

# **SMEs *and* e-COMMERCE In Three Philippine Cities**

*Prepared for*

**THE ASIA FOUNDATION**

*By*

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e-Commerce has the capacity to provide all types of business enterprises with the capability to grow within and across borders to a seemingly unimaginable extent. But will e-commerce be a domain of large corporations alone? Or will small and medium enterprises (SMEs) be able to reap the benefits of e-commerce as well?

In 1999, the Gartner Group estimated e-commerce business in the Philippines at US\$9.15 million and it is forecasted to grow to US\$992.4 million by 2004. How much of the projected e-commerce pie would be accounted for by SMEs - the acknowledged backbone of the Philippine economy?

This study seeks to document the current level of Information and Communications Technology (ICT) utilization and e-commerce use among SMEs in the Philippines. It also seeks to identify perceived impediments or obstacles for SMEs' greater use of the same for business purposes. It begins with an overview of the state of e-Commerce in the Philippines. The second section discusses the result of a purposive survey of ICT and e-Commerce use among SMEs in three major Philippine cities, namely Metro Manila, Cebu and Davao. In order to develop deeper insights on the issues, the survey is completed with case studies of e-Commerce use by SMEs. The concluding section seeks to define the policy issues that will help increase SME use of ICT and e-commerce.

## **II. An Overview of the State of Philippine E-Commerce: Issues and Trends**

The relatively underdeveloped information infrastructure and the legal/regulatory environment in the Philippines are generally considered as obstacles to the rapid growth of e-commerce in the country.

### **A. The Network and Physical Infrastructure Issues**

#### ***Communications***

The Philippines' information and telecommunications sector can be divided up in the following sub-sectors: telephony, cable, satellite, broadcasting and print/media.

For 70 years, the Philippines had a private monopolistic telecommunications industry where a telephone subscription wait averaged 10 years. The deregulation of the telecommunications industry in the mid-1980s in the country has paved the way for a burgeoning information and communication technology industry.

Since the industry's liberalization, teledensity per 100 people has improved four times from 1.21 in 1993 to 4.66 in 1996. This number doubled again within a year to 8.07 and further increased to 9.12 in 1999.<sup>1</sup> In 2001, the teledensity increased again to 10.91.

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To date, there are 11 international gateway facility (IGF) operators (companies that provide international long distance calls), 7 cellular mobile telephone system operators, 15 paging service operators, 12 inter-exchange carrier licensees (companies that service other carriers' traffic using their own network), 74 local exchange carriers (companies that offer landline services) and 191 Internet service providers (ISPs) nationwide.<sup>2</sup>

The government implemented the Service Area Scheme (SAS) in 1993 to address the low teledensity in the rural areas. Under the SAS, new cellular licensee holders were required to install 400,000 landlines within 3 years, international gateway facility operators to install 300,000 landlines and for those firms with licenses for both cellular mobile and gateway facilities, 700,000 lines. The SAS mandates a certain portion of these new landlines to be installed outside urban centers.

Through the SAS, there are currently 6,634,934 installed landlines all over the Philippines.<sup>3</sup> The increase in cellular mobile telephones is more remarkable. Since 1996, cellular mobile subscribers jumped 600% from 959,024 subscribers to a little over 6 million in 2000<sup>4</sup>. Today, there are more cellular phone subscribers than there are landline subscribers. The popularity of cellular phones can be attributed to two factors: 1) the introduction of prepaid services - which made cellular services more affordable and now accounts for 70% of the entire cellular mobile market in the country<sup>5</sup> and 2) the rise of short messaging service (SMS), more popularly known as "texting". SMS is even more popular than voice service. A few years after its introduction, SMS has transformed the Philippines into the texting capital of the world, with enthusiastic cellular mobile phone subscribers sending an estimated 30 million text message a day - more than the total of text messages sent in the whole of Europe in the same period!

Liberalization and deregulation led to a vastly improved telecommunications situation in the country. But challenges still remain. The current configuration of the physical infrastructure in the Philippines is still fairly concentrated in the metropolitan areas.

### ***Internet Usage and PC Penetration***

The Internet was introduced in the Philippines in 1994. At that time, the government was the sole provider of Internet access. Today, there are an estimated 191 Internet service providers with a total nationwide subscriber base of only 1,850,000. Most ISPs are concentrated in Metro Manila, Cebu, and Davao. About 20% of these ISPs are concentrated in areas with economic processing zones – Sta. Rosa in Laguna, Cavite, Clark and Subic.<sup>6</sup> Today, the Government is no longer an ISP.

According to AsiaBizTech, estimated Internet usage in the Philippines in January 1999 is 200,000 and expected to rise to 900,000 by 2002. NUA Surveys, on the other hand, cites figures from Yu Ming Chin of Asia Online and puts the Philippines' Internet user base at 320,000. The article from AsiaBizTech suggests that the Philippines will need a user base of at least 500,000 people to have a viable e-commerce economy.<sup>7</sup> At the end of the year 2000, the Philippines registered 680,000 Internet subscribers.<sup>8</sup>

According to the Gartner Group (2000), the Philippines' consumer PC Internet penetration is at 3,457,282 and the 2003 forecast is 11,640,669 users; while the

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business PC Internet penetration is currently at 5,722,307 and the 2003 forecast is 31,554,048 users.

As Internet users increase, so do their demands for better, sophisticated technologies to carry voice, data, and video services. This has prompted carriers to begin working on their own broadband infrastructure. It has also been suggested that wireless Internet access is going to be more popular in the Philippines than PC-based Internet access.

Wireless Internet access in the Philippines is still in its infancy, generally limited to wireless application protocol (WAP) in cellular mobile phones. General Packet Radio Service (GPRS) has only been introduced early this year. GPRS is a new packet-switched technology developed for use with cellular networks and based on the GSM platform, so it complements existing services such as WAP and SMS (short message service). It is said to give a taste of 3G, the technology for mobile communications that is expected to mature between 2003 and 2005.<sup>9</sup>

The increasing need for data services has prompted demand for broadband Internet technologies. Broadband is an “always-on”, high-speed connection Internet technology. By 2006, industry estimates that 50% of the Philippines’ telecommunications market will be accounted for by data services.<sup>10</sup>

The Philippines has fixed and wireless broadband capabilities. Cable Internet provides high-speed, two-way capability to deliver video, voice and data to the TV and PC. Cable is still the undisputed leader of broadband Internet service through such companies as Destiny Cable, SkyInternet and Broadband Philippines.

Digital Subscriber Line (DSL) technology, though it has less capacity than cable, is increasing in popularity because it uses existing telephony copper wires in delivering high-speed data to the home. DSL is also an “always-on” Internet access without tying up the phone line. Telecommunications companies such as Globe, PLDT, Digitel, and Eastern Telecom are currently offering DSL both to corporate customers and residential subscribers. However, the present state of DSL in the Philippines could only allow a few areas for high-speed connection, concentrated only within certain areas within the major cities.

And the increased demand for broadband Internet service is also expected to result in a need for more transponder space. Hence, the satellite has become a very important point-to-point, and point-to-area instrument in transferring information over broad and narrower ranges of populations. The Philippines currently has one satellite in orbit – AGILA 2 launched in 1997 by Mabuhay Philippines Satellite Corporation (MPSC), dubbed as the most powerful satellite in the Asia Pacific region. It offers cost-effective and high-speed Internet access (backbone & distribution) by capitalizing on strategic partners with teleports in Oahu, Hawaii. Hawaii is considered the gateway to the US where a majority of the worldwide Internet bandwidth is hosted.<sup>11</sup>

Notwithstanding, PCs connected via dial-up connections, is still the most prevalent way for Filipinos to access the Internet.<sup>12</sup>

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### **e-Commerce**

e-Commerce in the Philippines is mainly dominated by B2B transactions using propriety protocols and private lines, such as EDI systems installed in huge retail chains such as Shoemart and Makro; and large multinational corporations such as Unilever and Nestle. As of July 2001, the Philippines' online trading market has 35 major buyers and more than 100 major suppliers traded with 6,000 transactions volume for e-procurement and e-bidding costing of US\$40 million worth of products and services.<sup>13</sup> This e-marketplace is fueled by procurement and is dominated by BayanTrade. BayanTrade is a B2B e-procurement hub in the Philippines founded in June 2000, a joint venture among the Philippines' top 6 conglomerates namely Aboitiz Equity Ventures, Inc., Ayala Corp., Benpres Holdings, Corp., JG Summit Holdings, Inc., PLDT and United Laboratories, Inc. BayanTrade has a buyer base to over 150 companies and suppliers to nearly 350 companies. In its first 10 months of operation, BayanTrade held over 250 e-bidding events and processed over 11,000 purchase orders.

B2C transactions in the Philippines are limited to the purchase of books and software online through such popular overseas e-commerce sites as [www.amazon.com](http://www.amazon.com).

There are only an estimated 3 million credit card subscribers in the Philippines. This low credit card penetration combined with unfriendly policies by local credit card providers helps explain the slow e-commerce uptake in the country. Security concerns have also led to higher interest charges on credit card purchases using the web.

To address concerns with credit card fraud, virtual shopping malls such as [www.estore-exchange.com](http://www.estore-exchange.com), [www.myayala.com](http://www.myayala.com), and [www.infinitymalls.com](http://www.infinitymalls.com), which allow online shopping by offering online payment alternatives to the credit card, have sprouted in recent years. For example, payment in [www.myayala.com](http://www.myayala.com) can be done through reloadable e-cash (a card that stores cash and where the amount of the item gets debited upon submission of a pin number). Also, since [www.myayala.com](http://www.myayala.com) has the same owner as the Bank of the Philippine Islands (BPI), one can make purchases online and have the total amount of the goods purchased debited from one's savings account at BPI. One alternative mode of payment gaining popularity is smart cards, which are currently being used in various stages in Hong Kong, Malaysia and Singapore.

### **B. The Policy Framework: Legal, Regulatory and Institutional Issues**

The Philippines recognizes the importance of communications to national development. Article XVI, Section 10 of the Philippine Constitution states: *"The state shall provide the policy environment for the full development of Filipino capability and the emergence of communication structures suitable to the needs and aspirations of the nation and the balanced flow of information into, out of, and across the country, in accordance with a policy that respects the freedom of speech and of the press."*

The passage of the Electronic Commerce Act (R.A. 8792) on June 14, 2000 placed the Philippines on the map of e-commerce. At the time of the signing, the Philippines was only the third country in Asia to have an ecommerce law. R.A. 8792 addresses the

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many significant legal and policy challenges of fully engaging in e-commerce in the country.

First, it gives validity and legal recognition to electronic documents, electronic signatures and electronic transactions. Second, it facilitates the admission of electronic documents and electronic signatures as evidence in case of disputes. Third, it outlaws and penalizes unauthorized access to information and interference in communications systems (i.e., hacking, introduction of viruses, etc.).<sup>14</sup>

The e-commerce law is further enhanced by the Implementing Rules and Regulations on Electronic Authentication and Signatures signed in September 2001 for “the issuance of clear, transparent, predictable and enforceable rules to clarify and ensure the legal validity and enforceability of electronic signatures and contracts will encourage and promote the development of electronic commerce in the Philippines, enhance its competitiveness in the new economy, protect the consumer, and encourage efficiency and transparency in commercial transactions.” This allows the private sector and government to engage in secure online transactions. However, the sector envisioned to be most affected by electronic commerce - the banks – is still waiting for the Bangko Sentral ng Pilipinas (BSP), to finalize its own IRR for banks and non-bank institutions performing quasi-banking functions.

Despite the enabling policy framework of the Philippines for e-commerce, various constitutional and policy barriers to foreign investments in information and communications systems remain.

A significant constitutional barrier to the development of e-commerce in the Philippines and to the ICT industry in general is the foreign investment limitations set for public utilities and mass media. The Constitution specifically indicates that the operation of a public utility should be at least 60% Filipino-owned.<sup>15</sup> Moreover, the ownership and management of mass media is “limited to citizens of the Philippines, or to corporations, cooperatives or associations wholly owned and managed by Filipino citizens.”<sup>16</sup> Furthermore, under the Telecommunications Act of 1995 (R.A. 7925) and the Constitution of the Philippines, a single company is prohibited from engaging in both telecommunications and broadcasting under a single franchise.

These foreign investment barriers can be a deciding factor on the cost of Internet access, especially in the Philippines where capital intensive infrastructure development, especially with the importance of broadband to e-commerce development, is too costly for domestic companies to shoulder given the high cost of borrowing.

Another barrier is the absence of a central governing body for information and communications technology. The creation of a Department of ICT is seen as crucial in developing and promoting a viable policy and legal environment, as well as an effective and efficient regulatory regime that will help shepherd the Philippines to the forefront of the global information economy.

## **C. Sector Overview of Philippine SMEs**

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Despite the many studies conducted on the state of SMEs in the Philippines, no agency – government or otherwise - has been able to develop a complete database of SMEs operating in the country. Nor has there been an attempt to develop a comprehensive S-W-O-T analysis for the entire SME sector so that the appropriate policies can be created for its growth and development.

Nevertheless, government has been active in promoting and developing the sector through the passage of significant policies.

The Magna Carta for Small Enterprises (R.A. 8289) is the landmark legislation aimed to foster a dynamic SME sector, particularly emphasizing rural and agri-based manufacturing activities. This law principally aims to facilitate SME development by simplifying procedures and requirements and include an active private sector in SME policies and programs. This law created the Small and Medium Enterprise Development Council and the Small Business Guarantee and Finance Corporation, and mandated a national budgetary allocation of 8% for SME development.

A law (R.A. 7882) was also passed providing assistance to women in SMEs, engaged in manufacturing, processing, service and trading. Under this program, government-financing institutions are mandated to provide assistance to women entrepreneurs and NGOs engaged in developing women's enterprises.

The contribution of SMEs to the Philippine economy cannot be underestimated. According to a study:

As of 1995, the number of business establishments operating in the Philippines both in the manufacturing and service sector was recorded at 243,487. Small and medium enterprises (SMEs) accounted for 99% of the figure, with large enterprises making up the remaining 1%. While SMEs extensively outnumber the country's large companies though, it is the latter which registered the bigger share at 68% of the total census-value added.

In terms of employment, SMEs in both manufacturing and service sectors accounted for 67% of all jobs generated totaling to more than two million. Thirty three percent (33%) of employment was posted by large enterprises. By industry sector, food processing generated the most jobs contributing 25% of employment created, followed by wearing apparel at 21%, fabricated metal products at 5%, furniture at 4% and wood products at 3%.

There are no available statistics on the actual contribution of SMEs to exports. It is estimated though that 60% of all exporters in the country belong to the SME category. SMEs are able to contribute in exports through subcontracting arrangements, linkage with large firms or as suppliers to exporting companies.<sup>17</sup>

The following are the primary support organizations for the SME sector<sup>18</sup>:

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**Bureau of Small & Medium Business Development (BSMBD)**, a specialized agency under the Department of Trade & Industry (DTI) responsible for the promotion and development of SMEs in Philippines. This organization initiates projects and packages assistance program for SMEs and implements it with the involvement of regional offices administered by DTI.

**The University of Philippines Institute for Small-Scale Industries (UPISSI)**, established in 1966 for the purpose of assisting and promoting the development of small enterprises in the Philippines, is a training, research and development organization actively engaged in SME promotion activities.

**The Philippines Chamber of Commerce & Industry (PCCI)** is the apex organization of all business chambers and associations in the Philippines. The government recognizes it as the sole official representative and the voice of the entire private business community. PCCI promotes the interest of the business community through Government representation and advocacy work while providing business and trade services.<sup>19</sup>

To further push SMEs toward the utilization of e-commerce, the Department of Trade and Industry (DTI) is drafting an *IT Plan for SMEs*, a strategic plan designed to increase e-commerce competence among SMEs by providing training, promotion and support programs. DTI has acknowledged that the SME sector is the key to making e-commerce flourish in the country. Among the many programs DTI plans to offer to SMEs, it will provide assistance specifically in the following: e-commerce awareness seminars, identifications of e-marketplaces, setting up of local SME portals, promotion of SMEs with backroom services, and an e-readiness survey among SMEs.

### **III. SME and eCommerce Survey**

#### **A. Background and Rationale of the Study**

This study seeks to provide a snapshot of SMEs and e-Commerce in the Philippines. It also seeks to explore whether SME exporters are different from non-exporters SMEs in terms of ICT and e-Commerce Use. One hypothesis that would be explored is the role of competition (particularly global competition) as a driver of ICT uptake among SMEs in the Philippines. Aside from giving a clearer picture of the extent of ICT usage among SMEs, this survey also hopes to shed light on the many issues and problems faced by SMEs and help in the identification of the specific barriers that hinder the growth of SMEs in the Philippines.

While a nationwide survey on SME use of ICT is ideal, a number of significant factors prevent such a study from being done. The most significant obstacle is the lack of a nationwide database on Philippine SMEs. Generating such a list would have been too time consuming and expensive. An alternative to such a national database would have been the list of all SME members of the Philippine Chamber of Commerce and Industry (PCCI), the country's largest chamber that boasts of having a large number of SME members across the country. Unfortunately, PCCI also does not have a list of all its SME members. Given this, a survey of the extent of ICT usage among SMEs in three major

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cities in the Philippines where a majority of SMEs are said to be located became the reasonable alternative. But the lack of a list of SMEs in these cities (Metro Manila, Cebu and Davao) made representative sampling difficult. Thus, the decision to do purposive sampling.

Following the survey results, case studies of e-commerce projects engaged in by SMEs in Metro Manila, Cebu and Davao would be drawn. This will serve as a useful aid for policymakers and the private sector in drafting policy initiatives for greater ICT uptake among SMEs.

