

## Electronic-Commerce as Drivers of SMEs in Nigeria Nicholas Attamah

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### ABSTRACT

The adoption of e-commerce by Small and medium scale enterprises in Nigeria is crucial because it has the potential to increase the revenue of the economy, create new markets for both small and larger businesses and open up channels to serve and interact with consumers. There is no doubt that the country has many technological, legal, infrastructural and financial problems hampering the ample adoption of e-commerce by SMEs in the country, however, addressing these challenges can increase the popularity of e-commerce by removing the problems faced by the users. As drivers of SMEs, e-commerce has the ability to facilitate rapid market changes with notable impact on export and domestic markets. E-commerce can enhance the need to compete more effectively in both local and international sectors, while enabling globalization of the production and supply of goods and services - as well as the need to integrate small enterprises more effectively into the supply chains of larger businesses. The government should therefore embark on initiatives that will accelerate the adoption of e-commerce, as this would promote economic development across board.

Keywords: E-Commerce, SMEs, Nigeria, Drivers, Economy

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### INTRODUCTION

Electronic commerce (e-commerce) basically means carrying out business transactions using Information and Communication Technology (ICT) services [1,2,3]. That is to say, e-commerce consists of selling products and services through the means of internet communications [4,5,6]. Before the arrival of e-commerce, a lot of business transactions were carried out in the conventional way in physical locations. Accordingly, [7] observe that e-commerce has given rise to new opportunities for those who chose to adopt it, and also enabled them to thrive in national and international business markets. Throughout the world, [8] note that the deep impact of electronic commerce in the economies of countries across the globe will undeniably advance economic competence, competitiveness, and profitability (for those engaging in e-commerce) and, consequently result in the development of the information society. According to [9], the internet

which originated from the United States of America has received world wide acceptance, and is now at par with global products such as coca-cola [10]. They opined that the Dot.com companies in the United States such as Amazon and eBay paved the way by coming up with new and unique online services where none ever existed. The achievements recorded by these organisations set the trail for well known organisations all over the western world such as Wal-Mart, Tesco, and others in retail; Cisco in networking, Dell in the PC manufacturing industry, Well Fargo, HSBC, Bank of America, etc, in banking services. [11] cited in [12] explained that nowadays, a company without a website is regarded as old-fashioned. The sweeping changes that have enveloped the world of business in general and businesses transacted only over the internet could be perceived from a different innovative standpoint [13]. The series of changes as seen by its impact have redrawn the boundaries of

businesses, thus constructing a new but strong world economy never imagined before and at a much faster rate than the industrial revolutions. In view of these nevertheless, the drastic changes came with new conditions such as new but strong competitive strategies by organisations, new business models, new products, and new management techniques. The internet transcends time and space making it easier for businesses to extend beyond regional boundaries [14]. As such, the management of

businesses has gone beyond the grips of individual countries and governments of the world. The internet and e-Commerce compared to physical channels have also given consumers more benefits and assorted choices of both products and services [15]. However, the slow growth of SMEs has been attributed to the lack of awareness of e-commerce, amidst other numerous challenges, hence; this paper aims to examine the ways in which e-commerce drives SMEs in Nigeria.

### Conceptual Clarifications

#### Small and Medium Scale Enterprises (SMEs)

According to [16], the Bank of Industry (BOI) defines Small and medium scale enterprises as small scale industries with project cost (investment and working capital) not exceeding N3. million (\$18,750). In the Federal Ministry of Commerce and Industry's guidelines to the Nigerian Bank for Commerce and Industries (NBCI) in 1981/82, small scale enterprises are regarded as those with total investment cost no more than N500, 000 (\$3,125) (excluding cost of land but including working capital) [17]. However, the NBCI, in its agreement with the World Bank, over the same period, defined small scale enterprises as one with project cost not exceeding N300, 000 (\$1,875) and with cost per job created not more than N7, 500 (\$46.88). Small and medium scale enterprises have been widely recognized as being the most practical means for sustaining industrial development because they have the capacity to promote an indigenous enterprise culture [18]. In most developing economies, small scale industries are used as a strategy for job creation, food security,

