firm.

Elements of Online Technological Capabilities

- ◆ Top management championship
- ◆ Back-end integration
- ◆ Website customization

Three aspects of online technology have been found to be particularly important to a firm's market advantage. The first is the extent to which back-end databases and processing are linked with web applications. Effective back-office processing is particularly valuable to firms because competitors cannot observe it easily, so it is difficult to copy. A recent study surveyed retailers across 10 countries (Brazil, China, Denmark, France, Germany,

Japan, Mexico, Singapore, Taiwan, and the U.S.) and found that back-end integration had a bigger impact on sales and operational efficiency than did front-end functionalities, such as providing online product information to customers and facilitating transaction processing.⁶

This finding is consistent with management priorities at Beyond the Rack. With 2,000 vendors, 3,000 orders a day, and buyers and vendors located in the U.S. and Canada, order fulfilment is an operational challenge. A complex logic is needed to get purchases to buyers quickly, when a single purchase may involve multiple vendors and multiple countries. Accordingly, the firm prioritizes technological initiatives aimed at reducing bottlenecks. This is also the case at Mabel's Labels. The company promises 24-hour turnaround for label orders, and it has a customized ordering system that is integrated with its label production system.

Although innovation and internationalization tend to go hand in hand, SME owners are wary of jumping on technological bandwagons.

Second, the use of web-based analytical tools can increase understanding of a firm's customer base and encourage continuous improvement. Both ClearFit and LPR Global use web analytics to understand how people are finding their websites. The management team at ClearFit uses online metrics to measure the outcomes of changes in web content so that the firm can make the content more effective. Firms can also use metrics to support decisions; for example, having a better understanding of the costs of acquiring a customer allows them to reallocate resources as needed.

⁶ Zhu and Kraemer, "Post-Adoption Variations in Usage and Value of E-Business," 80.

The third aspect of a firm's technology associated with foreign online sales is the ability to customize the online experience for different markets.⁷ For example, Beyond the Rack provides a country-specific online experience, even though there is only one homepage. When people join Beyond the Rack as members, they provide their mailing address, and that determines what they see online. This customization allows Beyond the Rack to tailor merchandise, prices, currency, sales tax, and shipping costs to the U.S. or Canada.

ClearFit is taking a different approach to website customization. Aside from highlighting regional product offerings (e.g., job-board partners that are prominent in

some countries and not in others), the company's owners see less advantage in providing country-specific online experiences for their online recruiting services. Their customers identify themselves more by industry than by geography, so there are advantages in enabling customers to select an industry when they enter the site, and then providing an industry-specific experience. For example, a large and growing market for ClearFit's hiring solution is the long-term care industry.⁸ Providing a site tailored to this industry will allow ClearFit to give customers information specialized to long-term care, as well as endorsements and testimonials from people who are recognized in the industry. It will also allow management to analyze online metrics for this industry independently of those for other industries.

7 Lynch and Beck, "Profiles of Internet Buyers," 735; Sia and others, "Web Strategies," 502; Steenkamp and Geyskens, "How Country Characteristics Affect the Perceived Value of Web Sites," 145.

8 Munro and others, *Elements of an Effective Innovation Strategy for Long-Term Care in Ontario*, 33.

CHAPTER 5

Online Brand Community

Chapter Summary

- ◆ Buyers increasingly want to become involved with companies through online brand communities.
- ◆ SMEs should tailor their online communities to the interests and preferences of their customers.
- ◆ Online communities can be a valuable source of information for firms.
- ◆ To reap the benefits of online communities, SMEs need to invest resources in monitoring them and interacting with them.

Online markets provide customers with diverse opportunities to interact with a company's products and services online. For example, they can participate in online forums sponsored by the company, tweet about the company, create YouTube videos that show the products they love or hate, participate in a company-sponsored fan page on Facebook, or set up their own website to praise or complain about the company. Marketing research has shown that people want to become involved with companies online and "co-create" the value of a company itself or its products and services. Online

communities can help people (especially novices) use products and services properly, and enhance perception of a company's brand.¹

Marketing research has shown that people want to become involved with companies online and "co-create" the value of a company itself or its products and services.