### **B. Objectives of the Study**

The specific objectives of the study are the following:

1. Primarily, to determine the extent of ICT usage among SMEs in select major cities in the Philippines: Metro Manila, Cebu and Davao.
2. To determine whether SME exporters in the select cities are more inclined to use ICT in business compared to non-exporters.
3. To be able to identify specific barriers or obstacles to the greater use of ICT by SMEs in select cities.
4. To have a clearer perception of the issues, problems and concerns of SMEs in select cities with regard to ICT use and patronage of e-commerce as a mode of doing business.
5. To provide policymakers with relevant implications on policy initiatives and incentives to encourage wider ICT use among SMEs in the Philippines.
6. To provide a fairly reasonable foundation for policy recommendations regarding the promotion of ICT use among SMEs.

### **C. Scope and Limitations of the Study**

#### **1. Survey Area and Period**

The actual field survey was conducted within the period covering November 28, 2001 to March 15, 2002 in three (3) major cities in the Philippines: Metro Manila (or the National Capital Region or NCR), Cebu City and Davao City. The field survey was outsourced to Trends NFO, a professional organization with experience in market research and polling.

#### **2. Survey Respondents**

The respondents of the survey, selected purposively, include representatives of small and medium scale enterprises (SMEs) in the aforementioned three (3) major cities.

#### **3. Survey Sample Size and Distribution**

Below is the distribution of the sample by area:

**Table 1. Distribution of Sample by Area**



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	<i>Exporters</i>	<i>Non-exporters</i>	<i>Total</i>
Metro Manila (NCR)	100	99	199
Cebu City	99	75	174
Davao City	50	75	125
Total	249	249	498

The initial survey sample size was a set at 500 respondents. However, 2 of the interviews were spoiled because of a field survey error.

4. Survey Sampling Scheme

Initially, sample establishments were generated from government listings and SME membership lists – particularly the Department of Trade and Industry List on SME Exporters and the membership lists of the Chamber of Commerce and Industry in the given three cities. However, due to the limited number of SMEs in the available lists and perceived inaccuracies (as to addresses and telephone numbers, among others), it was decided to purposively find SMEs to fill the sample quota. This was conducted through a door-to-door search to determine whether or not an establishment is a qualified SME.

**D. Methodology**

The survey was conducted in 3 major phases:

1. Pre-survey phase, which includes the following:
  - a) Sample Construction;
  - b) Questionnaire Formulation, Pre-testing and finalization; and
  - c) Training of Field personnel
2. Actual Survey Phase, which include the following corollary activities:
  - a) Supervision and monitoring of field interviews;
  - b) Spot-checking; and
  - c) Field Editing
3. Post-survey phase, which include the following:
  - a) Retrieval and Data Processing;
  - b) Data Analysis and Report writing; and
  - c) Drawing and Writing of Case Studies of Best Practices.

PRE-SURVEY PHASE

*Sample Construction*

The sample was constructed by initially consulting government lists (particularly, the DTI list on SME exporters) and membership lists of the different Chambers of Commerce and Industry of the three cities. The survey-sampling frame will be restricted to include only SMEs in Metro Manila, Cebu and Davao. Due to the inadequacy and inaccuracy of the available lists, purposive sampling was done to fill the sample quota.

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#### *Questionnaire Formulation, Pre-testing and Finalization*

For purposes of comparability, the survey questionnaire was based on the Indonesia questionnaire, appropriately revised to adapt to Philippine conditions. The revised questionnaires were pre-tested. Comments and suggestions turned in after pre-testing was incorporated before finalizing the questionnaire.

Moreover, language experts translated the English version of the questionnaire into Filipino and Cebuano. Each language translation was translated back to English by another set of experts to ensure that the message was conveyed accurately.

#### *Training of Field Personnel*

Training of field personnel was conducted in three central locations: Quezon City, Cebu City and Davao City. A maximum of two days office training was held to orient the field personnel on the nature, purpose and other basic details of the project.

### ACTUAL SURVEY PHASE

#### *Supervision and Monitoring of Field Interviews*

Supervisors were commissioned to observe, follow-up and check interviewers, of which at least 10% of the latter were observed by the former. They report to the field manager to ensure that field logistics were received promptly and administered properly.

#### *Spot-Checking*

Spot-checking was conducted at various stages of the fieldwork:

- The first one after about 30% of the interviews was completed;
- The second after 60% completion; and
- The third one immediately after 90% completion.

During spot-checking, at least 20% of the unsupervised interviews were re-interviewed/back-checked. If serious errors persisted after 20% spot-checking, the original interviews were invalidated and respondents re-interviewed.

If some questionnaires were found to be incomplete or had inconsistent answers, the interviewer was asked to go back to the respondent so that the questionnaire could be completed and/or corrected as the case may be.

#### *Field Editing*

After each interview was completed, the interviewer was asked to go over the responses to check for consistency. All accomplished interview schedules were submitted to the assigned group supervisor, who, in turn, made the necessary editions and/or corrections as deemed fit.

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### POST SURVEY PHASE

#### *Retrieval and Data Processing*

An office editor was commissioned to conduct a final consistency check on all interviews prior to coding. A codeframe was designed to organize the coding of data from the raw questionnaires. Interview sheets were edited/checked twice by office editors before information was encoded. A data entry computer program verified and checked the encoded data for consistency before data tables were generated.

#### *Data Analysis and Report Writing*

An analysis of the processed data was conducted and a written report, incorporating a comprehensive discussion of the survey results and corollary analysis of the same, was done by the Digital Philippines research team.

#### *Drawing and Writing of Case Studies of Best Practices*

Culled from the available respondents and based on the survey results, case studies on best practices of e-commerce by SMEs in the three select cities have been drawn.

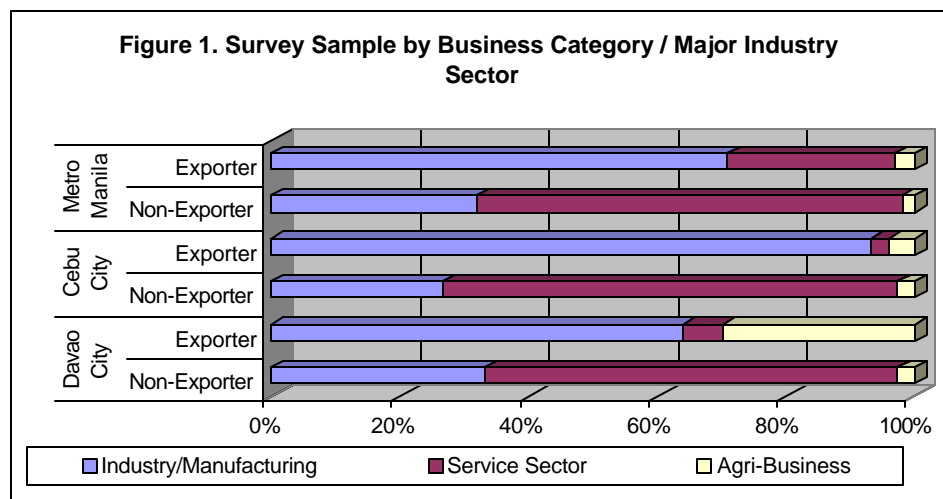
### **III. Profile of the SME Sample: Survey Results and Analysis**

#### **A. Background and Nature of Business**

##### 1. Industry/Sectoral Classification Across Cities

The survey sample consisted of representatives from three major industry groups, namely: the Industry/Manufacturing Sector, the Service Sector and the Agri-business Sector. The results show that most firms in the sample belong to the industry/manufacturing sector. Of the 498 respondent firms,

- 54.6% (272 firms) belong to the industry/manufacturing sector
- 39.8% (198 firms) belong to the service sector
- 5.6% (28 firms) belong to the agri-business sector



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Of the total firms surveyed in Metro Manila (199 firms),

- 51.8% (103 firms) are industry/manufacturing firms
- 45.7% (91 firms) are service firms
- 2.5% (5 firms) are agri-business firms

Of total firms surveyed in Cebu (174 firms),

- 64.4% (112 firms) belong to the industry/manufacturing sector
- 32.2% (56 firms) belong to the service sector
- 3.4% (6 firms) belong to the agri-business sector

Finally, of total firms surveyed in Davao (125 firms),

- 45.6% (57 firms) are industry/manufacturing firms
- 40.8% (51 firms) are service firms
- 13.6% (17 firms) are agri-business firms

**Table 2. Number of Firms by Business Category**

	<i>Metro Manila</i>		<i>Cebu City</i>		<i>Davao City</i>	
Industry/Manufacturing	103	51.8%	112	64.4%	57	45.6%
Service	91	41.7%	56	32.2%	51	40.8%
Agri-Business	5	2.5%	6	3.4%	17	13.6%
TOTAL	199	100.0%	174	100.0%	125	100.0%

Half of the total respondents are exporters. Of total exporters (249 firms),

- 78.3% (195 firms) are industry/manufacturing firms
- 12.9% (32 firms) are service firms
- 8.8% (22 firms) are agri-business firms

Of total non-exporters (249 firms),

- 30.9% (77 firms) belong to the industry/manufacturing sector
- 66.7% (166 firms) belong to the service sector
- 2.4% (6 firms) belong to the agri-business sector

Of total Metro Manila exporters in the sample (100 firms),

- 71% (71firms) are industry/manufacturing firms
- 26% (26 firms) are service firms

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- 3% (3 firms) are agri-business firms

Of total Metro Manila non-exporters in the sample (99 firms),

- 32.3% (32 firms) belong to the industry/manufacturing sector
- 65.7% (65 firms) belong to the service sector
- 2% (2 firms) belong to the agri-business sector

Of total Cebu exporters in the sample (99 firms),

- 93% (92 firms) are industry/manufacturing firms
- 3% (3 firms) are service firms
- 4% (4 firms) are agri-business firms

Of total Cebu non-exporters in the sample (75 firms),

- 26.7% (20 firms) belong to the industry/manufacturing sector
- 70.7% (53 firms) belong to the service sector
- 2.7% (2 firms) belong to the agri-business sector

Of total Davao exporters in the sample (50 firms),

- 64% (32 firms) are industrial/manufacturing firms
- 6% (3 firms) are service firms
- 30% (15 firms) are agri-business firms

Of total Davao non-exporters in the sample (75 firms),

- 33.3% (25 firms) belong to the industry/manufacturing sector
- 64% (48 firms) belong to the service sector
- 2.7% (2 firms) belong to the agri-business sector

A majority of exporters are in industry/manufacturing: **71%** (71 firms) of total exporters in Metro Manila, **93%** of total Cebu exporters (92 firms) and **64%** of total Davao exporters (32 firms). On the other hand, a majority of non-exporters are in the services sector: **65.7%** of total Metro Manila non-exporters (65 firms), **70.7%** of total Cebu non-exporters (53 firms) and **64%** (48 firms) in Davao City. A significant share of the Davao exporter sample is accounted for by the agri-business sector with **30%** (15 firms) of total Davao exporters.

## 2. Specific Business Categories Across Cities

### ***Metro Manila Exporters***

The Metro Manila Exporter Sample consisted of very diverse businesses. Most firms in the sample are manufacturing firms accounting for 10% of the sample. Next in line are firms engaged in food processing and the making of handicraft products, each having 7% of the sample, followed by furniture manufacturing with 6%. Firms into garments and

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cargo/freight forwarding, each registered 4% of the sample. The remainder accounts for various types of businesses sharing 1-2% of the sample.

**Table 3. Metro Manila Exporters by Specific Business Category**

Specific Business Category	Percentage (%) Share
Manufacturing Firms	10%
Food Processing	7%
Handicraft Products	7%
Furniture	6%
Garments	4%
Cargo/Freight Forwarding	4%
Others (each with 1-2% of the sample)	62%
<b>TOTAL</b>	<b>100%</b>

***Metro Manila Non-exporters***

From the Metro Manila Non-Exporter Sample, the largest number of firms are engaged in the printing business with 10% of total non-exporters in the city, followed by construction contractors and/or supply firms with 9%, trading firms accounting for 7%, realty firms with 6%, hardware supply with 5%, and food processing firms with 4%. The remainder is shared by the other types of businesses, each having 1-2% of the sample.

**Table 4. Metro Manila Non-exporters by Specific Business Category**

Specific Business Category	Percentage (%) Share
Printing	10%
Construction Contractors and/or Supply	9%
Trading	7%
Realty	6%
Hardware Supply	5%
Food Processing	4%
Others (each with 1-2% of the sample)	59%
<b>TOTAL</b>	<b>100%</b>

***Cebu Exporters***

32% of Cebu exporters are engaged in the furniture business: 14% are makers of rattan furniture; 6% is engaged in making wrought iron furniture; while 12% accounts for makers of other types of furniture. 19% of the Cebu Exporter Sample account for sub-contractors/suppliers of fashion accessories. 10% of the sample account for firms involved in the handicraft business. The remainder accounts for the other types of businesses each having 1-4% share of the sample.

**Table 5. Cebu Exporters by Specific Business Category**

Specific Business Category	Percentage (%) Share
Furniture	32%
Rattan Furniture	14%
Wrought Iron Furniture	6%
Other types of furniture	12%
Handicraft	10%

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Others (each with 1-2% of the sample)	39%
<b>TOTAL</b>	<b>100%</b>

### ***Cebu Non-exporters***

From the Cebu Non-exporter sample, 10.7% belong to the hotel business, followed by 8% engaged in the restaurant business. 6.7% are in the cargo/freight forwarding business. The same number of firms (6.7%) is in the printing business. 5.3% are in dealership of appliances and the remainder accounts for the rest of the firms, with 1-4% from each business category.

**Table 6. Cebu Non-exporters by Specific Business Category**

<b>Specific Business Category</b>	<b>Percentage (%) Share</b>
Hotel Business	10.7%
Restaurant Business	8.0%
Cargo-Freight Forwarding	6.7%
Printing	6.7%
Dealership of Appliances	5.3%
Others (each with 1-4% of the sample)	62.6%
<b>TOTAL</b>	<b>100.0%</b>

### ***Davao Exporters***

16% of the firms in the Davao Exporters sample are engaged in handicraft making, followed by 12% engaged in the buying and selling of banana fruits. The rest accounts for firms belonging to other businesses, each with 1-4% share of the sample. A significant number of firms in the remainder are engaged in agri-business.

**Table 7. Davao Exporters by Specific Business Category**

<b>Specific Business Category</b>	<b>Percentage (%) Share</b>
Handicrafts	16%
Trading of Bananas	12%
Others* (each with 1-4% of the sample)	72%
<b>TOTAL</b>	<b>100%</b>

\*Firms in this category are industrial/manufacturing firms and agri-business firms

### ***Davao Non-exporters***

From the Davao non-exporter sample, 8% is engaged in dealership of appliance merchandise followed by 6% engaged in printing and another 6% in the hotel business. 5.3% of the firms in the sample are in security services while the same number of firms (5.3%) are into selling cars. Firms in various businesses, each registering 1-4% of the given sample account for the rest.

**Table 8. Davao Non-Exporters by Specific Business Category**

<b>Specific Business Category</b>	<b>Percentage (%) Share</b>
Dealership of Appliance Merchandise	8.0%
Printing	6.0%
Hotel Business	6.0%
Security Services	5.3%

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Car Dealership	5.3%
Others (each with 1-4% of the sample)	69.4%
<b>TOTAL</b>	<b>100.0%</b>

### 3. Business History and Trends: Highlights

#### **Drivers of Change in Business Focus**

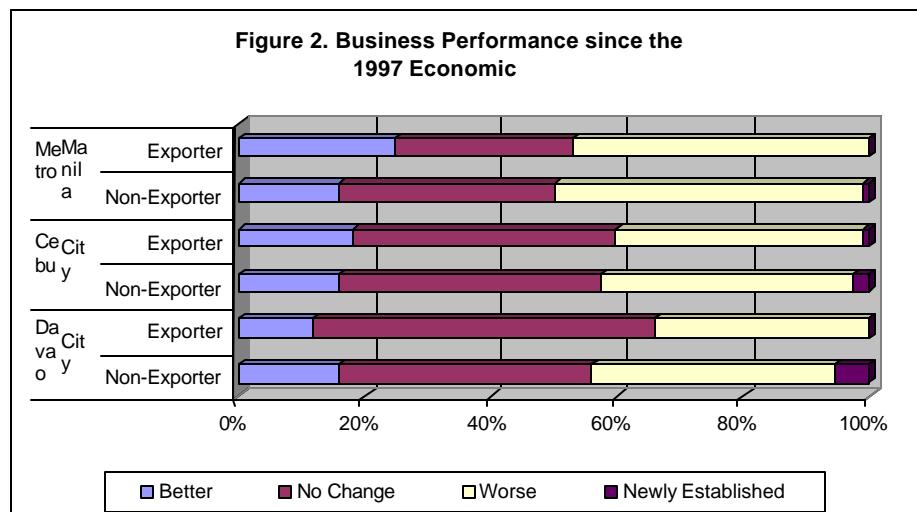
Only a very small percentage (3.8% or 19 firms) of the total number of respondents changed their business focus. Of these, there are twice as many exporters (2.6% or 13 exporter firms) than non-exporters (1.2% or 6 non-exporter firms). Of the total 498 firms that changed their business focus, only:

- 1.8% (9 firms) of which considered improving the quality of service to enhance customer satisfaction
- 1.2% (6 firms) of which were driven by the need to expand and further develop their business

#### **Business Performance Since the 1997 Economic Crisis**

Of the 498 firms in the sample, over half claimed that the 1997 crisis did not hurt them nor affected their business. Specifically,

- 42.3% (211 firms) attested that they have performed worse since the economic crisis
- 38.6% (192 firms) said that there was no change in business performance
- 17.9% (89 firms) said that they have performed better despite the crisis.



