IMPACT OF E-BUSINESS ON THE EXPORTING SERVICES OF EXPORT MANAGEMENT COMPANIES

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ABSTRACT

The impact of e-business on export management companies (EMCs) has been debated for some time and several reasons for their survival have been forwarded. Based upon the resource-based perspective of the firm, this study provides a far more fundamental reason for the survival of the well-established EMCs--their market-based assets. Furthermore, this study analyzes the impact of e-business proliferation on the well-established EMCs' transaction creating and physical fulfillment exporting services and their efficiency and effectiveness.

Keywords: E-Business, Exporting, EMCs, Export Management Companies

INTRODUCTION

Traditionally, the U.S. Export Management Companies (EMCs) have been the primary indirect exporting intermediaries of their domestic producers in foreign markets. They have become an important American export marketing institution. However, the rapid growth of the Internet during the late 1990s and the subsequent proliferation of e-business have attracted some serious attention about their future from several international business researchers. On the one hand, many scholars are of the opinion that the ever growing presence of web sites would render these marketing intermediaries redundant (Bennett 1997; Fingar 2001; Hamill and Gregory, 1997; Quelch and Kline, 1996). On the other hand, there are scholars who suggest that these intermediaries may not only survive, but also thrive (Coltman et al., 2001; Peng and York, 2001; Oxley and Yeung, 2001; Rohm and Sultan, 2004; Samiee, 1998). So, what will be the future of EMCs in the era of e-business? More importantly, what needs to be addressed is a series of follow-up questions regarding the impact of e-business proliferation on the heart and soul of EMCs--their exporting services. Will the exporting services of EMCs be enhanced or diminished by e-business proliferation? If enhanced, will the e-business help EMCs improve their efficiency and/or effectiveness? These are serious issues that have been unaddressed so far, but they have far reaching ramifications for the theory and practice of international entry mode decisions and foreign marketing resource allocation of firms.

The present study is targeted at addressing the above-mentioned issues. In this context, we first describe e-business and the impact of its proliferation on the marketing intermediaries and later, after a brief but relevant description of EMCs, we extend this analysis to them. Finally, we generate specific propositions about the potential impact of e-business on EMCs' exporting services. This study significantly advances the international business literature in several ways. First, the study builds bridges between three literatures: the EMC literature, the resource-based literature, and the evolving e-business literature. Second, it extends the currently available general understanding on the impact of e-business on EMCs to the specific impacts on their transaction-creating and physical fulfillment exporting services. Finally, the study also analyzes the impact of e-business on the efficiency and effectiveness of EMCs.

E-BUSINESS

Simply speaking, e-business is business conducted over the Internet (Amit and Zott, 2001). The domain of e-business covers almost all of a firm's business functions such as transferring of funds, communication with customers, electronic buying and selling of goods and services, servicing customers, collaborating with business partners, and conducting transactions within organizations (Turban et al., 2002). This highly interactive platform facilitates a more efficient and effective co-creation and appropriation of economic value among relevant exchange parties than the traditional ways (e.g., mail, telephone, fax, etc.) throughout the firm's value chain. For example, on its marketing-side, e-business enables a firm to create value for its current and potential customers and also for itself by sending cost-effective customized communications about new and existing products and service offerings, in addition to receiving real-time feedback from them for solving their existing problems and/or developing new products. Also, by working with its partners in the intermediary product markets, e-business enables a firm to efficiently and effectively increase its speed of new product introduction and enhance the size and variety of its product platform. Electronic invoicing, global account management, and increased customer problem-solving ability are among several other areas of the firm's value creation that stem from the proliferation of e-business (Cavusgil, 2002; Krumwiede, Swain, and Stocks, 2003; Rohm and Sultan, 2004; Tobias, 2002; Urban, 2004). Likewise, by providing customers with increased knowledge of alternative brands and complementary options, e-business has also empowered them to actively bargain with firms to apportion the created value (Brache and Webb, 2000; Cavusgil, 2002; Sharma and Krishnan, 2001).