When your target market is online, there can be rich opportunities for developing online brand communities. Again, businesses targeting mothers are active in this way. ECHOage targets mothers who want their children to have meaningful birthdays. The owners have discovered that community members are interested in stories about other community members, so part of their website allows people to share stories. They change the content of their Facebook page regularly, sometimes profiling children who have given to charity through their birthday, and sometimes mothers who talk about the parties they have given. The website highlights photos because members are particularly interested in them. The owners of ECHOage emphasize the importance of authenticity and transparency in

¹ Muniz and O'Guinn, "Brand Community," 412; Schau and others, "How Brand Community Practices Create Value," 30.

managing their online brand community. For example, they never delete negative posts; instead, they respond directly to them.

The founders of Mabel's Labels are also developing a brand community among online mothers, which they refer to as the "Mabelhood." Their Facebook fan page has 20,000 fans and has just been named one of *Inc.* magazine's top 20 Facebook fan pages.² Many of these fans became volunteer brand ambassadors by posting the news about Mabel Label's *Inc.* recognition on their own Facebook pages.

Online brand communities can be valuable for SMEs seeking to internationalize via digital markets because they readily span national borders.

Online brand communities can be a valuable information source for SMEs. Firms can monitor online brand communities to learn how the market perceives the company and its products and services; transfer some of the responsibility for customer support to active and experienced community members; and stimulate positive word of mouth by giving community members incentives to review new products or services.³ To reap these benefits, SME owners need to invest resources in monitoring and interacting with online communities. Mabel's Labels has a full-time social media coordinator who is active on Twitter and develops relationships with influential mommy bloggers. The founders closely monitor Facebook for feedback on their products and services, and have a community service manager who responds quickly to any negative comments. In addition, they encourage other employees to become active on Twitter. To preserve the image of their brand, they have developed a two-hour lunchtime mini-course

that emphasizes the importance of preserving the company's core values when being active in social media. For example, one of their core values is "You be you and I be me," and it would be inconsistent with that value for employees to be judgmental about child-rearing when they tweet.

Online brand communities can be valuable for SMEs seeking to internationalize via digital markets because they readily span national borders.⁴ Potential foreign buyers can monitor the community to learn about the firm's offerings from the customer point of view. They can also raise questions in a forum populated by other buyers, whom they may see as less biased sources of information than the firm itself. Engagement of community members from diverse geographic regions can signal to potential international buyers that the firm can and does serve foreign clients effectively. The firm itself can engage with the community to learn about geographically distant audiences, reducing the risk of isolation from its online foreign customers. As an example, ECHOage has volunteer ambassadors: typically, women who have held an ECHOage party, love the concept, and want to become more involved. Their profiles are on the ECHOage website, so foreign buyers can find an ambassador in their region. In addition, when a community newspaper approaches the owners of ECHOage for a story, they connect them with an ambassador in that community so the story has a local twist.

Elements of Online Brand Communities

- ◆ A range of social media on which customers make posts and interact
- ◆ Activities of community members that create value for other customers
- ◆ Visible participation by foreign customers
- ◆ Active engagement by the SME with the online community

2 *Inc.* magazine, "20 Awesome Facebook Fan Pages."

3 Kozinets and others, "Networked Narratives," 86; Schau and others, "How Brand Community Practices Create Value," 30.

4 Mayzlin, "Promotional Chat on the Internet," 155.

CHAPTER 6

Challenges and Implications

Chapter Summary

- ♦ Selling in online markets does not eliminate the need for offline interaction with buyers.
- ♦ Selling in online markets can lead to a scatter-shot approach to internationalization that does not provide a basis for sustained growth.
- ♦ SME owners need to think about how “Canadian” they want their image or brand to be, as there can be advantages in making the border as invisible as possible.

So far in this report, we have tacitly assumed that more extensive internationalization via digital markets is beneficial for an SME, but that will not always be the case. There are three important challenges associated with online internationalization.

CHALLENGES

OFFLINE INTERACTION

The first challenge is the “virtuality trap,” which is a perception among business owners that learning about the customer through online interactions, such as brand communities, reduces the need to learn about them in an offline fashion.¹ With online transactions occurring at a

faster rate and across greater geographic distances, SMEs can come to see foreign buyers inaccurately, underestimating the differences among them. It is therefore important for SMEs that are internationalizing sales through digital markets to establish ways to interact with foreign customers. For example, the owners of Admiral Road meet their foreign customers at craft shows.

A challenge in internationalizing through digital markets is that an SME may make more, and faster, foreign market entries than anticipated.