### Strategies for Business Growth

Of total firms in the sample (498 firms), about 85% identified intensified marketing efforts and increasing quality as the leading strategies for growth:



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- 46.4% (231 firms) indicated various intensified and strategic marketing/promotional efforts as a major strategy for business growth
- 39% (194 firms) designed business strategies with the goal of increasing the quality of products and services and enhancing customer relations
- 9.6% (or only 48 firms) indicated resource management/development
- 8.2% (41 firms) saw the merit of employing competitive pricing as a strategy
- 5.8% (29 firms) indicated the need for strategic planning and proper management
- 1% (5 firms) stress the importance of maintaining company reputation and stability in business
- 4.2% (21 firms) have other strategies aside from the aforementioned

### **Export Trends**

Firms from the Metro Manila exporter sample export an average of **53.8%** of their products. More specifically, of the 99 Metro Manila exporter firms:

- 27.3% (27 firms) export 91-100% of their products
- 15.2% (15 firms) export 1-10% of their products
- 10% (10 firms) export 41-50% of their products
- 9.1% (9 firms) export 11-20% of their products
- 9.1% (9 firms) export 21-30% of their products
- 8.1% (8 firms) export 81-90% of their products
- 7.1% (7 firms each) for the 31-40% and 71-80% ranges
- 4% (4 firms) for the 61-70% range
- 3% (3 firms) for the 51-60% range

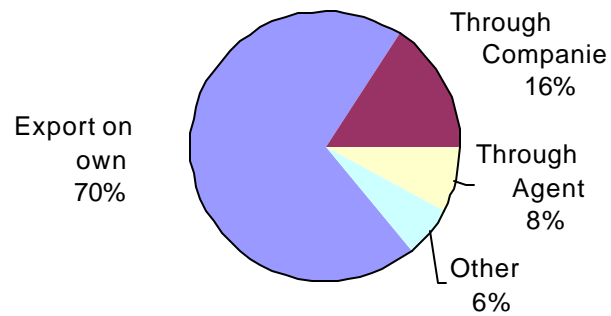
Cebu City exporter respondents export **83.5%** of their products on the average, with most firms (72 out of 100 Cebu exporter firms) exporting 91-100% of their products. Exporter respondents from Davao City export approximately **66.3%** of their products, with half of the sample (25 firms) exporting 91-100% of their products.

Exporters preferred to ship goods abroad on their own (Table 9). 70% of Metro Manila exporter firms export on their own, while 16% export through trading companies, 8% through an agent, and 6% through other means (Figure 3-A). In Cebu, 67% of exporters export on their own, 20% through an agent, 10% through trading companies, and 3% through other means (Figure 3B). From the Davao Exporter sample, 63% of firms indicated that they export on their own, 24% through trading companies, and 13% through an agent (Figure 3-C).

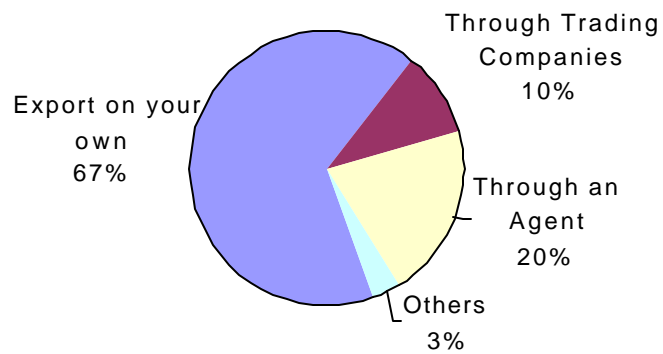
**Table 9. Manner of Export of Firms Across Cities**

<b>Manner of Export</b>	<b>Cities (No. of firms)</b>		
	<b>Metro Manila</b>	<b>Cebu City</b>	<b>Davao City</b>
On Their Own	72	79	34
Through Trading Companies	16	12	13
Through An Agent	8	24	7
Other Means	6	4	-

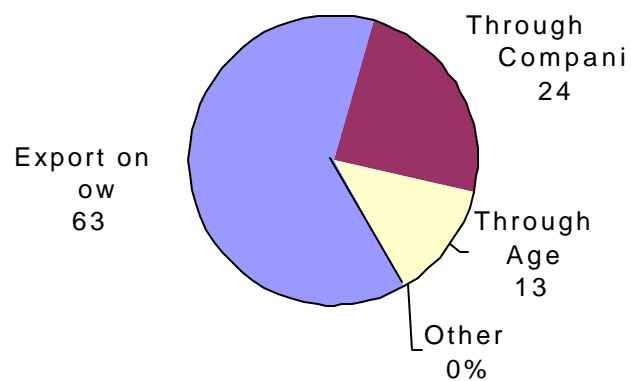
**Figure 3-A. Manner of Export for Metro**



**Figure 3-B. Manner of Export for Cebu City**



**Figure 3-C. Method of Export for**



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### 4. S-W-O-T Analysis

#### a) Internal Factors

##### a.1) Main strengths of business vs. competitors

Close to half of the SMEs in the study, at 48.2% (241 firms), identified the quality, reliability and efficiency of their products as their major strength. The second is good business relations and strong customer and supplier relations, and stability and leadership in the industry came third (Table 10).

**Table 10. Business Strengths vs. Competitors**

<b>Business Strengths</b>	<b>Frequency</b>	
	Percentage of total firms	Number of firms
Quality/Reliability/Efficiency	48.2%	241
Good Business Relations (Good Customer and Supplier Relations)	15.6%	78
Stability/Leadership in the Industry	13.4%	67
Competitive Pricing	10.2%	51
Human Capital/Resource Management	9.4%	46
Good Management	3.2%	9
Marketing/Strategic Product Positioning	3.0%	15
Financial Strength (liquidity, steady growth)	2.0%	10
Productivity	1.8%	9
Monopoly of Business	0.4%	2
Others	7.8%	39

##### a.2) Main weaknesses of business vs. competitors

Over a third of the respondents did not identify any weakness against their competitors.

Among those who identified weaknesses – financing, their comparatively higher prices, and human resource problems – emerged as the top three. 5.4% (27 firms) mentioned other weaknesses aside from what was mentioned (Table 11).

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**Table 11. Business Weaknesses vs. Competitors**

Business Weaknesses	Frequency	
	Percentage of total firms	Number of firms
Financial Constraints	14.0%	70
Pricing Disadvantage	13.0%	65
Human Resource Problems	9.8%	49
Limited Facilities	6.4%	32
Supply Problems	4.2%	21
Inadequate Marketing Strategy	4.0%	20
Poor Quality/Inefficiency	3.2%	16
Management Issues	2.6%	13
Inconvenience to Clients	1.6%	8
Collection Problems	0.4%	2
Others	5.4%	27
Did Not Identify Any	36.8	184

b) External Factors: Main business obstacles and threats

Of total firms in the sample, a third believes that obstacles and threats to business are externally induced, and a quarter attributes it to competition. Interestingly, government is not seen by many as an obstacle or threat to business. Specifically,

- **35.4%** (177 firms) from the sample indicated that among the more significant business obstacles are external financial and economic factors, such as economic and political crises
- **25%** (125 firms) said that one of their main business obstacles is caused by stiff competition, brought about by too many firms in business bringing prices down to competitive rates
- another **25%** (125 firms) of the sample mentioned internal resource problems such as the lack of financial capital, and limited human resources and facilities, among others, as a source of business obstacles
- **3.2%** (16 firms) point to government acts and measures, such as regulatory measures, among others
- **3.2%** (16 firms) indicate customer dissatisfaction as a source of such obstacles
- **2%** (10 firms) trace the root to product demand problems
- **5.2%** (26 firms) to various other causes
- **6.4%** (or 32 firms) said they have not identified any business obstacle.

**B. Business Size**

1. Employment

Of the total sample, 79.5% (396 firms) employ 10-99 in their workforce while 20.4% (102 firms) employ 100-99 workers. The ratio of small to medium firms (by employment) is 198:51.

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### 2. Asset Size

In terms of asset size, 62.2% (310 firms) are classified as small with assets worth P1.5M to 15M. On the other hand, 37.6% (188 firms) are medium enterprises with assets valued at over P15M to P60M. The ratio of small to medium enterprises (by asset size) is 155:94.

### 3. Capitalization

Per size of the initial capitalization, 67% (334 firms) are small firms with initial capitalization worth over P1.5M to P15M. On the other hand, 33% (164 firms) are medium firms with capitalization valued at over P15M to P100M. The ratio of small to medium enterprises (by capitalization) size is 167:82.

## **C. ICT Infrastructure Use**

### 1. Telephone Use

The telephone is almost universal among the respondent-firms in this study. Only less than 1% (4 firms or 0.8%) does not have its own phone for business use.

### 2. Facsimile Use

The fax machine is also ubiquitous. Of total firms in the sample, 94% (468 firms) have their own business facsimile machines.

### 3. Mobile Phone/Cell phone Use

Mobile phone penetration among SMEs is not as high as (wired) telephones. Of total respondents, 63.3% (315 firms) own and use cellular or mobile phones for business. On the other hand, 36.7% (183 firms) do not have and do not use cellular/mobile phones in their business.

### 4. Use of Short Messaging System (SMS)

Of the 315 SMEs (100%) who own cellular phones, 228 firms (72.4%) use text messaging (SMS) for business purposes, such as communicating with customers, ordering from suppliers, and communication among employees, among others. On the other hand, 87 firms (27.6%) do not use SMS (text messaging) for business.

### 5. Use of other electronic handheld devices

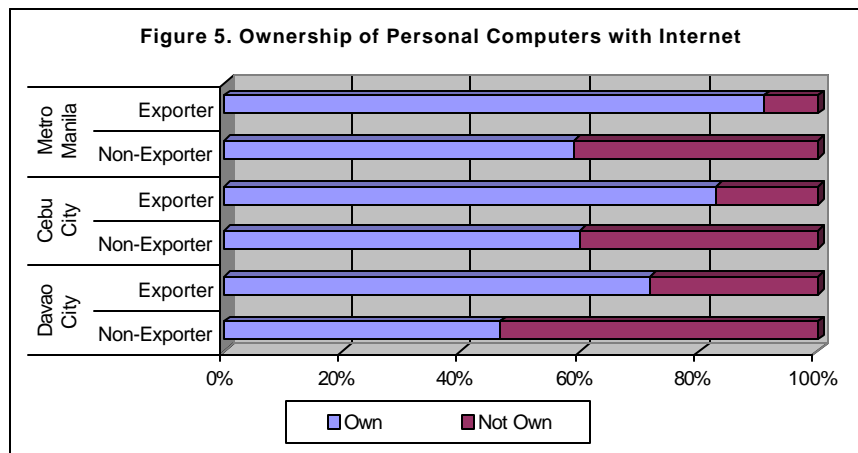
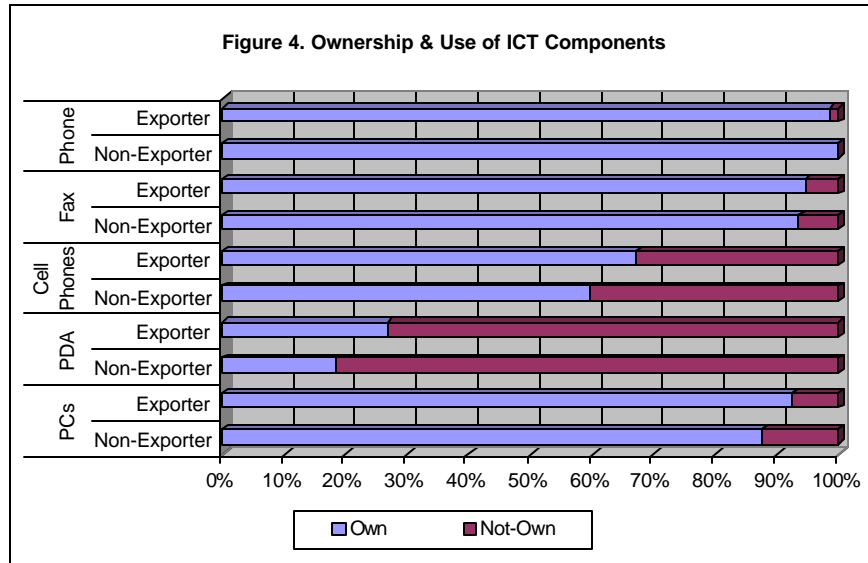
The use of electronic handheld devices is limited. Over three-quarters – 77.3% (385 firms) – do not own and use electronic handheld devices, such as Palm Pilots or pocket PCs. Only 22.7% (113 firms) own and use such devices for business.

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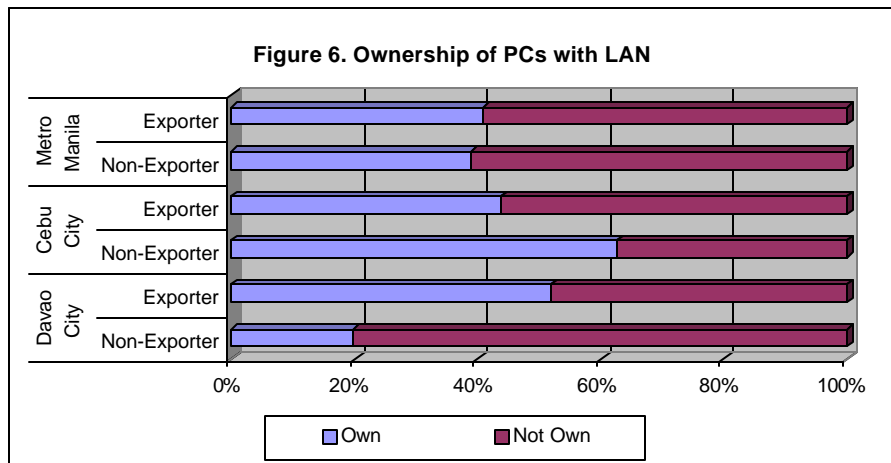
### 6. PC Use

PC use is dominant. 90% (448 firms) own and use personal computers or PCs. However, not all the PCs are connected to the Internet. Only 69.7% (347 firms) own PCs with Internet access. The presence of local area network (LAN) is even less pronounced. Only 212 firms (or 42.6% of total firms in the sample) own PCs connected to a (LAN).



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### D. SME Perception on the Importance of the Internet and E-Commerce to Business

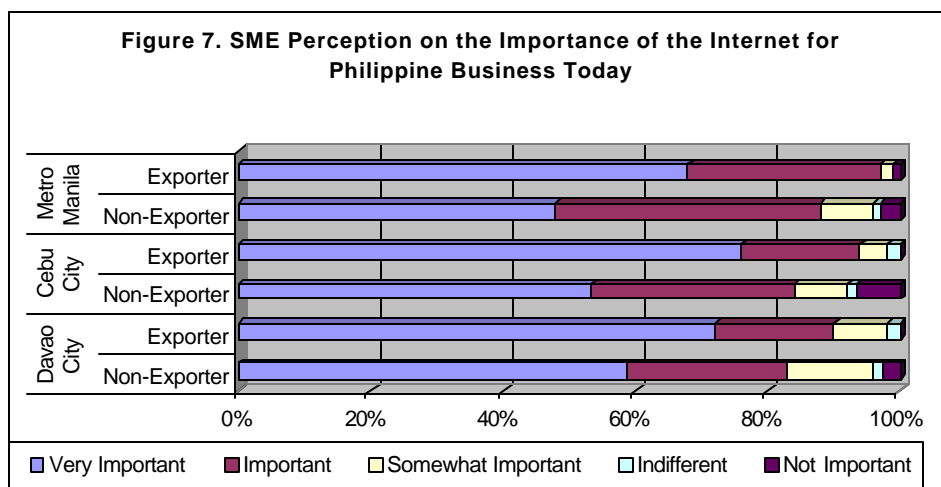
#### Importance Rating of the INTERNET

Almost all (96.6%) of the respondents believe that the Internet is at least somewhat important for business today. Specifically,

- **62.4%** say that the Internet is very important for business today
- **27.4%** say it is important
- **6.8%** say somewhat important

Only **2.2%** say it is not important at all, while **1.2%** are indifferent.

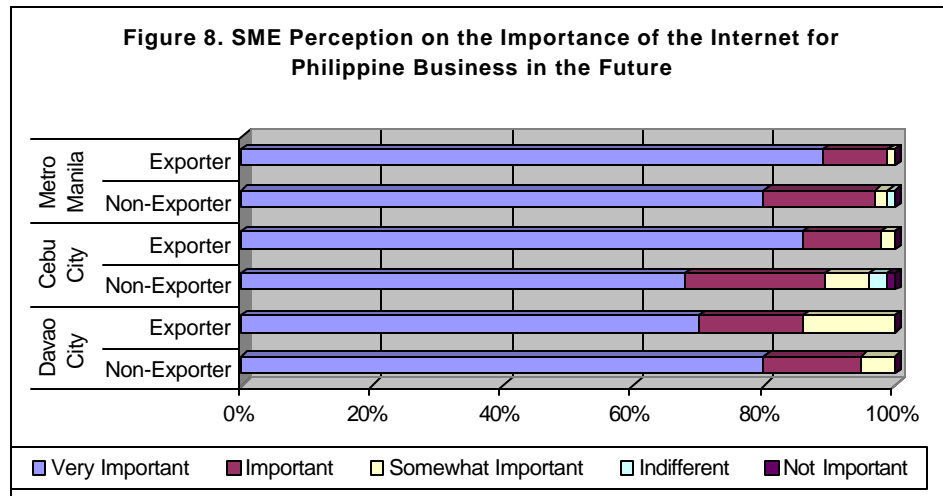
More exporters also believe that the Internet is very important, as compared to non-exporters.