Several reasons seem to underlie the rapid proliferation of e-business globally. First, as described above, due to its cost-effective firm-customer direct connectivity, e-business has generated several benefits to firms and customers that were unavailable in the past. Second, the ongoing proliferation of the Internet has accelerated the adoption of e-business by firms (Turban et al., 2002). Other reasons that have contributed to the worldwide adoption of e-business include the lowering of trade and information barriers and global emergence of savvy and value-conscious customers (Sharma, 2001; Strauss and Frost, 2002). However, this firm-customer direct connectivity has also generated a perception of serious threat to the survival of traditional marketing intermediaries who, until the emergence of e-business, were considered vital for establishing and maintaining firm-customer relationships. Consequently, many scholars have been debating over the last decade whether the spread of e-business would render the traditional marketing intermediaries as redundant or, rather, compel them to reinvent.

Impact of E-business on Marketing Intermediaries

Even before the coining of the word 'e-business', many scholars had suggested that the proliferation of the Internet (the heart of e-business) would seriously influence the marketing operations of firms. For example, according to Benjamin and Wigand (1995), the producers of information-rich products such as movies and software would be able to directly sell their products to customers without intermediaries. Likewise, Sarkar, Butler, and Steinfield (1996) also suggested that the spread of the Internet might bypass intermediaries and directly link firms with customers. In the same year, Quelch and Kline (1996) concluded that firms' web sites would allow buyers worldwide to bypass local intermediaries to purchase their products. In the same analysis, however, they also cautioned that for a broad range of products, the direct contact between producers and customers may become less efficient over time due to customer information overload. Consequently, the survival of intermediaries, such as EMCs, would depend upon the performance of a different mix of services rather than the traditional physical distribution services. These new services such as collection, collation, interpretation, and dissemination of relevant information would become for the intermediaries a future value-generation area because their services would lessen customer information overload. Similar views were still in vogue, though, to a lesser extent, after e-business became common usage. For example, Sawhney and Parikh (2001) suggested that marketing intermediaries may have to undergo *disintermediation* (i.e., vanish because suppliers and buyers do not need them to carry out market exchanges) or *reintermediation* (i.e., survivors would have to undergo major restructuring to stay in business) because of the spread of e-business.

The currently prevailing view, however, is that the proliferation of e-business has triggered more of reintermediation than disintermediation of traditional marketing intermediaries. According to Coltman et al. (2001), the main reason why we have seen few successful examples of disintermediation is the combination of intermediary power and their proximity to customers. Narayandas, Caravella, and Deighton (2002) also found that several marketing intermediaries in the semiconductor industry not only survived, but actually thrived by restructuring their operations to become closer to customers. Finally, Rohm and Sultan (2004) recently noted that, by and large, firms have started moving away from using e-business as a disintermediation tool and toward integrating it as a part of their multi-channel strategy. For instance, some firms are using web sites to build partnerships with channel members by allowing customers to place orders online and get delivery and service from their nearest retailers.

The abovementioned discussion among scholars raises an important question in the context of EMCs, the primary international indirect marketing intermediary of U.S. firms. How would the proliferation of e-business impact the EMCs? The following material is dedicated to addressing this question.

EXPORT MANAGEMENT COMPANIES

EMCs have been defined in a variety of ways over time. For example, according to Brasch (1978), they are service marketing institutions with the ability to customize their suppliers' product and service offerings to various foreign markets. Williamson and Bello (1984) referred to them as U.S. based intermediaries whose principal business is the export management of one or more unrelated U.S. producers. Recently, Fingar (2001) described them as international trade intermediaries that act as outsourced export departments for many U.S. producers in foreign markets. These definitions demonstrate that, despite some differences in semantics, EMC definitions have remained practically invariant over time, which should not be surprising because the EMCs have, essentially, remained unchanged. In fact, they have primarily remained as small companies with limited financial and human resources (Fingar, 2001). As the empirical studies of Bello and Williamson (1985a) and Howard (1994) suggest, about two thirds to three fourths of the U.S. based EMCs remain small firms that only carry up to a maximum of ten product lines. Interestingly, these findings are not much different from those of Brasch (1978) who observed that EMCs were primarily small firms. Significantly, the enactment of the Export Trading Company Act of 1982 targeted at encouraging EMCs to become globally competitive, large export trading companies, has also not produced any major change in them (Terpstra and Yu, 1992).