poverty alleviation, rapid industrialization, and curtailing rural urban migration, including economic restructuring for development and growth [19]. Oliveira and Martins (2010) stated that SMEs provides more than 75% of jobs within a country while Saffu, et al (2008) argued that SMEs plays a very strong role in every economy. Lal (2007) explained that apart from the banks, oil companies and of recent communication companies in Nigeria, the SMEs occupy an enviable position within the Nigerian economy, accounting for more than 64% of the jobs. Even though the Nigerian economy is heavily reliant on oil, small, medium and micro enterprises are found in the all parts of the country [20]. The use of e-commerce by these Small and Medium Scale Enterprises in Nigeria is a new development. While the internet services have gained ground in all conglomerates and some medium organisations in Nigeria, most SMEs are still lagging behind. The inability of these SMEs to take advantage of this innovative technology is at the root of this research.

#### Concept of E-Commerce

The Organization for Economic Cooperation and Development [21] cited in [22] defines electronic commerce as a new way of conducting business, qualifying it as business occurring over network which use nonproprietary protocols that are established through an open standard setting process such as the internet [23]. In the WTO work programme on electronic commerce, it is understood

to mean the production, distribution, marketing, sales or delivery of goods and services by electronic means. According to [24], e-commerce covers a broad range of business processes and design of technology resources to assist business managers in the manner in which they interact with customers and conduct their businesses. E-commerce and the new emerging digital technologies and

services can be instruments for development and help improve the livelihood of millions across the world, by connecting isolated areas and bringing together different people into projects and programmes to support economic and social development. E-commerce has created internal and external value chains within the businesses. Over the years, it has surfaced as a major base for worldwide economic growth and proved that it has the capacity to change the economic and social structure of countries [25]. Through e-commerce,

people are able to reduce the duration of time in ordering, invoicing, making payment and delivery. This feat has become possible by surmounting lots of difficulties and employing appropriate strategies through which e-commerce could greatly influence the global economy and also changed the old-style of doing business transactions [21]. Subsequently, internet expansion in developed countries is growing at a speedy rate; but the speed is not reflected in developing countries.

#### Categories of E-commerce

1. Customer to Customer (C2C): this is an e-commerce model that involves consumers directly transacting with other consumers in the cyberspace. According to [22], one of the behaviours that consumer exhibits is divestment; this is a process through which consumer disposes products after consumption. Normally, consumers at various levels tend to remarket the depreciated product for others to use it, or throw it away if it gets damaged beyond usage. In online environment, this model provides a way for consumers to sell to each other, with the help of online marketing tools. It is an Internet-enabled form of historical commerce in the form of barter, flea markets, swap meets, garage/yard sales and the like where consumers sell directly to other consumers online. It includes any website where people are brought together to buy, sell, or trade. One of the common examples of this model is the eBay.com, a site that coordinates and supervise online auction [23].

2. Business to Customer (B2C) is where customers learn about products or services through electronic publishing, and buy them using electronic cash and secure payment systems, and have them delivered electronically or through physical channels. Basically, businesses sell to the general public through catalogues utilizing shopping cart software. In order to supplement retailing activities, firms like [www.234world.com](http://www.234world.com), [Xtaples.net](http://Xtaples.net), [www.booksng.com](http://www.booksng.com), [www.orderbay.com](http://www.orderbay.com) Jumia.com sell their

merchandise online directly to their customers, and banks allow consumers to enjoy various banking services such as cash withdrawals, cash transfer, etc [24,25].

3. Business to Business (B2B) is an electronic market transaction in which businesses, governments, and other organisations depend on computer-to-computer communications as a fast, economical, and a dependable way to conduct business transactions. These benefits of this form of business to SMEs include selling goods and services to new vendors, purchasing direct materials, purchasing indirect materials, investment in e-procurement solution, and leveraging existing web presence [4].