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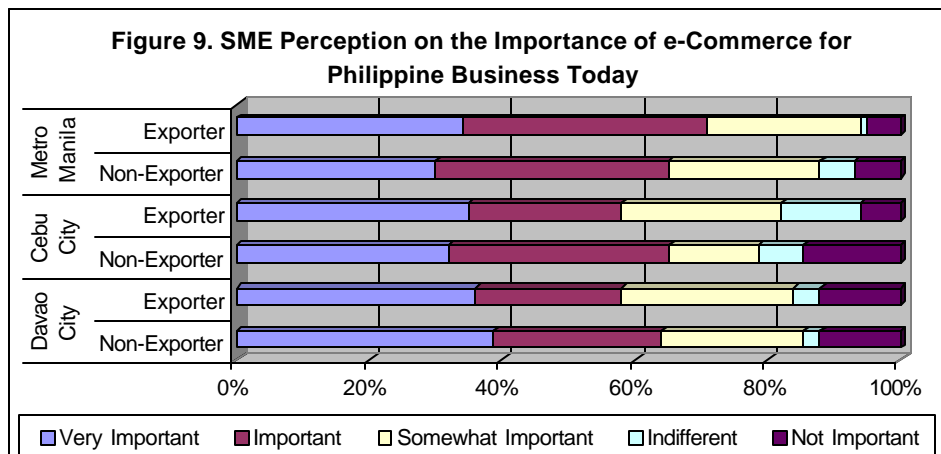
The proportion of those who believe the Internet will be “very important” in the future is a remarkable 80.2% of total respondents. 14.8% say it is “important” for business in the future and 4.2% say it is “somewhat important”. An insignificant 0.2% says it is not important at all, while 0.6% is indifferent.



### Importance Rating of E-COMMERCE

Less than 10% of SMEs in the 3 Philippine cities do not believe in the importance of e-commerce. An even smaller figure is indifferent to e-Commerce. About 85% believe that e-commerce is at least important. With respect to the importance rating of e-commerce to the sample SME firms – of total respondents:

- **34%** indicated that e-commerce is very important for business today
- **30%** say important
- **21.8%** say somewhat important
- **5.4%** are indifferent
- **8.8%** say that it is not important



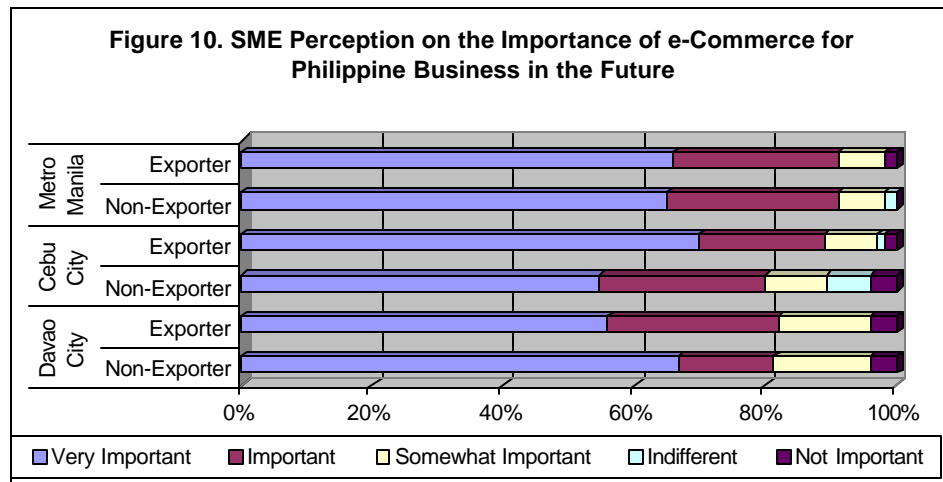


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Almost all (96% firms surveyed) believe that e-commerce will be important in the future, with about two-thirds (64%) claiming it will be “very important” in the future.

- **64%** say very important
- **22.6%** say important
- **9.4%** say somewhat important
- **1.6%** say that they are indifferent
- only **2.4%** say it is not important at all



### E. SMEs' Perceived Barriers to Increased ICT Usage

Of total respondents, 86.8% identified barriers to increased ICT usage while a meager 13.2% said that they do not see any barriers to ICT use.

#### 1. External Barriers

Of total respondents,

- only **27%** attribute to external barriers the perceived obstacles to increased ICT usage
- **26%** allege the high cost of purchasing computers and prohibitive hardware and associated costs
- **0.2%** indicate unfavorable economic policies
- **0.8%** attributes such to security concerns, such as network security, among others
- the remainder accounts for other reasons.

#### 2. Internal Barriers

Among the internal barriers identified by the respondents are the following:

- lack of knowledge (**29.4%** of total respondents);

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- poor telecommunications infrastructure (**21.2%**)
- inadequacy of computer- and internet-literate managers and workers (**16.8%**)
- internal lack of resources (**14.2%**)
- lack of relevance to business (**6.2%**)
- lack of local content (**4%**)
- insufficiency of financial resources (**0.6%**)
- technical difficulties (**0.2%**)

### **IV. Overview on Internet Use: Patterns and Trends**

#### **A. Number of Years of Internet Use**

Of the 352 firms (100%) that are Internet users, most firms have been using the Internet for 3 to 3-1/2 years on the average. Specifically,

- 10.2% of total Internet users have been using the Internet for only a year
- 18.6% for 2 years
- 27.7% for 3 years
- 13% for 4 years
- 16.7% for 5 years
- 13.8% for over 5 years

#### **B. Place of Use and Access**

347 firms (*or 69.7% of total firms in the sample*) use PCs with Internet access at the office. 15 firms (*or 3% of total firms in the sample*) get their access at Internet cafes for business purposes.

#### **INTERNET CAFÉ USERS (base: 15 firms)**

Of total Internet café users (**15 firms**),

- 33% of internet café users (5 firms) indicate that there is no available Internet line at the office
- 26.7% (4 firms) go to Internet cafes when office computers are out of order
- 20% (3 firms) say that it is cheaper to access the Internet at the Internet café
- 13.3% (2 firms) use the Internet café when they are out-of-town and need to transact business
- 7% (1 firm) goes to the same only in case of emergency

Of the 15 total Internet café users, 4 firms (26.7%) go to the same cafes because of the following considerations: (1) they are conveniently located vis-à-vis the office; (2) they have fast connection speeds; and (3) they have competitive rates. On the other hand, 11 firms (73.3%) go to different cafes based on economy (i.e., looking for cheaper rates), convenience and speed of connection, among others.

Of the 15 total Internet café users,

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- 86.7% (13 firms) indicated that 0-20% of their employees (whether officers or staff) go to the internet café for business
- 6.7% (1 firm) – 21-40% of employees
- 6.7% (1 firm) – 41-60% of total employees

20% (3 firms), which do not have Internet access at the office and access at Internet cafes, plan to install Internet access at the office in the next twelve months for reasons of necessity, convenience and efficiency. 33.3% (5 firms), which use the Internet cafes for business, are undecided as to whether or not to install Internet access at the office for the next twelve months.

46.7% (7 firms) already have Internet access at the office but still use the Internet cafes for business.

### **NON-INTERNET CAFÉ USERS (base: 483 firms)**

97% of total respondent firms (or 483 firms) are non-internet café users.

Of the 483 firms (100%), 23.4% (113 firms), while not Internet café users, have indicated an interest to use the Internet café for business purposes. 76.6% (or 370 firms) are not Internet café users and do not intend to use the same for business purposes.

**Out of the 113 non-internet café users** (i.e., respondents which presently rely on their office Internet connection but which are considering to access the internet at internet cafes),

- 38% (or 43 firms) say they will use the internet at internet cafes because of **convenience**
- 31.9% (36 firms) – **necessity**
- 14.1% (16 firms) – **economy**
- 8% (9 firms) – **efficiency**

On the other hand, over three-quarters (76.6%) of total firms in the sample (370 firms) do NOT intend to use Internet cafes. They cite the following reasons for their decision:

- **lack of interest and of importance to business** – 66.5% of the 370 firms (246 firms);
- **security issues and concerns** – 25.7% (95 firms);
- **price considerations** – 4.9% (18 firms); and
- **inconvenience** – 3% (11 firms), among others.

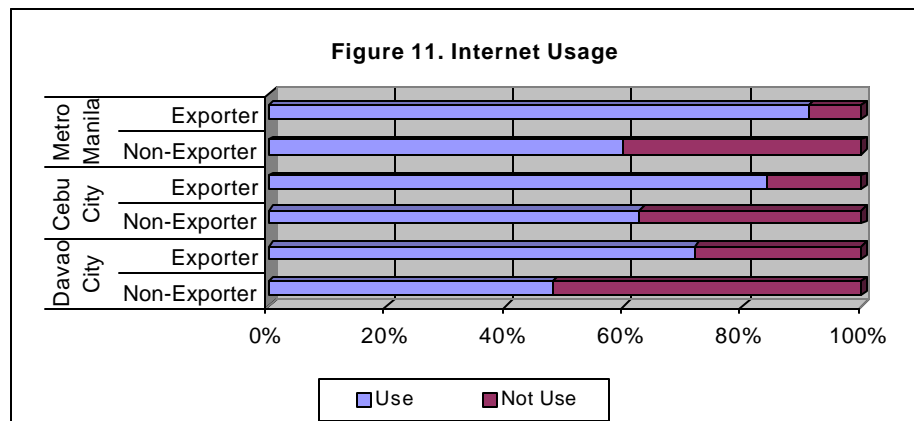
### **C. Extent of Internet Access**

#### *General Internet Usage*

Of total interviews conducted, over two-thirds (352 firms or 71%) use the Internet, with 347 firms (70%) using the Internet at the office and 15 firms (3%) using the Internet at the Internet cafes.

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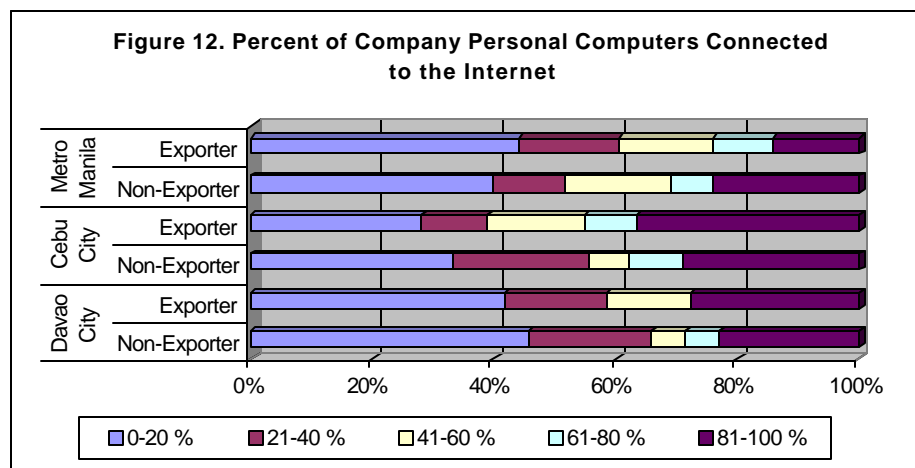
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### Extent of PCs Connected to the Internet

Of total office Internet users (347 firms):

- 38% (132 firms) have 0-20% of their PCs connected to the internet
- 15.6% (54 firms) have 21-40% of PCs with internet access
- 13.5% (47 firms) – 41-60%
- 7.5% (26 firms) – 61-80%
- 25.4% (88 firms) – 81-100%



### Extent of Employee Access to the Internet

Out of 347 office Internet users,

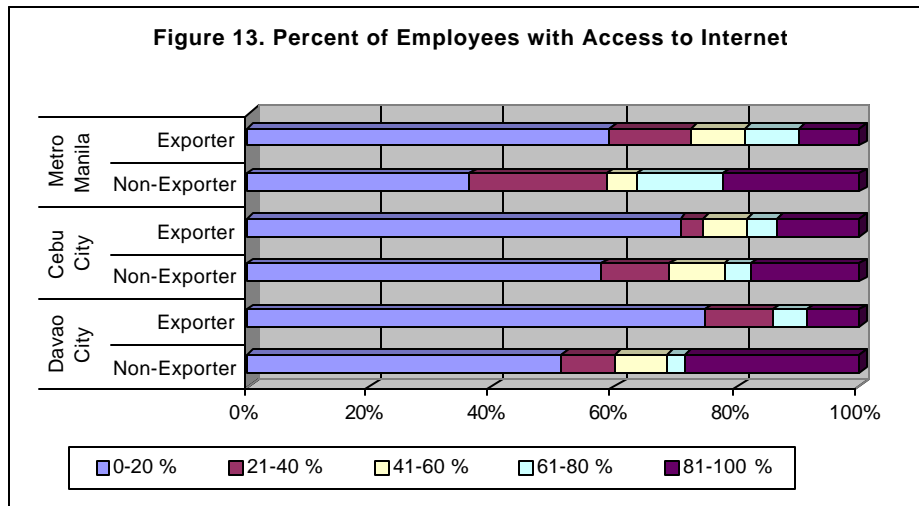
- 58.8% (204 firms) have 0-24% of their employees with access to the Internet
- 11.5% (40 firms) – 21-40% of employees
- 6.9% (24 firms) – 41-60% of employees

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- 7.2% (25 firms) – 61-80% of employees
- 15.6% (54 firms) – 81-100%



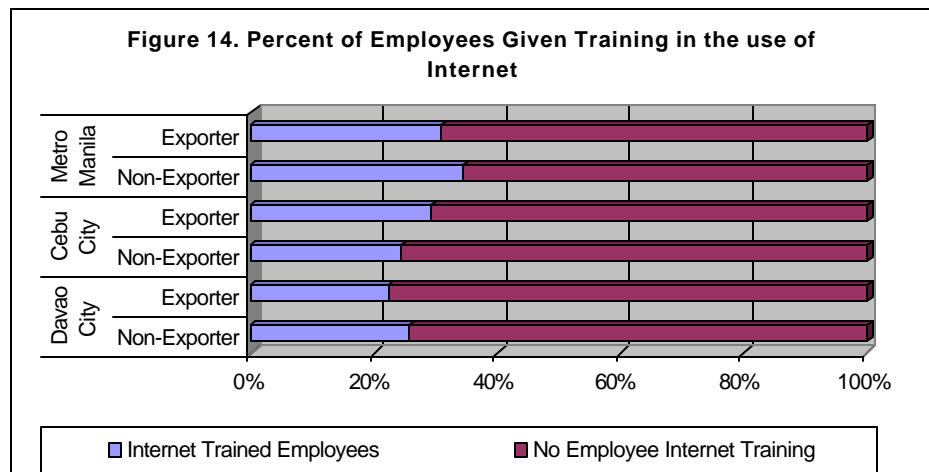
Over two-thirds (71.2%) of the Internet user firms from the sample do not provide Internet training for all their employees. This may explain why these firms are unable to maximize the use of the Internet in business.

Of total office Internet users (347 firms; 100%), 28.8% (or 100 firms) have provided Internet training to their employees:

- 64% of which (or 64 firms) having 0-20% internet trained employees
- 7% (or 7 firms) – 21-40% internet trained employees
- 9% (or 9 firms) – 41-60% internet trained employees
- 4% (or 4 firms) with 61-80% internet trained employees
- 16% (or 16 firms) with 81-100% Internet trained employees

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Among the types of Internet applications training provided for employees are: basic e-mail literacy; basic computer applications literacy (such as word processing, spreadsheets, data bases, and the office application suite – i.e., MS Word, Excel and PowerPoint); web design; system installation; troubleshooting; and banking methods and/or systems. The Internet training session are usually conducted internally or in-house by the Human Resources Department and externally by contracted trainers.

### D. Type of Internet Connection

The following indicates the available types of office Internet connection used by the firms:

- dial-up – 84.7% of internet users (or 296 firms)
- cable – 6.2% (22 firms)
- leased line – 5.7% (20 firms)
- satellite – 2% (7 firms)
- DSL – 0.9% (3 firms)
- broadband – 0.6% (2 firms)
- wireless – 0.6% (2 firms)
- ISDN – 0.3% (1 firm)
- ADSM – 0.3% (1 firm)

1.7% (6 firms) did not indicate the type of Internet connection used.

Apparently, Internet connection through dial-up is the most commonly used type of connection among the firms in the given sample. There are very few SME firms in the sample using broadband connection.

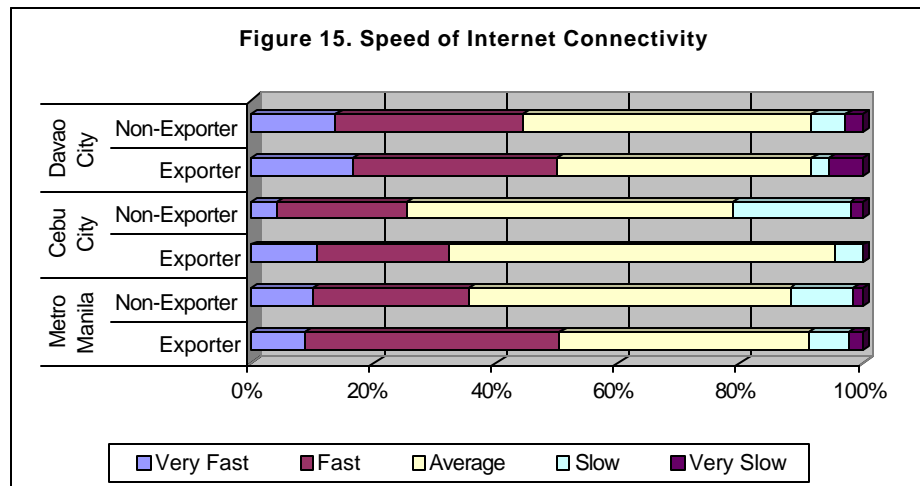
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### E. Internet Speed Evaluation

Of total office and café Internet users (352 firms),

- 10.2% (36 firms) consider their internet connection speed to be very fast
- 29.5% (104 firms) say it fast
- 50.3% (177 firms) say average
- 8% (28 firms) say slow
- 2% (7 firms) say very slow



A slight majority (192 firms or 54.6% of total office and Internet café users) stated that the speed of Internet connection influenced their decision to use the Internet. 156 firms (44.3%) indicated that the speed of connection does not affect their decision to use the Internet. The remaining 1.1% (4 firms) is indifferent.