Some business owners systematize this interaction. At Beyond the Rack, every employee picks and packs orders each month so they do not lose touch with their customers. When the CEO of FreshBooks travels, he extends a dinner invitation to customers in that area. Not only does he get to learn about how they view his products, but they get to meet other customers in the area and feel like they’re part of something bigger. This makes FreshBooks more than just another company in cyberspace.

COHERENT FOREIGN MARKET ENTRY

The second challenge in internationalizing through digital markets is that an SME may make more, and faster, foreign market entries than anticipated.² Setting up a website can render a firm more visible to foreign

1 Yamin and Sinkovics, “Online Internationalisation,” 340.

2 Petersen and others, “The Internet and Foreign Market Expansion by Firms,” 211.

partners and customers. While this is often a good thing, it can also lead to more unsolicited and unexpected orders, and a scattershot, ad hoc internationalization process. Recent research suggests that a deliberate, coherent selection of markets characterizes successful foreign market entries, for two reasons.³ First, by entering easier markets before more difficult markets, managers can build their experiential base logically. For instance, they move from more similar markets to less similar markets, or from smaller, less visible markets, to larger, more visible markets. Second, successful entries into easier markets can serve as reputational signals in more difficult subsequent markets, thereby giving SME owners access to foreign customers they might not otherwise be able to do business with.

It is usually better to be an early follower than a market pioneer, because pioneers can make costly technological mistakes that subsequent entrants can learn from.

Most of the CEOs we talked with were reluctant to expand the geographic scope of their sales without a strong economic rationale. Many preferred to consolidate the growth opportunities in proximate markets before going farther afield.⁴ They had well-articulated criteria for entering a market. For example, Polar Mobile prioritizes markets where there is a high penetration of smartphones and strong 3G networks, because these both encourage the use of mobile applications. The company also considers the geographic proximity of a new market, because the CEO has to be able to visit it regularly and easily to open it effectively.

Should SMEs rush to be online pioneers in their digital market? The evidence is mixed. Pioneers may amass a large customer base earlier than the competition can; however, it is usually better to be an early follower than a market pioneer, because pioneers can make costly

technological mistakes that subsequent entrants can learn from.⁵ In addition, customers in early markets have different preferences and expectations than customers who buy when the market is more established.⁶ This means firms that try to build customer loyalty early and quickly, by appealing to the earliest customers, can be disadvantaged when targeting the more numerous later customers.

HOW “CANADIAN” TO BE

A final challenge for the entrepreneurs we talked with is answering the question, “How Canadian should we be online?” There are stereotypes associated with particular countries⁷ and the Canadian stereotype tends to be positive. In particular, the entrepreneurs felt Canadians were seen as trustworthy, which is an important asset in selling to foreign buyers through digital markets. However, the U.S. was the largest foreign market for all of these firms except LPR Global, so most of the entrepreneurs believed it was important to make the online experience as familiar as possible for U.S. buyers. For example, ClearFit uses U.S. spelling on the company website. Indeed, it is common to support pricing and payment in U.S. dollars, and to highlight U.S. media and testimonials, to make the border as invisible as possible. Achieving this invisibility to increase foreign sales through digital markets is consistent with studies showing that consumers prefer to buy locally, even when buying online.⁸

Along these lines, it should be noted that international digital markets operate almost entirely in English. SME owners who find the use of English difficult may be able to benefit from online intermediaries, such as online channels that provide product- and firm-related information in a standard English format. For example, a study of software firms from around the world selling on the online channel Download.com—which provides product information in English and in a standard format, regardless

3 Bingham, “Oscillating Improvisation,” 339.

4 For all of firms discussed in this study except LPR Global, the U.S. is the dominant foreign market. Although this is likely the case for most Canadian SMEs, it could represent a selection bias and limitation of the study. In this report, we have not studied firms selling into emerging markets, so the role of digital markets in that type of internationalization remains a question.

5 Geyskens and others, “The Market Valuation of Internet Channel Additions,” 102.

6 Srinivasan and Moorman, “Strategic Firm Commitments and Rewards,” 193.

7 Papadopoulos and Heslop, “Country Equity and Country Branding,” 298; Reuber and Fischer, “When Nobody Knows Your Name.”

8 Goldfarb, *Canada's Trade in a Digital World*, 1.

of the source company—found that firms from countries where English is not an official language were not disadvantaged when compared with firms from countries where English is an official language, in terms of product trials and the number and favourability of product ratings.⁹

POLICY IMPLICATIONS

This research has a number of policy implications.