4. Customer to Business (C2B): this is a type of online transactions where consumers initiate trading with companies - these are mostly suppliers. In this model, a consumer posts his project with a set budget online and within hours companies review the consumer's requirements and bid on the project. The consumer reviews the bids and selects the company, which suits its purpose that will complete the project [6].

5. Customer to Government (C2G) is type of online interaction where feedback is given to government through pressure group or individual sites [9].

6. Business to Government (B2G) is type of online interaction where feedback from

businesses is given to government and non-government organizations [2].

7. Government to Citizen (G2C) is type of online interaction through which government offer national transactions such as local government services, national government information, and tax information to its citizens and other stakeholders. At the moment the only well developed form of e-Commerce in Nigeria are Business to Business (B2B) and Business to customers (B2C). Others such as the government related commerce are yet to become active [3].

#### Overview of E-commerce Performance in Nigeria

Even with the growth of internet users in Nigeria, not so much work has been done in assessing e-commerce activity [15]. Presently, a lot of online shopping sites are flourishing in Nigeria, serving thousands of searchers every week. Some of them are: jumia.com, konga.com, www.234world.com, Xtaples.net, www.booksng.com, www.orderbay.com and the hosts of others [15]. Moreover, banks have almost totally adopted electronic business process which is evident in online and internet banking respectively. These make the transaction process so easy that buyers begin to overlook the open offline market (Abubakar, 2017). For example, a site like 234world.com allows buyer to pay to a designated bank account after making online purchases. The items purchased are then shipped to the buyer without delay. SoftPay on the other hand allows individual to receive money online and thereafter use it to pay for purchases made. It even helps online shopping sites to collect payment for purchases made [12]. Considering all these, it is expected that the number of people engaging in e-commerce activity in Nigeria will increase in the near future. [21], notes that, the global growth rate of e-commerce is 16.8%, while Africa's e-commerce is growing at the rate of 25.8%. Nigeria, South Africa and Kenya are the top three countries that shop online which have contributed immensely to the growth of

their economies. [2] cited in [8] observed that e-commerce is at the elementary stage in Nigeria, with an overwhelming impact on business transactions in the country. According to him, the Nigerian Bureau of Statistics reported that ICT enabled online businesses contributes about 8.4% of Nigeria's GDP and recorded a 16.4% growth in 2014, and the industry boasts of about 300,000 online orders daily.

In order to actively engage in e-commerce, a customer needs to have access to the internet as well as a means of error free payment in order to make use of e-commerce services successfully [6]. This is only possible if the customers have good awareness about the banking services and also have accounts. According to the research done by Chima (2011), published on *Thisday Newspaper*, 'only 38% of Nigerians have a bank account'. Another research by [7] reveals that "the total amount of automated teller machine cards issued by commercial banks in the country by the end of July 2013 is about 14.72 million". About 32.5 million Nigerians have internet access through the telecommunication network and altogether 45 million have internet access by any mode [9]. This implies that out of the 45 million with internet facility, only 14.72 million have a means of payment.

The adoption of e-commerce among SMEs in Nigeria is still very low due to a number of challenges [11]. These challenges range from inadequate ICT infrastructure, poor telecommunication network, lack of awareness on e-business, insufficient legal and regulatory framework, high cost of internet services, partial automation of banks, security and privacy, among others. Hence, many of the small and medium sized enterprises (SMEs) in Nigeria have been slow in the adoption of e-commerce because of the above mentioned issues.

[19] added that distrust, cost of broadband, logistics, Africa's open market, fragmented market and literacy rate also hamper e-commerce. According to [4], cited in [6], distrust is a serious

challenge facing e-commerce in Africa. He notes that in Nigeria, the Inter-Bank Settlement System (NIBSS) in 2015 reported the high level of fraudulent transactions, which amounted to 8.8% of online transactions. Distrust is therefore a major challenge that has persistently kept many from buying and selling online, especially as it is linked to the security system of online payment platforms. It is a problem that seems to defy all measures being put in place to curtail financial fraud resulting from cyber crimes. According to [8], phishing is very common in Nigeria, where people are unsure about putting their credentials online. Because of this, several companies offer cash on delivery to assuage this challenge.