### F. Use of Internet Service Providers (ISPs)

#### 1. Number of ISPs Used

There are a total of 72 ISPs used by the office Internet users, most common among those mentioned are Pacific Internet, Infocom, Skyinet, Mozcom, Weblink, Philippine Online, and Philippine World. Among the more common ISPs used by firms in the sample which provide cable connection are Sky Cable and Destiny.

#### 2. Reasons for Choosing an ISP

Quality of service and cost considerations are the two leading factors for choosing an ISP. The ranking of the most common reasons from the sample is as follows based on total Internet office users:

- Quality of service provided, reliability and efficiency – 33.4% (116 firms)
- Economy or price/cost considerations – 22.2% of total office internet users (77 firms)

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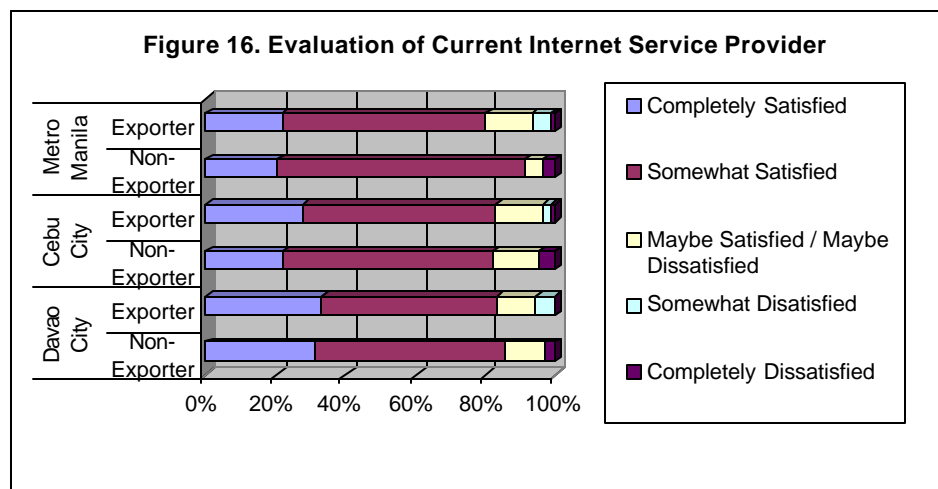
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- Considerations based on existing business and/or personal relations – 13% (45 firms)
- Popularity and market presence of the ISP – 6.9% (24 firms)
- Corporate stability and leadership in the industry of the ISP – 6% (21 firms)
- Provision of new services/advanced equipment – 0.9% (3 firms)

### 3. Evaluation of Current ISP

Of total office Internet users (347 firms),

- 25.4% (88 firms) stated that they are completely satisfied with the quality of service of their current ISP
- 58.5% (203 firms) are somewhat satisfied
- 11.5% (40 firms) are indifferent as to level of satisfaction
- 2.6% (9 firms) are somewhat dissatisfied
- 2% (7 firms) are completely dissatisfied



## G. Driving Factors and Perceived Benefits of Internet Use and its Applications

Among the most common factors which drive the use of Internet are:

- convenience and efficiency (in terms of cost and time) – 74.7% or 263 firms out of total internet user firms (352 firms)
- stiff competition among industry players because upgrading business services through internet applications bring companies to a competitive position – 16.8% (59 firms)
- necessity (i.e., Internet use is indispensable and/or helpful to the operations of the business) – 16.2% (57 firms)
- the need to conduct easier and faster research – 5.4% (19 firms)
- consistency with business goals to improve and upgrade with existing trends – 1.7% (6 firms)



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- attainment of customer satisfaction – 1.1% (4 firms)

The results show that majority of the Internet user firms base their decision to use the Internet on the effect of such use on efficiency (cost and time efficiency). Competition and necessity are equally significant factors that affect Internet use.

Other corollary factors, which are deemed important in driving the firms' Internet Use, are the extent of competitors' Internet usage, the extent of customers' Internet usage, and the extent of suppliers' Internet usage (or at least the perception of the extent of such use). The results indicate that the respondent Internet user firms perceive that almost all, if not, most of the firms' competitors are Internet users. The same can be said of the firms' suppliers and customers.

### IV. Internet Applications: Patterns and Trends

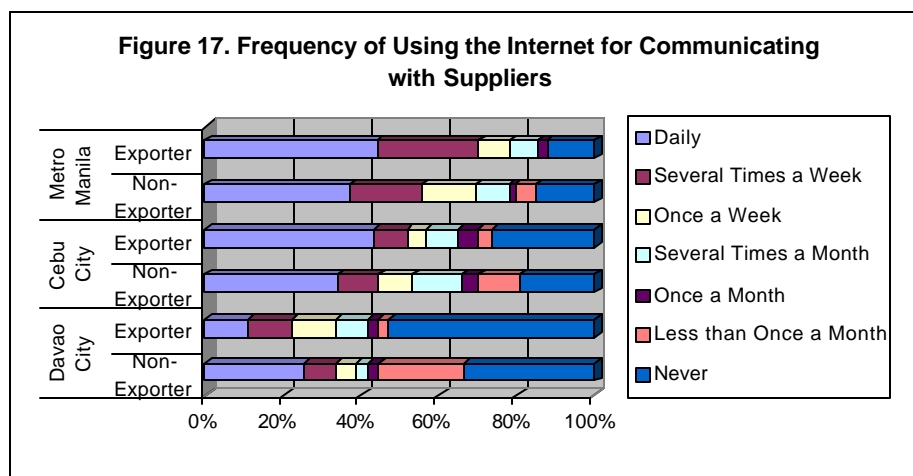
#### A. Communication

##### 1. Frequency of Use and Purpose of Use

For the purpose of **communicating with suppliers**, out of total Internet users (352 firms):

- 36% (127 firms) access the Internet daily
- 15.3% (54 firms) – several times a week
- 8.2% (29 firms) – once a week
- 8.2% (29 firms) – several times a month
- 3.1% (11 firms) – once a month
- 5.7% (20 firms) – less than once a month
- 23.3% (82 firms) never access the Internet to communicate with suppliers

Out of total Internet users, a significant number of firms access the Internet frequently (either daily or several times a week) for the purpose of communicating with suppliers. On the other hand, a number of firms never, if not rarely, use the Internet for such purpose.



## SMEs and e-Commerce in Three Philippine

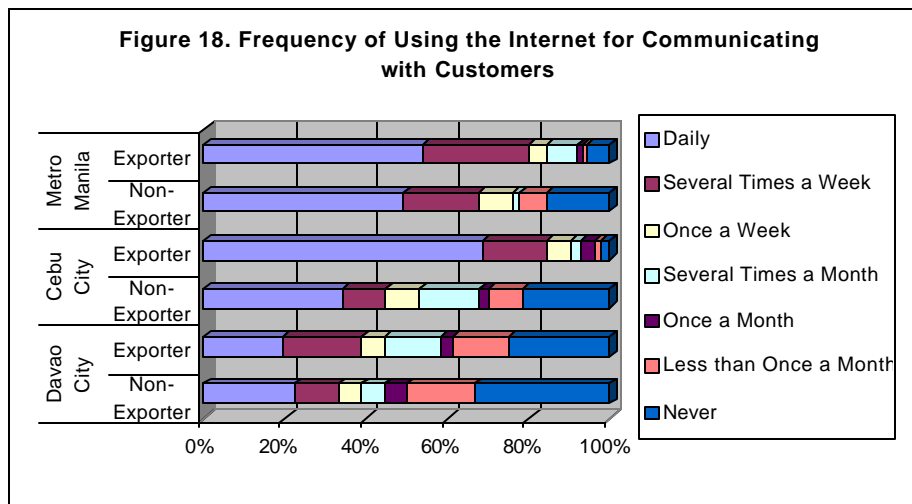
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For the purpose of **communicating with customers**, out of total Internet users:

- 61.1% (215 firms) stated that they access the internet daily
- 18.2% (64 firms) – several times a week
- 6.2% (22 firms) – once a week
- 6.8% (24 firms) – several times a month
- 2.3% (8 firms) – once a month
- 6% (21 firms) – less than once a month
- 13.4% (47 firms) – never

Based on the figures, there is a trend indicating that a majority of total Internet users frequently access the Internet to communicate with customers (with 47.2% or 166 firms accessing the internet on a daily basis for said purpose). On the other hand, quite a number (13.4% or 47 firms) have never accessed the Internet for such purpose.



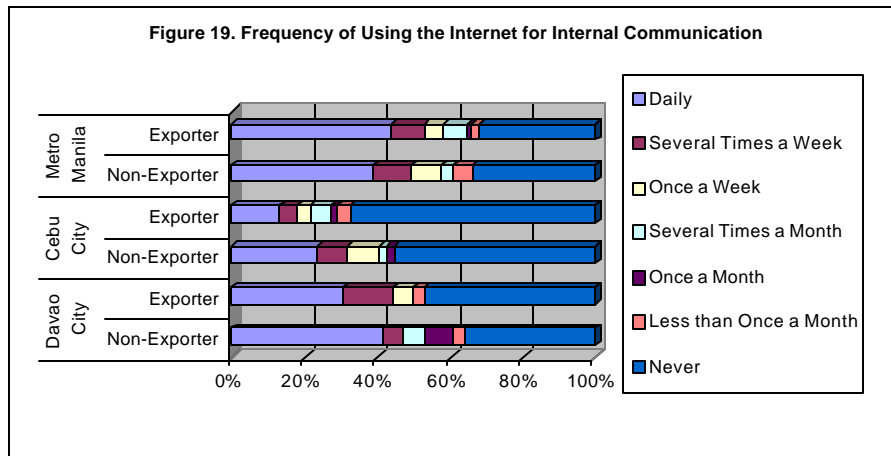
For **internal communication purposes**, of total Internet users:

- 31.4% (111 firms) access the Internet daily
- 8.2% (29 firms) – several times a week
- 5.4% (19 firms) – once a week
- 4.5% (16 firms) – several times a month
- 1.7% (6 firms) – once a month
- 2.8% (10 firms) – less than once a month
- 45.7% (161 firms) do not access the Internet for this purpose

The figures show that most of the firms do not access the Internet for communication within the company and among employees. This confirms that there is less need to access the Internet for internal communication purposes due to factors such as proximity and convenience with respect to using alternative modes of communication within the company (i.e., written memos or personal meetings).

## SMEs and e-Commerce in Three Philippine

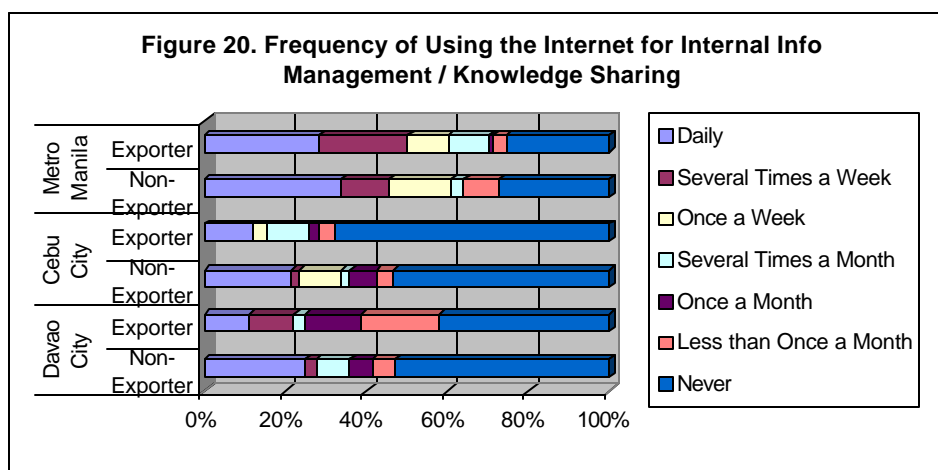
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Internet user firms also access the Internet for the purpose of **internal info management and knowledge sharing**. Out of total office and café Internet users (i.e., 352 firms):

- 22.4% (79 firms) access the internet daily
- 9.4% (33 firms) access several times a week
- 7.4% (26 firms) access once a week
- 7.1% (25 firms) access several times a month
- 3.7% (13 firms) access once a month
- 6.2% (22 firms) access less than once a month
- 43.8% (154 firms) do not access the Internet for such purpose

The figures reflect that the majority of the firms do not see the need to access the Internet for the purpose of internal info management and knowledge sharing (with 43.8% of total internet users or 154 firms). Quite a number (22.4% of total internet users or 79 firms), however, access the Internet daily.



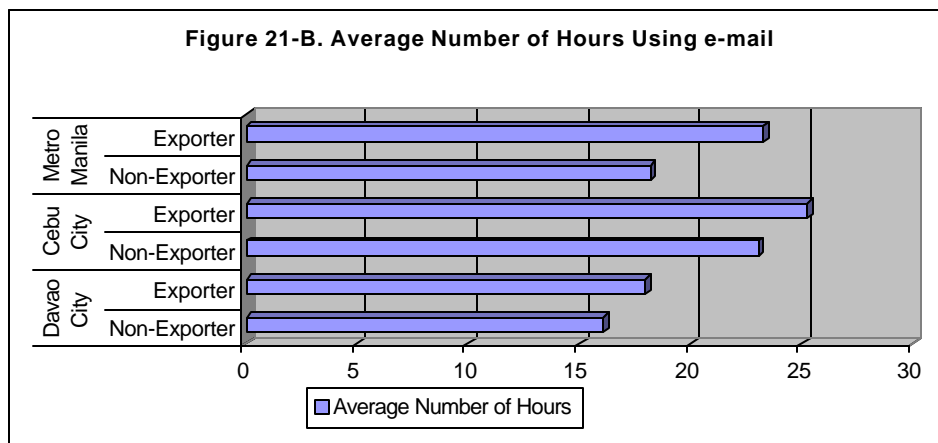
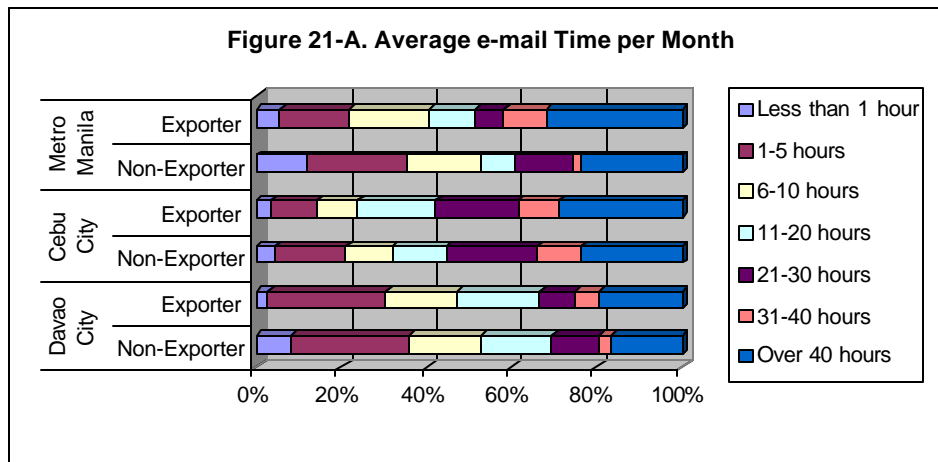
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### 2. Average E-mail Time (Base: 352 firms)

The average number of hours per month spent on the Internet for e-mail is the following:

- For Metro Manila exporter firms (25.8% or 91 firms): 23.3 hours
- For Metro Manila non-exporter firms (16.8% or 59 firms): 18.2 hours
- For Cebu Exporter firms (23.6% or 83 firms): 25.3 hours
- For Cebu non-exporter firms (13.4% or 47 firms): 23.1 hours
- For Davao exporter firms (10.2% or 36 firms): 18 hours
- For Davao non-exporter firms (10.2% or 36 firms): 16.1 hours



### 3. Importance Rating of E-mail in Business

Of total Internet users:

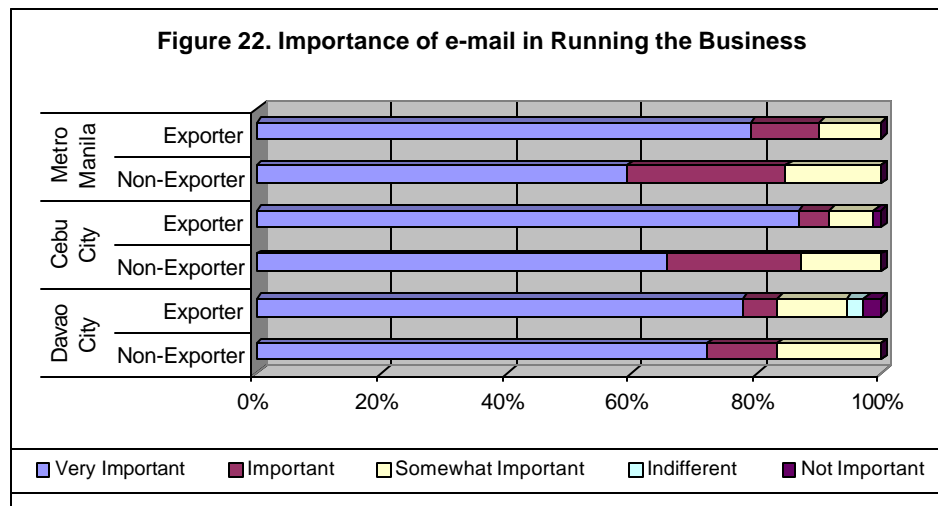
- 75% (264 firms) stated that e-mail is very important to business
- 12.8% (45 firms) say that it is important
- 11.4% (40 firms) – somewhat important

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- 0.3% (1 firm) – indifferent (i.e., neither important nor not important)
- 0.6% (2 firms) said e-mail is not important to their business

Almost all of the firms indicated that e-mail is relatively important to the conduct of their business.