Despite their small size, however, U.S. producers across the board deploy EMCs' exporting services because of their well developed, market-based resources and capabilities. These include: contacts, knowledge, and expertise in foreign markets, ways of exporting products and servicing foreign customers, and proficiency in handling export-related documentation (Brasch, 1981; Fingar, 2001). Additionally, in the foreign markets reeling under conditions of political and economic uncertainty, U.S. producers consider EMCs, because of their low risk, as the preferred mode for conducting business transactions. In essence, the EMCs have become an important American export marketing institution over time. They have been and still are the primary indirect exporting intermediaries of U.S. producers in foreign markets. Given the focus of this study, we next discuss briefly the impact of e-business proliferation on EMCs in order to lay the foundation for analyzing its impact on their exporting services.

E-Business and Export Management Companies

Like their counterparts in domestic channels, international business scholars had a similar exchange of views about the potential impact of e-business proliferation on EMCs. For example, Bennett (1997) suggested that suppliers could communicate information about their products through their web sites to customers and, in addition, conduct sales without the use of intermediaries. Additionally, Hamill and Gregory (1997) argued that the Internet could help producers identify new customers, thereby reducing the importance of intermediaries. Likewise, Fingar (2001) also suggested that the Internet and other improvements in communication capabilities and technologies would cut into EMCs' business. However, not all scholars agreed with these dire predictions. According to Samiee (1998), the proliferation of web sites may not cause the demise of the marketing intermediaries. Rather, he suggested that they would become a component of producers' exporting strategies. Oxley and Yeung (2001) contended that the existence of credible international marketing channels remains, in fact, critical to the development of global e-commerce because of the questionable quality and reliability of information gathered from the Internet. Likewise, Peng and York (2001) also opined that the e-business may not be able to contribute to the disintermediation of EMCs. They asserted that in spite of the fact that the Internet reduces information asymmetries across countries, these intermediaries have repeatedly risen to the occasion historically by transforming themselves and maintaining their edge in global trade. In other words, EMCs would survive the onslaught of e-business proliferation.

The above discussion demonstrates that it is apparent that the international business literature over time has been gravitating toward a viewpoint that emphasizes the reintermediation of EMCs. At least two reasons seem to underlie this view. First, producers' access to web sites may not be a source of a sustainable competitive advantage over the marketing intermediaries (Samiee, 1998). Second, the issue of communication safety on the Internet and the structural impediments to its implementation (e.g., data flow, regulations, language, and culture) are going to linger on in the future (Samiee, 1998). In our view, there is, however, another very important reason that is endemic to the long term survival of EMCs—their market-based resources and capabilities. According to the resource-based perspective of the firm, suppliers (who are invariably more powerful than EMCs) may not be able to copy or substitute EMCs' resources and capabilities, thereby disintermediating them. At least three reasons seem to underlie suppliers' inability in this regard. First, EMCs' market-based assets are firm-specific—unique to each EMC (Sharma and Erramilli, 2004; Srivastava, Shervani, and Fahey, 1998). Second, these assets have time-compression diseconomies, or in other words, their accumulation is time-dependent no matter how much effort a competitor expends over a short period (Barney, Wright, and Ketchen, 2001; Dierickx and Kool, 1989). EMCs' experiential knowledge of foreign market conditions, as well as their close relationships with customers and other stakeholders in foreign markets, has been accomplished over a long period of time (Fingar, 2001; Haigh, 1994). As a result, these assets are hard to copy or substitute even by their suppliers. Most importantly, these assets also have a high degree of tacitness because they are learned through experience and refined through practice (Dierickx and Kool, 1989). In this respect, the understanding between an EMC and its customer remains unique because of their specific relationship. Likewise, an EMC's qualitative understanding of foreign market conditions has also high degree of tacitness. According to Collis and Montgomery (1995), complete codification of such knowledge is extremely difficult if not impossible. Therefore, EMCs would survive as international indirect marketing intermediaries.