In the same vein, ICT software provides the much needed platform for e-commerce development and sustainability in Nigeria. [9] identifies some of the software applications for e-commerce to include: Operating systems and software servers, Security/ Encryption Software, payment system, Customer Relationship Management Software, etc. regrettably; this important sector (software development) is grossly under developed in the Africa. The UNCTAD (2012) report identified limited access to venture

#### E-Commerce as Drivers of SMEs

The need for micro- and small enterprises to consider adopting e-Commerce is driven by global, regional and national business trends [23]. This relates to markets, costs, new technologies and political factors. They include:

- i. Adaptation to rapid market changes that are impacting on export and domestic markets.
- ii. Cost competition and the need to compete more effectively in both local and international sectors.
- iii. Globalization of the production and supply of goods and services - and the need to integrate small enterprises more effectively into the

capital as the biggest challenge to the software sector of the Information and Communication technology industry in African countries and this situation has not changed. The report shows that ICT software and services are dominated by the developed world with some developing economies catching up. It further highlighted that enhanced access to ICTs in developing countries is widening opportunities in areas including health, education, governance and business creation and expansion. "Software production can contribute to the structural transformation of economies, and pull them away from dependence on low-technology goods and on a limited number of products for export." It identified Kenya and South Africa as top suppliers of software and services for domestic consumption in the continent, especially in the areas of smart phones and tablets, as well as mobile applications driven by mobile broadband Internet services. However, piracy, poor ICT infrastructure and inadequate protection of intellectual property rights are some of the major challenges hindering ICT software development and service (e-business) expansion in Africa [1].

supply chains of larger businesses.

- iv. Increased customer expectations and consumer power - buyers expecting to be able to access web-based information about products and services.
- v. Adaptation to new technologies - an overall need for technological upgrading.
- vi. Greater role for information in business and the need to access process and communicate it efficiently and effectively.
- vii. Government deregulation and liberalization - lowering costs of access.

- viii. Bilateral and multilateral trade agreements - opening up markets to developing country producers.

- ix. Adaptation to higher quality standards such as ISO9000 - ICTs are acting as an enabler in this area.

#### Benefits of E-Commerce

i. Efficiency of Cost Reduction: E-Commerce presents the most capable and efficient way of business start-up, running and operations. It has fewer operating costs compared to conventional businesses. Such cost include cost of establishment, cost of running the business, logistics costs, costs of materials, marketing, sales and distribution.

ii. Market Benefit: E-commerce affords businesses wider reach and access into global market. According to [4], cited in [9], with e-commerce there is massive awareness, visibility and opportunity to promote goods and services. Also, e-commerce improves market awareness among customers which result in competition and price reduction. Again, e-commerce enhances customer services

and brand awareness, order taking and processing which leads to high customer loyalty.

iii. Increased Efficiency: E-commerce enables high level of efficiency in various aspect of business operation such as efficiency in supply chain management that leads to lower transaction costs (marketing, sales, transaction processing, reduced overhead, reduced inventory and labour costs. Also, with e-commerce, businesses achieve improved accuracy, quality and speed of transaction.

v. Competitive Advantage: if properly implemented, e-commerce provides competitive advantage among businesses which results in increased profits. This helps to strengthen firms' market position in the industry.

#### CONCLUSION/RECOMMENDATION

Several companies and organizations in Nigeria are beginning to take advantage of the opportunities provided by e-commerce; however, a lot of critical challenges need to be surmounted before e-commerce would become an asset for SMEs in Nigeria. Challenges like, inadequate ICT infrastructure, poor telecommunication network, lack of awareness on e-business, insufficient legal and regulatory framework, high cost

of internet services, partial automation of banks, security and privacy, distrust, cost of broadband, logistics, among others, need to be identified, understood and improved on. As a result, the Nigerian government needs to embark on the initiatives that will accelerate the adoption of e-commerce, which would promote economic development in all regions.

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