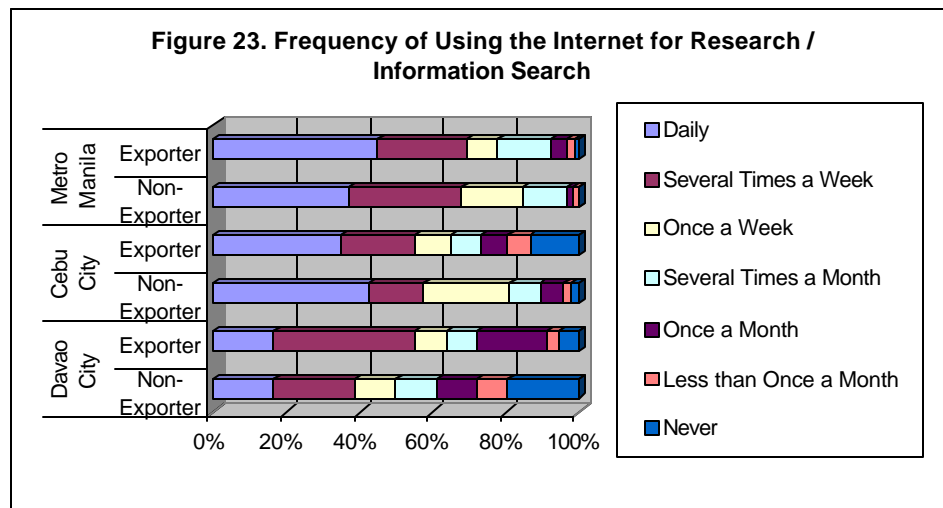
### B. Research/Information Search

Of total office and café Internet users, over a third use it daily for research and information search. The figure moves up to over half when you look at those firms accessing the Internet at least once a week for research:

- 35.2% (124 firms) stated that they access the Internet daily for research and information search
- 24.4% (86 firms) indicated that they access the Internet several times a week;
- 12.5% (44 firms) – once a week
- 10.8% (38 firms) – several times a month
- 7.1% (25 firms) – once a month
- 3.7% (13 firms) – less than once a month
- 6.2% (22 firms) – never

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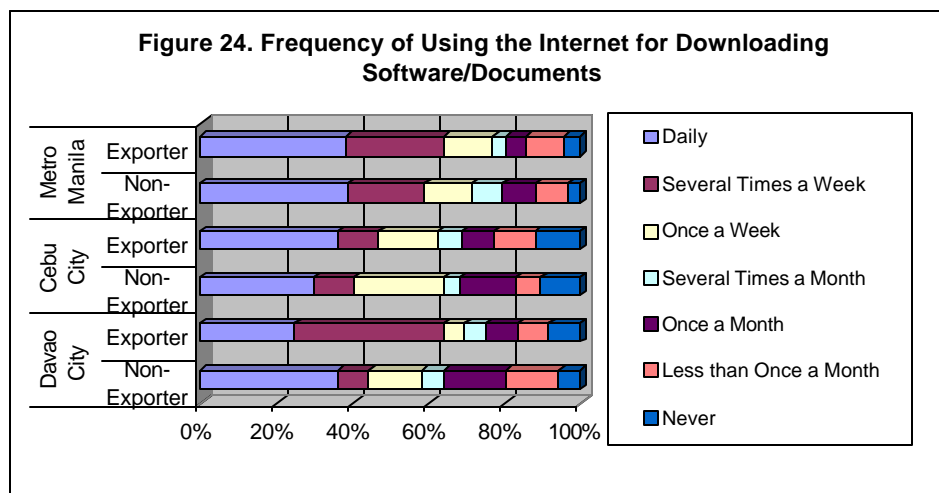


### C. Downloading Software/Documents

For the purpose of downloading software and/or documents, of total Internet users,

- 35.2% (124 firms) access the Internet daily
- 18.7% (66 firms) – several times a week
- 14.2% (50 firms) – once a week
- 5.4% (19 firms) – several times a month
- 9.4% (33 firms) – once a month
- 9.7% (34 firms) – less than once a month

7.4% (26 firms) never access the Internet for such purpose at all.



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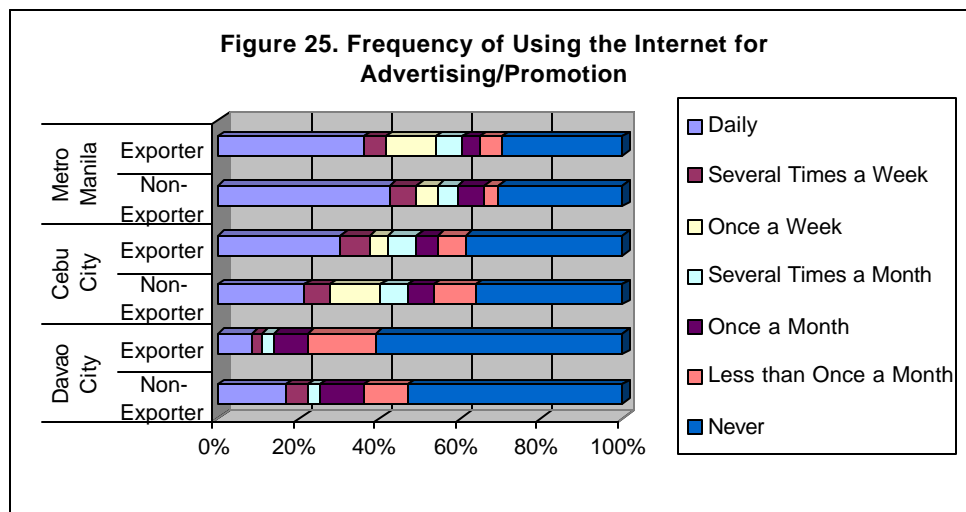
### **D. Advertising/Promotion**

From total Internet users,

- 29% (102 firms) indicated that they access the internet daily for the purpose of advertising and promoting their company
- 6% (21 firms) – several times a week
- 6.8% (24 firms) – once a week
- 5.7% (20 firms) – several times a month
- 6.2% (22 firms) – once a month
- 8% (28 firms) – less than once a month

38.4% (135 firms) never access the Internet for such purpose.

While a significant number of firms access the Internet on a daily basis for the purpose of advertising and promotion, a relatively significant number (in fact more firms) likewise do not access the Internet for such purpose.



### **E. Average Internet Surfing Time (Base: 352 firms)**

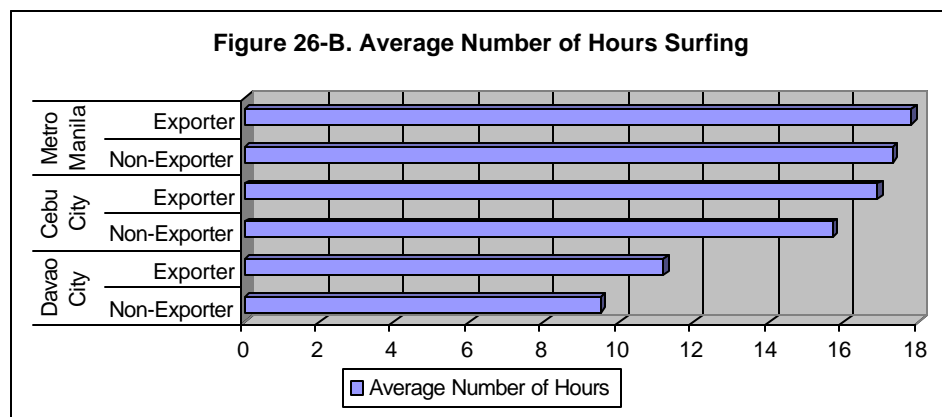
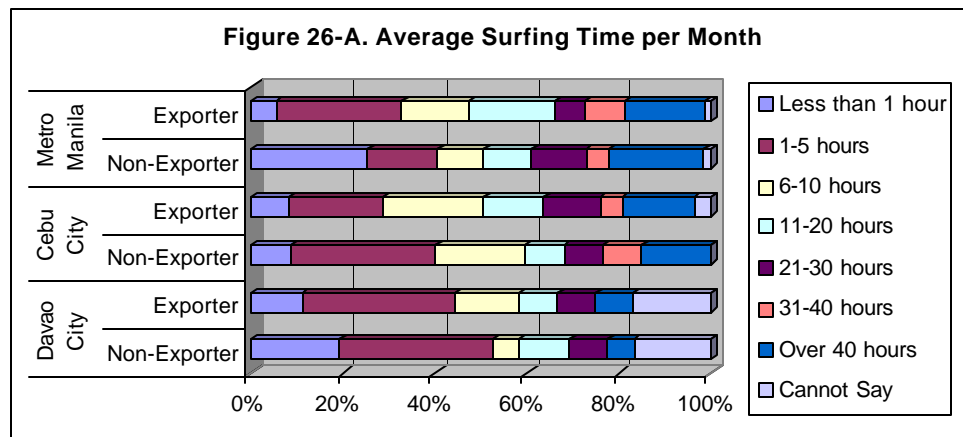
Below are the average times spent on the Internet for surfing across cities:

- For Metro Manila exporter firms (25.8% or 91 firms): 17.8 hours
- For Metro Manila non-exporter firms (16.8% or 59 firms): 17.3 hours
- For Cebu exporter firms (23.6% or 83 firms): 16.9 hours
- For Cebu non-exporter firms (13.4% or 47 firms): 15.7 hours
- For Davao exporter firms (10.2% or 36 firms): 11.2 hours
- For Davao non-exporter firms (10.2% or 36 firms): 9.5 hours

The figures again show that exporter firms spend slightly more time on the Internet for surfing than non-exporters. The difference, however, is insignificant.

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### F. Importance Rating of Other Internet Functions

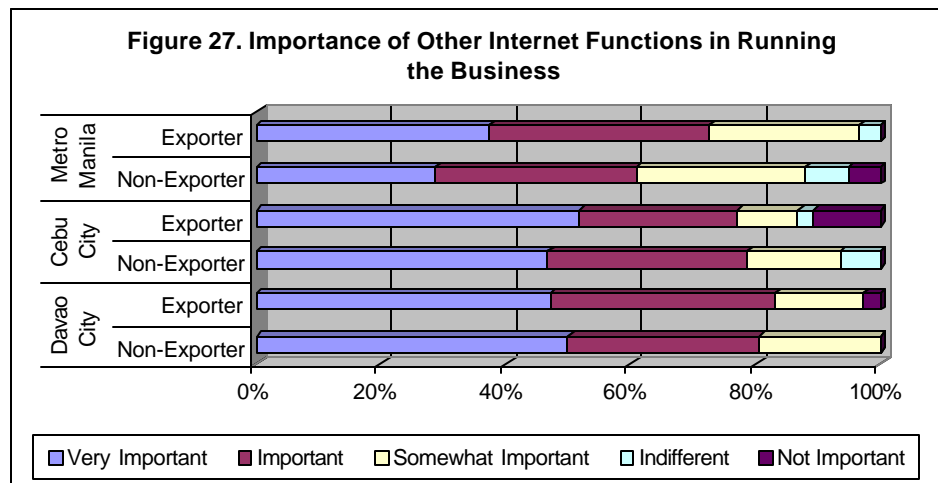
On the relative importance of the other Internet functions (i.e., research/information search, downloading of software and documents, and advertising and promotion; excluding the most dominant function which is communication), of total Internet users:

- 42.9% (151 firms) indicated that such are very important to business
- 31.5% (111 firms) – important
- 18.5% (65 firms) – somewhat important
- 3.4% (12 firms) – indifferent (i.e., neither important nor not important)
- 3.7% (13 firms) said these functions are not important at all



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### G. Importance of Internet as Reflected by Monthly Expenditure

With respect to monthly Internet expenditures (excluding telephone charges), 193 firms (or 54.8% of total internet users) spend less than P2, 000; 76 firms (21.6%) -- more than P2, 000 to P5, 000; 48 firms (13.6%) – more than P5, 000 to P10, 000; and the rest – more than P10, 000.

As reflected by the figures, more firms spend less for Internet use due to budget constraints. Apparently, SME firms from the sample use the Internet at the most basic level because this costs less.

## VI. Development of Websites

### A. Introduction

#### 1. Companies with Websites

Of the total 126 firms with websites,

- 44.4% (56 firms out of the 126 firms with websites) indicated that in-house personnel developed their websites;
- 30.1% (38 firms) – by web-hosting companies; and
- 25.4% (32 firms) stated that theirs were developed by a web-designer.

Out of total firms with websites (126 firms),

- 50.8% (64 firms) stated that their website host is located in the web hosting company;
- 38.1% (48 firms) indicated that their website host is located in its in-house server; and
- 11.1% (14 firms) said that the website host is located in the base of the company offering free hosting service over the Internet.

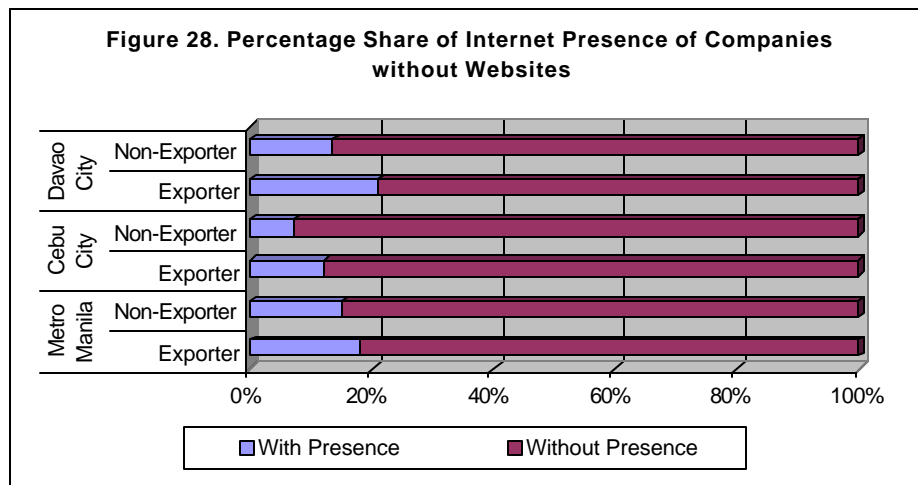
## SMEs and e-Commerce in Three Philippine

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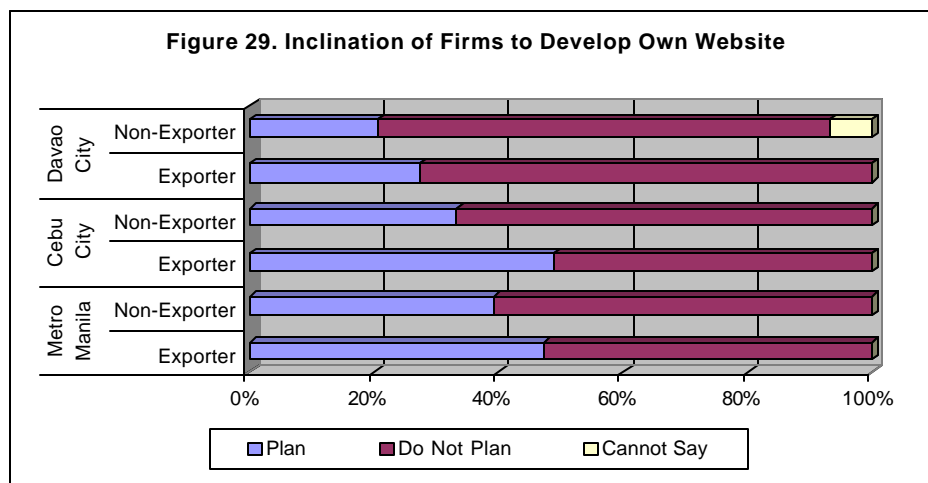
### 2. Companies without Websites

Out of total companies without websites (226 firms; 100%), 15% (34 firms of total companies without websites) have some kind of Internet presence. The nature of this presence includes any of the following: (1) presentation of corporate information; (2) advertising and promotion; (3) as a communication medium; and (4) e-commerce/business. These firms are listed in Internet portals or sites managed by other firms.

It is important to note that 85% (192 firms) does not have any presence in the Internet.



Only 38.5% (87 firms of total without websites) showed an inclination to develop a web presence, while almost two-thirds (137 firms or 60.6%) do not plan to develop a website for the following reasons: (1) lack of necessity to business; (2) financial constraints; (3) security concerns; (4) poor internet infrastructure causing slow connection speeds; and (4) lack of educated personnel, among others. 0.9% (92 firms) are undecided as to whether or not they would want to develop a website.



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The underlying reasons of such firms for developing a website in the next 12 months are: (1) its need to enhance advertising and promotion of the company and its products; (2) pressure from competition and consistency with existing trends; (3) efficiency considerations; (4) convenience; (5) preparation for future e-commerce practice; and (6) hiring purposes.

For those who intend to develop a company website (87 firms; 100%), in-house development and external hosting appear to be the preferred choices:

- 35.6% (31 firms of total firms intending to develop a website) plan to do it in-house
- 25.3% (22 firms) plan to do it through a web-hosting company
- 34.5% (30 companies) plan to do it through a web designer

4.6% (4 firms) did not indicate a preference.