Obviously, EMCs' market-based assets provide them with sustainable competitive advantage over long periods of time in providing exporting services to their clients over their competitors, including their suppliers (Reed and DeFillippi, 1990). This can be especially true under a variety of conditions commonly prevalent in developing foreign markets. These include: (1) small orders from multiple buyers scattered over several countries within a geographical region, (2) declining demand of existing products, (3) foreign customers' demand of unbiased solution to their idiosyncratic problems, (4) foreign customers with high transaction or information uncertainty, or (5) demand from countries with high political and economic uncertainty. For these reasons, it is not surprising to find that multinational corporations, both large and small, frequently deploy EMCs' services, despite their relatively small size and limited financial resources. In fact, this demonstrates the proficiency of EMCs' well developed market-based assets. Assuming that the EMCs will survive the onslaught of e-business proliferation, two follow-up questions emerge. Will the proliferation of e-business enhance or weaken EMCs' exporting services to their clients? If enhanced, will it help EMCs improve their efficiency and/or effectiveness? These issues, central to this study, are discussed next.

E-BUSINESS AND EXPORTING SERVICES

Exporting, the heart and soul of EMCs, is a complex operation requiring the performance of several inter-related activities. Bello and Williamson (1985b) have classified EMCs' exporting activities into *transaction creating export services* and *physical fulfillment services*. The transaction creating export services include: the gathering of foreign market-specific demand and supply knowledge, foreign market advertising, personal selling, and all other activities that stimulate foreign market demand. In addition, the physical fulfillment services include all activities necessary to supply foreign demand such as export documentation, logistics, tariffs, export-import regulations, and foreign market warehousing. In their role as agents or distributors, EMCs have been performing these services over time, albeit, to varying degrees of satisfaction of their principals (Brasch, 1978; Haigh, 1994). Haigh (1994) provides an interesting comparison of the perspectives of suppliers and EMCs about export-related expectations and performance. According to his analysis, many suppliers perceive that EMCs: (1) make promises that they don't deliver, (2) are less effective and (3) less efficient in achieving the export targets. Likewise, from the EMCs' perspective, many EMCs view that the suppliers: (1) don't realize the amount of effort it takes over time to achieve the desired export targets, (2) expect too much too soon, and (3) are unwilling to pay for the needed efforts. Regardless of the idiosyncratic biases of either of these two perspectives, it is apparent that suppliers want EMCs to improve their effectiveness and efficiency in performing export services for them. In fact, as service providers, it is incumbent upon the EMCs to continue improving their service offerings to their clients to stay competitive (Fingar, 2001).

In our view, e-business can help well-established EMCs to substantially improve their exporting services to their clients by adding several new capabilities to their extant market-based assets. Our position is grounded in one of the unique characteristics of e-business—firm-customer direct connectivity. We need to clarify here that by well-established EMCs, we mean those EMCs that have been operating regularly (i.e., have accumulated market-based resources and capabilities over time) and not the "fly-by-night operations." Next, we discuss how e-business can add new capabilities to the EMCs' extant resources and capabilities while enhancing the efficiency and effectiveness of exporting services such as transaction creating and physical fulfillment services.

E-business and Transaction Creating Services

Traditionally, in order to perform the transaction creating export services for their principals, EMCs had to spend considerable amount of time in traveling to specific foreign markets. In some developing countries, because of their poor infrastructure, activities such as the gathering of foreign market-specific demand and supply knowledge, in addition to contacting customers demanded even more time. Likewise, activities such as foreign market advertising, personal selling and all other activities that could stimulate foreign market demand took an enormous toll on their time and human and financial resources. Given that most of the EMCs are usually in limited supply of financial and human resources (Bello and Williamson, 1985a); it is not surprising to conjecture that they could not have been able to fully provide the needed transaction-creating services for their suppliers in spite of their expressed goals. It is no wonder, then that the efficiency and effectiveness of such services of EMCs would be erratic as well. In our view, e-business can significantly help EMCs to reduce such shortcomings