- ♦ **Data availability:** It is not possible to get a true picture of how Canadian businesses are using Internet and wireless technologies for sales-related activities, either domestically or internationally, because the available data are neither recent nor detailed. The most recent data we could find were from 2007 and they indicate Internet-based activity in broad categories.¹⁰ The most recent data we could find regarding barriers to doing business online are based on Statistics Canada data from 2000–03.¹¹ Given the pace of change in digital markets and the rise of wireless technologies, it has to be assumed that these data are outdated. In addition, data are needed on a wide range of online activities, such as sales transactions, distribution, and social media interactions. Without an up-to-date picture of the practices Canadian SMEs are adopting, and the barriers to adoption, it will be difficult to design appropriate support programs.
- ♦ **Offline interaction:** It is clear that online sales activity cannot substitute completely for offline sales activity. Owners of businesses operating in digital markets need to meet foreign buyers face to face, both to open new markets and to grow them. Even in the most intensively online markets, there are opportunities for offline interaction, such as conferences for mothers involved in social media. This means that programs and policies supporting face-to-face interaction, such as trade missions and trade shows, should be maintained even for sectors that are increasingly based on digital markets, products, and services.
- ♦ **Market focus:** A larger geographic scope of sales in digital markets is not necessarily preferable to an initial focus on foreign markets with high growth potential. Coherent selection and sequencing of foreign markets is preferable to the scattershot approach to internationalization that responding to unsolicited online orders might encourage. This means that many Canadian SMEs that succeed in international digital markets will not venture beyond a first foreign market (in most cases, the U.S.) until they realize the growth potential in that market. However, there may be practices that enable SMEs to sell effectively in diverse foreign markets through Internet and wireless technologies, and this is an interesting area for future research.
- ♦ **Reluctance among established firms:** Policy initiatives to support firms' digital strategies are more likely to influence young firms than established firms, which would need to change their business model and key operations. One way of encouraging established firms to become involved in digital markets is to demonstrate that their customers or competitors are online, and to point out any discussion about the firm taking place on social media channels such as Facebook, Twitter, and YouTube.
- ♦ **Network access:** Selling internationally in digital markets demands a heavy reliance on robust Internet and wireless networks. Although Canada was a leader in this area, we have fallen behind other countries¹² and need to ensure access to high-capacity networks at a cost SMEs can afford.
- ♦ **"Canadian-ness":** The idea of "Canada" can have both positive and negative connotations online. The business owners we talked with were very aware that foreign buyers were assessing their "Canadian-ness" as part of their business ability. To some extent this is a shared reputation, so it is important to ensure that Canadian firms as a whole are seen as high-quality and trustworthy companies. The more that individual Canadian firms are affiliated with well-known customers and media outlets in foreign markets, the more that all Canadian firms will be seen as world players in those markets.

9 Reuber and Fischer, "Signaling Reputation in International Online Markets," 373.

10 Industry Canada, *Key Small Business Statistics*, 44; Ouellet, *The Deployment of Electronic Business Processes in Canada*.

11 Noce and Peters, *Barriers to Electronic Commerce in Canada*, 2.

12 Wolfe and Bramwell, *Growing the ICT Industry in Canada*, 45.

- ♦ **Valuation:** Organizations, such as banks and government agencies, that provide resources to SMEs need to understand the nature of intangible resources and how to value them. The factors underpinning success in international digital markets—such as a favourable online reputation, strong technological capabilities, and an engaged brand community—are intangible and difficult to value with traditional tools.
- ♦ **Classification:** Organizations, such as banks and government agencies, that provide resources to SMEs may have to rethink the ways they classify businesses. While it has been useful in the past to classify firms in terms of channel (dot-com or bricks-and-mortar), customer base (businesses or consumers), or products and services (tangible or digital), it is becoming increasingly

difficult to apply these classifications to companies unequivocally. Increasing, and increasingly effective, use of the Internet is enabling Canadian SMEs to conduct more customer-related activity online, to digitize their products and services to a greater extent, and to blur the distinction between businesses and consumers as customers. The business owners interviewed for this study are changing the nature of their competition through their activities in digital markets. As a result, they have gained a much higher degree of internationalization than was previously possible for firms in their industry.

APPENDIX A

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