With respect to preference on the location of the server,

- 28.7% (25 firms) stated that they intend an in-house server to host the website
- 32.2% (28 firms) indicate a web hosting company
- 8% (7 firms) stated free hosting over the internet
- 2.3% (2 firms) indicate Internet service providers to host the website

28.7% (25 firms) are undecided as to the location of their servers.

Of the total firms who plan to develop a website (87 firms), over half (54%) intends to spend less than P20, 000 (or US\$392 at US\$1 = Php 51) for site development:

- 41.4% (36 firms) intend to spend less than P15, 000 for the development of the website
- 12.6% (11 firms) intend to spend more than P15, 000 to P20, 000
- 8% (7 firms) intends to spend more than P20, 000 to P25, 000
- 6.9% (6 firms) – more than P25, 000 to P30, 000
- 10.3% (9 firms) – more than P30, 000 to P50, 000
- 5.7% (5 firms) – more than P50, 000 to P100, 000
- 2.3% (2 firms) are willing to spend more than P100, 000
- 9.2% (8 firms) are only willing to develop it free of charge

3.4% (3 firms) did not indicate how much they are willing to spend for site development.

### **B. Nature and Purpose of Websites**

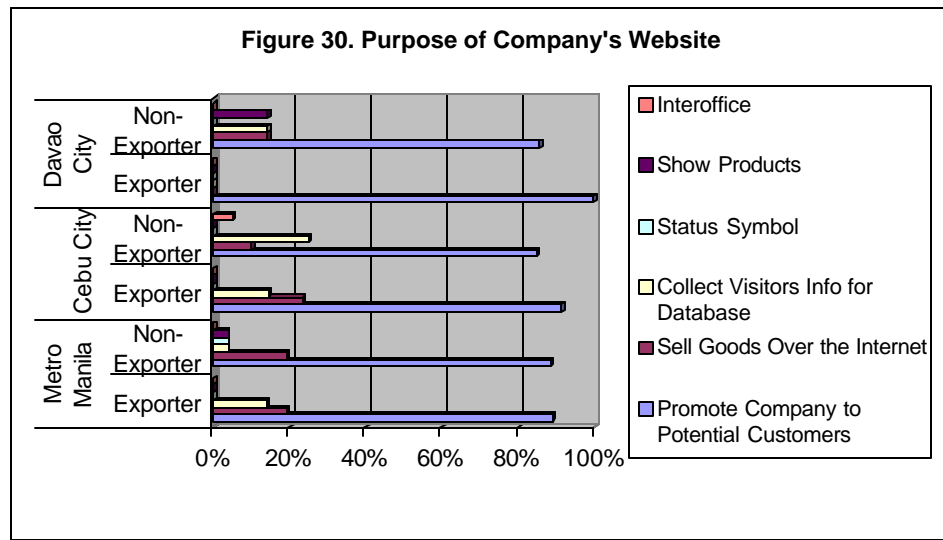
The website is seen primarily as an electronic brochure and not as an e-commerce research tool. Out of the 126 firms which have websites,

- 88.9% of total firms with websites (112 firms) utilize the same for the promotion of the company to potential customers

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- 18.3% (23 firms) use the site for e-commerce (or selling goods over the Internet)
- 13.5% (17 firms) use the site to collect visitors' info for the company's database
- 1.6% (2 firms) use the website merely to showcase their products
- 0.8% (only 1 firm) perceive having a website as a status symbol
- 0.8% (only 1 firm) use the website for interoffice functions



### C. Importance of and Driving Forces for Developing and Maintaining Websites

Among the important driving factors and/or considerations which affect the decision of respondent firms on whether or not to have a website are the following:

- Use of the Website as a tool for marketing and promotion – 16.3% of total respondent firms (81 firms)
- Necessity and Deemed importance of a website to the conduct of business operations – 6.2% (31 firms)
- Convenience, primarily with respect to increased accessibility to corporate information and services – 2.6% (13 firms)
- To keep up with competition in the industry – 2% (10 firms)
- Consistency with a business development effort – 1.2% (6 firms)
- Management drive – i.e., as when management dictates the creation of a website – 0.4% (2 firms)

Most firms from the sample perceive the importance of a website as an effective medium for the provision of company information to suppliers and clients, as well as for advertising and promotion.

## **D. Maintaining and Updating Websites**

### **1. Frequency**

Almost half maintain information irregularly (i.e., on a need basis), while a quarter keep information on their websites for up to a year. Of the total 126 firms with websites,

- 1.6% (2 firms) maintain information in the website for less than a week
- 4.8% (6 firms) maintain information for one week to less than a month
- 2.4% (3 firms) maintain information for one month to less than two months
- 3.2% (4 firms) maintain information for 2 months to less than three months
- 4.8% (6 firms) maintain information for 3 months to less than 4 months
- 4.8% (6 firms) maintain information for over 4 months to six months
- 10.3% (13 firms) for over 6 months to less than a year
- 26.2% (33 firms) for 1 year or longer
- 41.2% (52 firms) stated on a need basis.

With respect to the frequency of updating websites, the following figures are relevant indicators:

- 5.55% (7 firms) stated they update weekly or more frequent
- 8.7% (11 firms) – monthly
- 4% (5 firms) – every two months
- 7.1% (9 firms) – every 3 months
- 7.1% (9 firms) – every 3-6 months
- 6.3% (8 firms) – annually
- 46% (58 firms) – on a need basis
- 14.3% (18 firms) – never

(Note: 0.8% (one firm) indicated that its website was just newly created; hence, frequency of updating and maintaining websites was not yet monitored.)

### **2. Budget and Cost (Base: 126 firms)**

Over half of the firms with websites spent less than P20, 000 (or US\$392 at US\$1 = Php 51) to create their websites,

- 39.7% (50 firms) spend less than P15, 000 for the creation of the website
- 13.5% (17 firms) spend P15, 000-P20, 000
- 5.6% (7 firms) spend more than P20, 000 to P25, 000
- 5.6% (7 firms) spend more than P25, 000 to P30, 000
- 11.1% (14 firms) spend more than P30, 000 to P50, 000
- 7.1% (9 firms) spend more than P50, 000 to P100, 000
- 7.1% (9 firms) spend over P100, 000

10.3% (13 firms) have their company websites free of charge.

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For maintenance of websites, of total firms with websites:

- 70.6% (89 firms) spend less than P36, 000 annually for maintaining and updating the website
- 9.5% (12 firms) spend more than P36, 000 to P60, 000
- 6.3% (8 firms) spend more than P60, 000 to P120, 000
- 2.4% (3 firms) spend more than P240, 000 to P180, 000
- 2.4% (3 firms), which are Davao non-exporter firms, spend over P240, 000

The rest did not disclose the amount spent for maintaining their website for various reasons.

## **E. Importance Rating of Websites**

### **1. In General**

Of total firms with websites, 103 firms (81.7%) stated that the website was worth the time and money while 15 firms (11.9%) said it was not worth it. The rest did not indicate their rating on the importance of websites with respect to value for money and time.

The reasons for appreciating websites as worth the time, money and effort are based on the following primary considerations: (1) marketing considerations; (2) considerations of economy and efficiency; (3) convenience; (4) access considerations; (5) promotion of corporate stability and reliability; and (6) enhancement of quality of service, among others.

### **2. Importance Rating of Website to Promotion**

Of total firms with websites (126 firms):

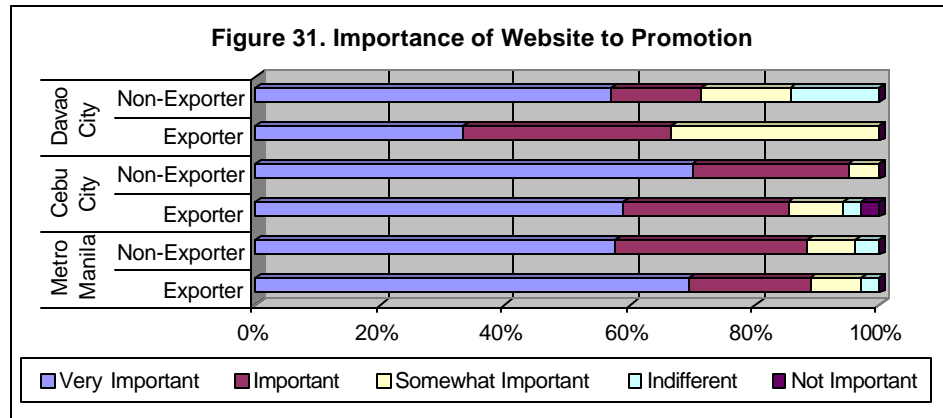
- 62.7% (79 firms) said that the website is very important to promotion
- 24.6% (31 firms) said that it is important
- 8.7% (11 firms) – somewhat important
- 3.2% (4 firms) stated that they are indifferent
- 0.8% (only 1 firm) finds no importance of the website for such purpose

As was seen in the responses to the previous questions, most firms consider their websites as important to promotion. Among the reasons of respondent firms for saying this are: (1) increased awareness of the company and products; (2) economy and efficiency with respect to savings related to addressing customer/client concerns; (3) convenience with respect to easier access to information about the company; and (4) competition and consistency with existing trends.

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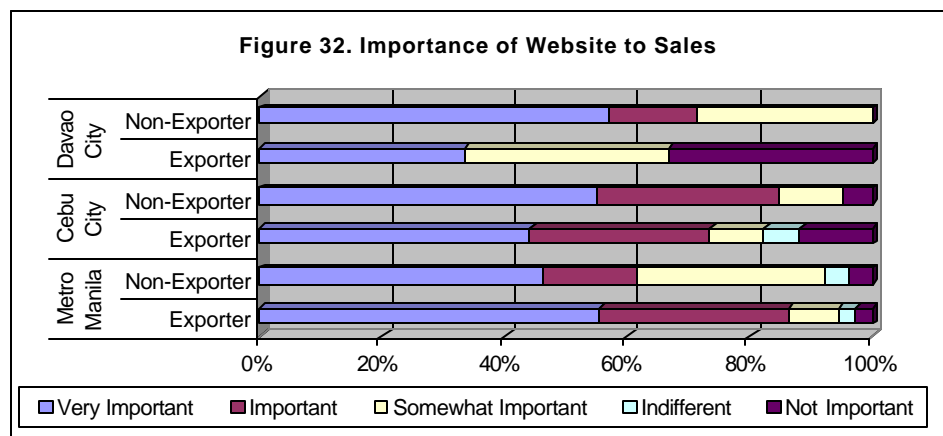
Among the reasons for saying that the website is not important to promotion are: (1) that most customers are not yet internet-ready; (2) lack of necessity; and (3) limited hits or visitor traffic (i.e., no one or very few people visit such website).



### 3. Importance Rating of Website to Sales

50% (63 firms) of total firms with websites indicated that the website is important to enhancing corporate sales. In particular,

- 25.4% (32 firms) stated that it is important
- 15.1% (19 firms) – somewhat important
- 3.2% (4 firms) are indifferent
- 6.3% (8 firms) indicated that the website is not important for such purpose



The reasons underlying the importance of website to sales are: (1) marketing and profit considerations based on increased awareness and promotion of the company and its products; (2) economy and efficiency in terms of time and cost, with savings from cost of producing brochures and other advertising media; and (3) convenience and ease of

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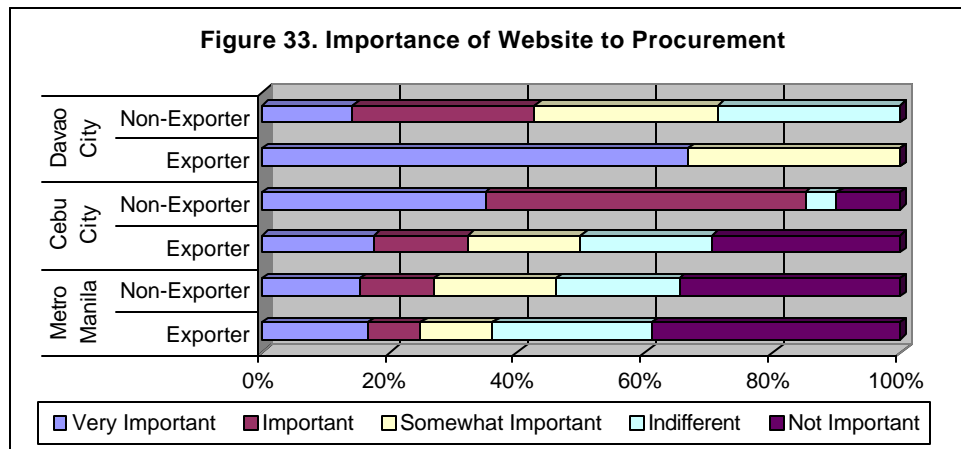
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transacting business. On the other hand, the reasons for saying that the website is not important to sales are: (1) the fact that such firms do not generate sales through it; (2) very few customers/clients visit the website; (3) most customers/clients are walk-in; and (4) the nature of the product requires personal discussion between the company and its customers/clients.

### **4. Importance Rating of Website to Procurement**

Of total firms with websites (126 firms):

- 20.6% (26 firms) stated that the website is important to procurement
- 18.3% (23 firms) stated that it is important
- 14.3% (18 firms) – somewhat important
- 19% (24 firms) are indifferent
- 27.8% (35 firms) stated that it is not important for the purpose



Most firms do not perceive the importance of the website to procurement, inasmuch as there is little indication of e-commerce practice from these firms. On the other hand, quite a number also indicated its importance to procurement.

Among the reasons underlying the importance of websites to procurement are the following: (1) increases awareness of prospective clients and suppliers on the company and its products; (2) marketing considerations; (3) economy, efficiency and convenience with respect to savings associated with easier communication with buyers and suppliers as well as with ease of transacting business, in general; (4) competition and consistency with existing trends.



## **VII. E-Commerce**

### **A. E-Commerce**

#### **1. Nature of Online Transactions – Buying and Selling**

Of the 352 Internet users surveyed,

- 27% (95 firms) use the internet to sell/purchase goods and services
- 73% (257 firms) do not use the internet to sell/purchase goods and services

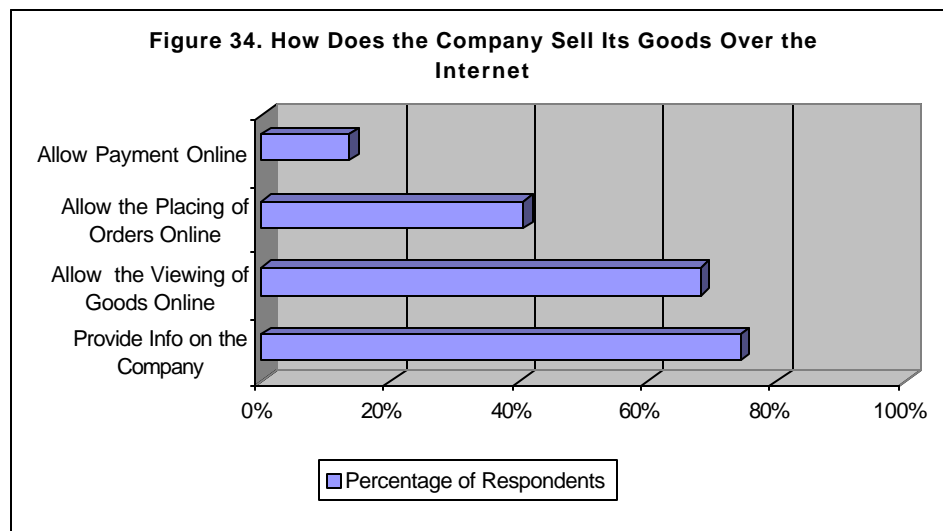
Of the 95 companies that use the Internet to sell/purchase goods and services,

- 43% (41 firms) are from Metro Manila
- 44% (42 firms) are from Cebu
- 13% (12 firms) are from Davao
- 62% (59 firms) are exporters
- 38% (36 firms) are non-exporters

Most of the SMEs surveyed have not used the Internet to purchase or sell goods online. Of the total number of Internet users, either via the office and/or internet café, 16% (55 firms) use the Internet to sell goods online – twice as many coming from exporting companies, while 8% (29 firms) use the Internet solely to purchase goods.

Of the 29 firms that purchased goods online, 59% (17 firms) were non-exporters.

Only 20% (11 firms) of total Internet users both sold goods and purchased items online.



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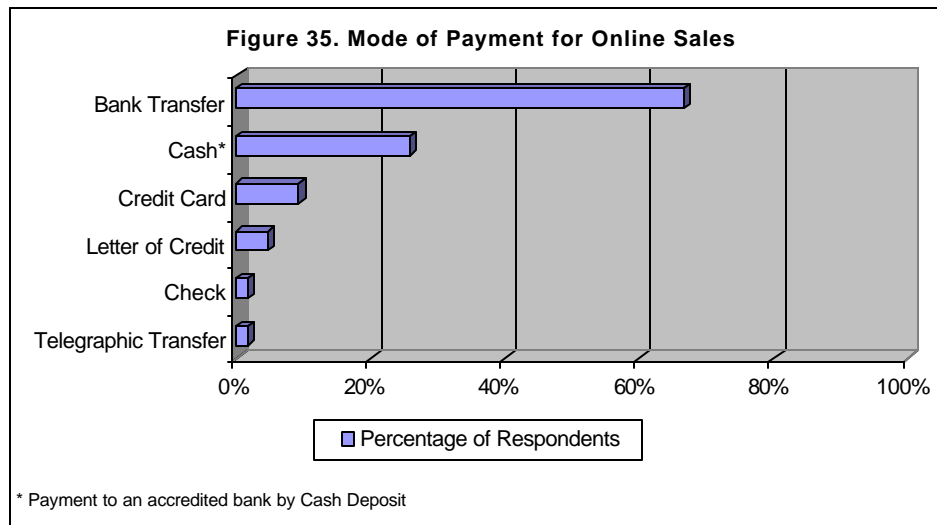
### **2. Mode of payment for online sales**

66% (44 firms) that sold goods and services online received payment via bank transfer. Other modes of payment for online sales were by cash (either by accredited bank, cash deposit or bills payment) made by 24% of firms (16 firms) or credit card over the Internet made by 9% of firms (6 firms). The remaining 1% of SMEs received payment by other means (i.e., check and/or telegraphic transfer).