As described before, the e-business is a highly interactive platform that can enable the co-creation and appropriation of economic value efficiently and/or effectively among exchange parties. Translated into the context of transaction-creating export services, it means e-business can add several new capabilities to EMCs' exporting operations to create value for their suppliers and hence, for themselves. One such capability includes a much more realistic estimation of foreign market demand. The traditional tools used for estimating foreign market demand such as personal visits, telephone, or faxes, though good in their own ways, cannot match the potential benefits of direct connectivity provided by e-business. With e-business, EMCs can obtain real-time demand estimate from their foreign customers and pass it on to their suppliers. This would not only help suppliers plan their production and inventory dedicated for EMCs, but would also reduce, if not completely eliminate, their common complaint that 'EMCs make promises that they can't deliver.' Another capability e-business provides EMCs entails: better estimation of economic, political, and environmental conditions in clients' countries. In this case, these conditions may become worse in a target foreign market because of sudden changes, EMCs can inform their suppliers of potential delays or disruptions in their services, thereby reducing suppliers' complaints. According to Frazier (1983), exchange parties in a business-to-business relationship stop blaming each other for failure to achieve results when they become aware that the fault lies in the uncontrollable conditions. A third capability e-business adds to EMCs' repertoire of market-based assets includes: greater reach to potential customers in their target markets. For example, by publishing their web pages on appropriate local web sites, EMCs can enhance their exposure to potential customers, thereby increasing their customer base and potential business for their suppliers. Finally, e-business can enable EMCs to stimulate foreign market demand by periodically contacting their customers, advertising new product and service offerings to them, educating them about their utilities, lowering their product and transaction-related uncertainties, and convincing them to buy or at least try their product and service offerings. All these activities can be done on-line without having to spend greater amounts of human and financial resources, as was the case in the past.

It is clear from the ongoing discussion that e-business can add several new capabilities to EMCs' extant market-based assets for performing the transaction-creating export services. In the past, the EMCs had to physically travel to the target foreign markets to perform these services or depend upon communication modes that took longer time; they can now be done on-line on a real time basis. We need to add here that the addition of new capabilities, however, does not eliminate EMCs' traveling to foreign markets altogether, but makes its usage more prudent. In sum, even without increasing the number of marketing personnel, e-business can enhance EMCs' capabilities significantly to perform the needed transaction-creating export services to meet their promises to the suppliers. This leads to our first proposition:

P1: E-business can, *ceteris paribus*, enable the established EMCs to enhance their abilities in providing the promised transaction-creating export services to their suppliers.

E-business and Physical Fulfillment Services

Like the transaction-creating export services, EMCs had to spend a considerable amount of time and other resources in performing physical-fulfillment services, as well. For example, contacting suppliers, getting orders filled for customers, completing the needed export documentation, contacting shippers, obtaining information on the status of the merchandise in transit and communicating with foreign customers, and providing necessary feedback to suppliers all entailed enormous amount of time. The EMCs also faced a multitude of transaction-related uncertainties (Ford et al., 1998; Håkansson, Johanson, and Wootz, 1977) during the accomplishment of these activities as their completion required coordination with other firms or agencies. One can conjecture that, under the traditional system of functioning, these uncertainties would make it extremely difficult for EMCs to provide any definite answer to suppliers' queries.

As a result, it is not difficult to understand that suppliers were dissatisfied with EMCs not keeping promises.

The deployment of e-business can change the situation substantially for EMCs in discharging their physical-fulfillment services also. Basically, it adds several new capabilities of communication that can substantially reduce transactional uncertainties. For example, EMCs can engage in real-time customized communication with their suppliers and foreign customers (Krumwiede, Swain, and Stocks, 2003; Rohm and Sultan, 2004; Tobias, 2002), reduce their order cycle (from getting orders on-line, filling them from appropriate suppliers, and doing the needed documentation to ship them), keep tab on shipments-in-transit and update customers about their status, get feedback from them, and communicate on-line with the banks for payment collection. In sum, e-business can boost EMCs' capabilities significantly to perform the needed physical-fulfillment services, reduce transactional uncertainties, thereby enabling them to keep their promises made to their suppliers. This leads to our second proposition:

P2: E-business would, *ceteris paribus*, enable the established EMCs to enhance their abilities in providing the promised physical-fulfillment services to suppliers.

Impact on the Efficiency and Effectiveness of EMCs' Exporting Services

According to Jones and George (2003), the efficiency of a firm is a measure of how productively it uses its resources to achieve its goals. In addition, the effectiveness of a firm is a measure of the appropriateness of its goals and the degree to which those goals are achieved. Given the nature of its operations, the efficiency of an EMC represents the efficiency with which it provides exporting services for its suppliers. In fact, one of the primary reasons underlying the supplier-EMC close relationship includes the efficiency of its export operations i.e., the cost savings it generates (Williamson and Bello, 1984). Therefore, the more efficient an EMC is in providing transaction-creating services and the physical-fulfillment services, the greater the trust and commitment it can develop with its suppliers for larger sales volumes over the long term. As argued above, the incorporation of e-business can provide EMCs with substantial savings in time and human resources in providing most of the transaction-creating services and physical-fulfillment services, thereby making them more efficient. This leads to our next two propositions:

P3: E-business would, *ceteris paribus*, enable the established EMCs to perform their transaction-creating export services to their suppliers more efficiently.

