USE AND IMPACT OF INTERNET MARKETING IN SMEs: SOME INSIGHTS INTO KEY DRIVERS

There is ample evidence that Canadian firms, especially SMEs, have not realized the potential benefits of E-Business. Most of the previous studies (Venkat 2001; Canadian E-Business Opportunities Roundtable 2001, 2002; Canadian e-Business Initiative 2002) have simply focused on adoption rate (percentage of firms using or not using E-Commerce or online marketing tools). There appears to be a gap in the literature regarding the current business practices of small and medium sized firms targeted at customer attraction, conversion, and relationship management. This study examined the followed questions, which have not been addressed by previous research.

- What are SMEs doing to attract visitors, convert them to customers and to retain them?
- Are SMEs employing tools to facilitate building customer relationships online?
- What are the expenditure levels in online marketing and what is the impact on sales, profits and customer retention?
- Are firms integrating offline and online marketing efforts?

Four hypotheses were tested with respect to market orientation of the firms, innovation proneness of the firms, strategic importance given to e-business by the firms and industry technological sophistication. Firms exhibiting greater market orientation, greater innovation proneness, placing greater strategic importance on e-Business and operating in technologically sophisticated industries were likely to be more engaged in the above Internet Marketing activities.

An online survey of Canadian SMEs from three provinces was conducted. A list of companies were invited via email to participate in the survey and were promised a written report as an incentive. A total of 145 firms responded (about 10% response rate). Respondents were proprietors or senior executives. The questionnaire had sections devoted to extent of Internet usage, customer acquisition methods, customer conversion and retention methods employed, integration of online and offline marketing programs, company and industry characteristics and company demographics. In addition, marketing orientation (MARKOR) (alpha = 0.81), company innovation (alpha = 0.78), strategic importance of Internet to the firm (alpha = 0.70) and industry technological sophistication (alpha = 0.73) were measured.

Market orientation and strategic importance placed on the Internet were strong drivers of the extent of Internet Marketing activity. Company innovation proneness and technological sophistication of the industry were also significant predictors, but not as strong as the other two variables. Strategic priority accorded to the Internet and market orientation seem to be the strongest predictors of how Internet is used in customer acquisition and retention. In terms of impact of the Internet on these firms, online sales was at 10.4% of total sales for the sample. Firms reported that the Internet has led to new customer acquisition (19.1% of new customers) and greater loyalty (15.2% increase in loyalty due to Web). Overall, the study found that Canadian SMEs are not utilizing many online marketing tools. Limited financial resources and lack of strategy are major barriers.