P4: E-business would, *ceteris paribus*, enable the established EMCs to perform their physical- fulfillment services to their suppliers more efficiently.

In addition to enhancing the efficiency of EMCs' exporting services, e-business can also provide them with greater effectiveness over the setting and achievement of the goals promised to their suppliers. Prior to the arrival of e-business, the assessment of foreign market supply and demand conditions was hindered by the lack of availability of real time relevant information. As a result, EMCs' promises to their principals made with relatively older and inadequate information could easily become unrealistic and, therefore, go unfulfilled (Howard, 1994; Fingar, 2001). Furthermore, the resources allocated for the achievement of specific goals based upon such poor quality information could not be monitored in real time in order to make appropriate changes if they were not producing the expected results. These circumstances usually resulted in wasting of EMCs' resources and hence, the less than effective performance of their transaction-creating as well as physical-fulfillment services. The incorporation of e-business can enhance EMCs' abilities in the execution of both types of exporting services effectively. For example, they can assess real time demand for their suppliers' products as well as the status of the merchandise in transition, thereby enhancing their effectiveness in providing these services. This leads to our last two propositions:

P5: E-business would, *ceteris paribus*, enable the well-established EMCs to perform their transaction-creating export services to their suppliers more effectively.

P6: E-business would, *ceteris paribus*, enable the well-established EMCs to perform their physical-fulfillment services to their suppliers more effectively.

Summing up our discussion on the impact of the proliferation of e-business on EMCs' exporting services, it follows that it would not only enhance their capabilities in performing the transaction-creating and physical-fulfillment services, but that it can also make them more efficient and effective. However, this enhancement may take place more likely in the case of well-established EMCs instead of the sporadic or "fly-by-night type" of EMCs.

CONCLUSIONS

Questions that involve the impact of the proliferation of e-business (and its predecessor the Internet) on marketing intermediaries have been a subject of serious inquiry among business researchers over the last decade. Not surprisingly, a similar pattern of discussion has been pursued among several international business scholars in the context of EMCs. Following up the extant literature review, this study not only argued in favor of the survival of EMCs, but extended the literature to their key specific functional area, their exporting services. We argued that by incorporating e-business into their current operations, the well-established EMCs would not only be able to enhance their capabilities of providing transaction-creating export services and physical-fulfillment services but would also be able to conduct them more efficiently and effectively. It was also argued that producers may not be able to disintermediate the well-established EMCs.

In our view, the well-established EMCs have brighter future ahead for several reasons. First, e-business provides an enormous cost advantage to EMCs because of their small size over their comparatively larger producers in conducting exporting services, especially for conditions such as small and geographically-dispersed orders. Second, given that outsourcing of peripheral business functions has become a prevalent pattern of generating savings among larger U.S. firms, EMCs can effectively position themselves vis-à-vis foreign based firms (who are usually the recipients of outsourcing of business functions) to take advantage of this pattern. Finally, if EMCs fully tap into the power of e-business, they can have the potential of becoming giant exporting firms to take advantage of scale economies of their operations.

What we have accomplished in this study hardly represents a complete analysis of the impact of e-business on the potential of EMCs; we have just opened this unaddressed area for scholarly discussion. We hope this work would encourage other scholars to carry out the analysis of e-business impact on the other areas of EMCs operations. For example, one such gap in the research that this study opens up includes the emergence of well-established EMCs as in-sourcing or importing agencies for U.S. firms. Given the globalization of international trade and the proliferation of e-business, the importance of research in this area and the resulting policy implications for U.S. businesses can't be overlooked. Another area that this work indicates for future research is the impact of well-established EMCs' new capabilities of their relationship with suppliers. Traditionally, this relationship has been supplier-dominated. In our view, these new capabilities of EMCs may change the traditional power differential with the suppliers, thereby bringing about substantive changes in the quality and type of future supplier-EMC relationship.

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