Of the 44 firms that received payment through bank transfer, 73% were exporters (or 32 firms).

Firms that have sold goods on the Internet have done so mostly through their own websites, while some through email or e-commerce portals. These firms who have sold goods online are mostly exporters. Exporters in this survey, particularly in Cebu and Davao, were also twice more likely than non-exporters to have online sales contribute to their monthly sales.

Those who have sold goods online perceive that company sales over the Internet will increase over time.



### **3. Mode of payment for online purchases**

Of the 40 firms that have made purchases online,

- 38% (15 firms) are from Metro Manila
- 48% (19 firms) are from Cebu
- 15% (6 firms) are from Davao
  
- 55% (22 firms) are exporters
- 45% (18 firms) are non-exporters

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Of the 40 firms that have made purchases online, 62% (25 firms) transacted their purchases through bank transfer, 23% (9 firms) made online purchases using their credit card over the internet, 10% (4 firms) paid in cash (via an accredited bank by cash deposit or bills payment), and 5% (2 firms) paid by check.

#### **4. Profile of the Market**

##### **4.1. Top Domestic and International Buyers**

The top three domestic buyers for both exporters and non-exporters were from Metro Manila, followed by Cebu and then Davao. The top three international buyers for SME exporters are from the U.S., followed by Japan and Europe. For non-exporters, the top three international buyers come from the US, Japan and Hong Kong and Australia tied in third place.

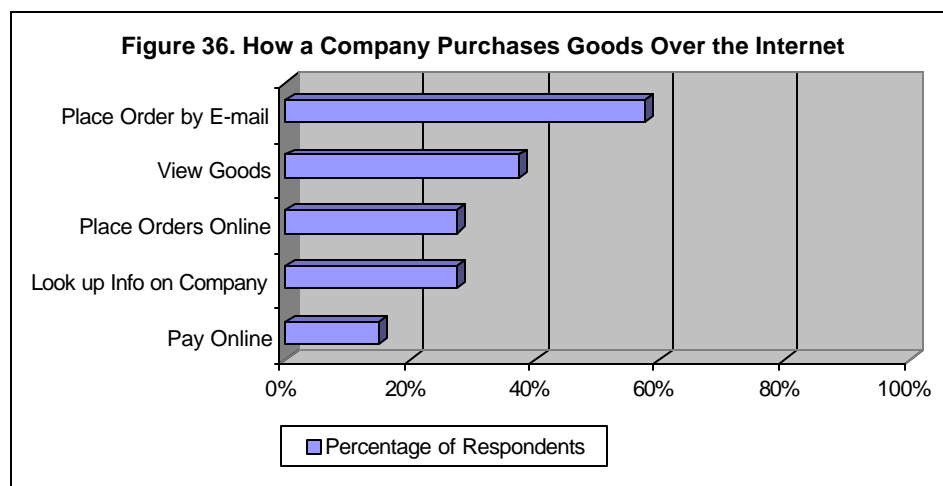
##### **4.2. Issues and Concerns with selling online**

There were more respondents who said that there were no barriers to selling online domestically and internationally than there were those who claimed that there were barriers. Barriers to selling over the Internet domestically include security concerns (i.e., fraud and hackers), lack of awareness of the Internet and infrastructure issues; while barriers to selling over the Internet internationally include security concerns, problems with buyers who buy in small amounts/retail, and inaccessibility of shipping to countries.

#### **5. Transaction Patterns and Trends**

##### **5.1. Mode of Transactions**

Most of the 40 firms that purchased online viewed the goods and then placed their orders online and/or via email. These transactions include 58% (or 23 firms) that placed their orders by e-mail, 38% (15 firms) that used the Internet to view goods, 28% (11 firms) that placed their orders directly online, another 28% (11 firms) used the Internet to look up information about the company, and 15% (6 firms) paid for their purchases directly online.



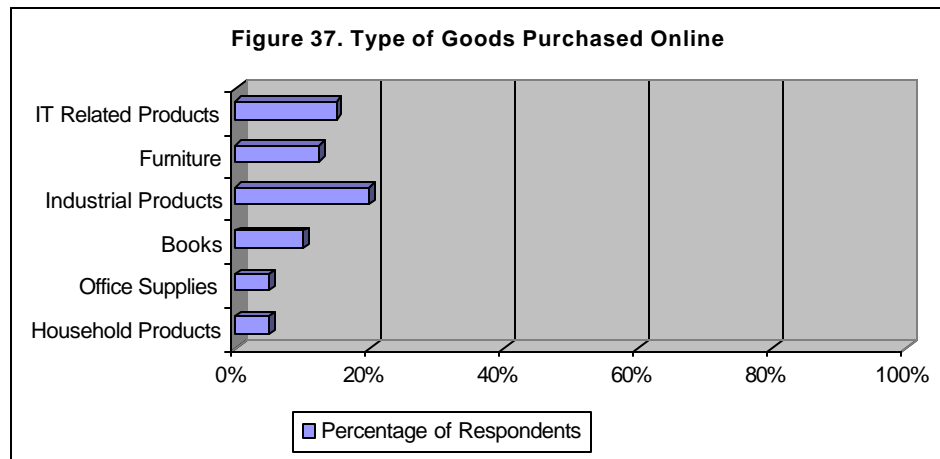
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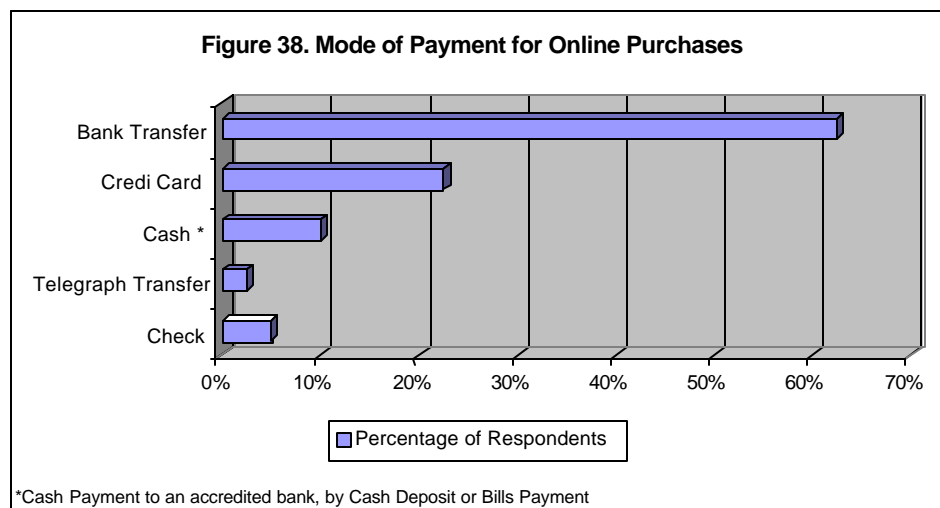
### **5.2. Type of Goods Purchased**

Of the total 40 companies who have purchased goods over the Internet, the majority of goods purchased over the Internet are 15% IT-related products (i.e., computer parts, software, and audio/electronics materials), 12% are furniture and furniture-related raw materials (i.e., fabrics, accessories, and fixtures), 20% are industrial products (i.e., chemicals, mineral oil, aircraft parts/supplies, second hand machine equipment), 10% are books, 5% are office supplies, 5% are household products and 2% are videotapes/entertainment.



### **6. Origin of Goods/Services Purchased**

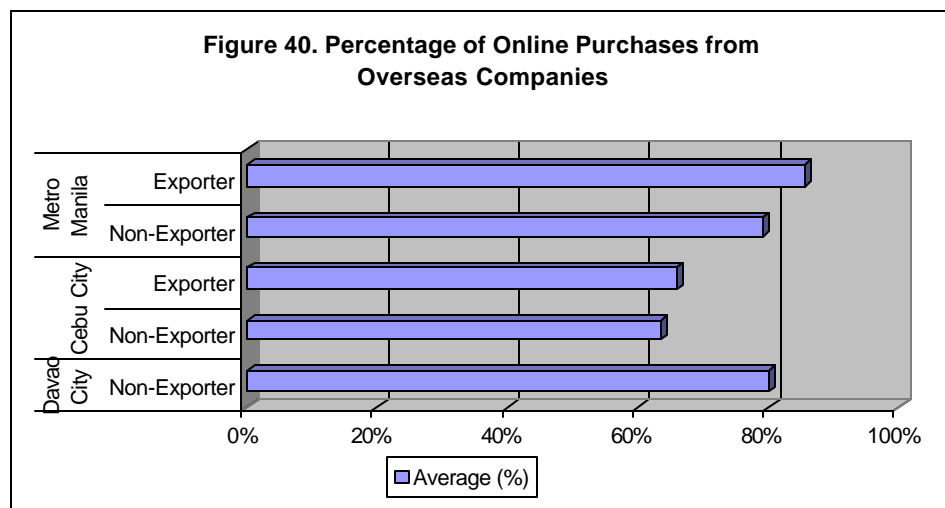
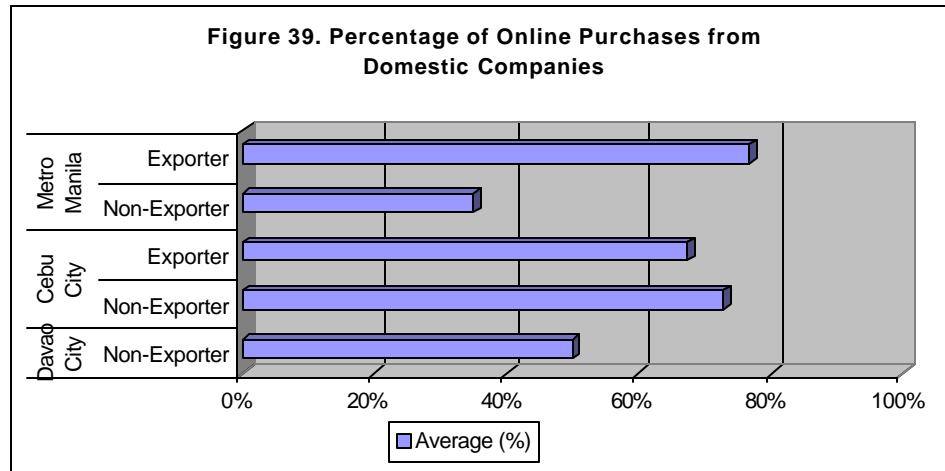
Those who have purchased over the Internet are not regular buyers over the Internet – 20% purchase goods online every quarter, 18% purchased goods online as the need arises, and 13% purchase goods every month. 18% spend an average of 50,000 pesos (about US\$1,000) a month online - 43% of which are Cebu exporters. A significant number of these online purchases are paid through bank transfer (63%), 23% are paid through credit card online, 10% by cash, and 2.5% each for telegraphic transfer and check.



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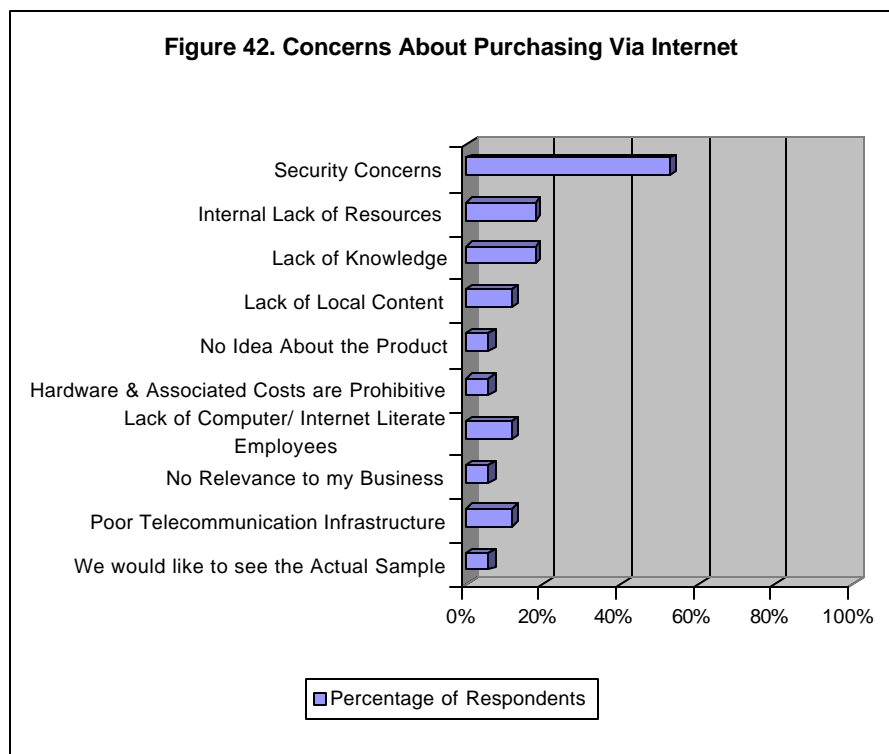
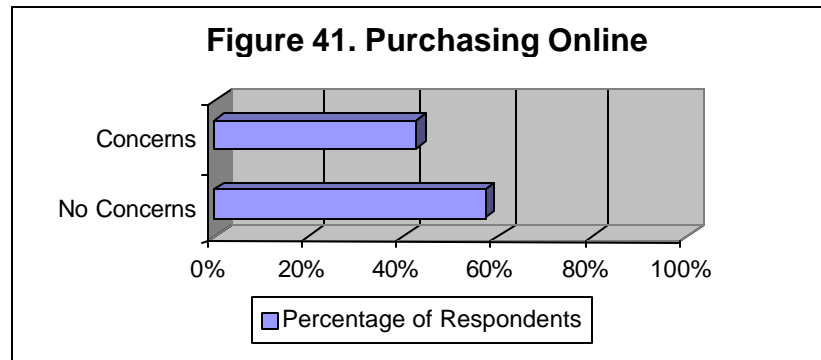
### **7. Issues and Concerns with Purchasing Online**

43% (17 firms) who have made purchases online mostly have concerns about security and the lack of available local content. Two (2) firms have indicated that their lack of employees with adequate knowledge on the Internet dissuade them from making purchases online, two (2) other firms are concerned with the poor telecommunications infrastructure, while one firm prefers to see the actual product rather than relying on the photo of the product online.

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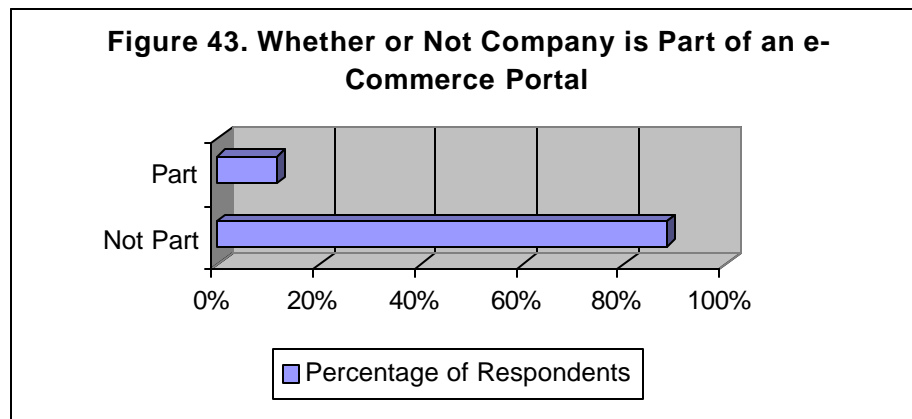
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### **B. Profile of SME Users of E-Commerce Sites**

Of the total respondents who have sold or purchased goods online, a majority (88%) is not listed in an e-commerce portal. Of the 11 firms who are listed in an e-commerce portal/site,

- 45% (5 firms) are from Metro Manila
- 45% (5 firms) are from Cebu
- 10% (1 firms) is from Davao
  
- 64% (7 firms) are exporters
- 36% (4 firms) are non-exporters.



### **C. Profile of E-Commerce Sites Used by SMEs**

The 11 companies identified 8 different e-commerce sites in use – 5 of these sites are based in Metro Manila (one being an EDI and another listed in an unspecified government portal) and the other 3 are based overseas.

All of the companies that are listed in e-commerce portals/sites have been members for less than a year.

55% (6 firms) of e-commerce site members were approached by site operators, 9% (1 firm) found the e-commerce site through the internet, 18% (2 firms) of the members were recommended to join the site and 18% (2 firms) are members of the organization which runs a portal specifically for its members.

### **D. Nature and Purpose of E-Commerce Sites**

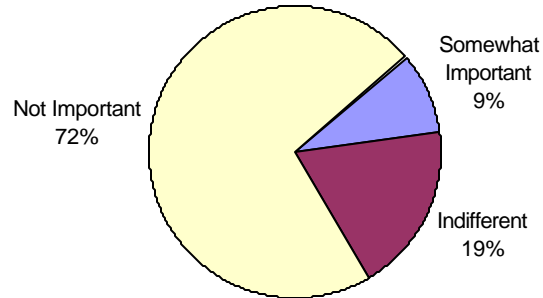
Most e-commerce sites provide company-listing facilities only. A company listing facility can be as simple as providing the name of the company to as comprehensive as those found in international sites that provide company profiles, product samples & details and online orders. Half the companies who are members of such e-commerce sites are provided online transaction support, specifically in cases when there are order forms.

### **E. Importance of and Benefits Derived from E-Commerce Sites**

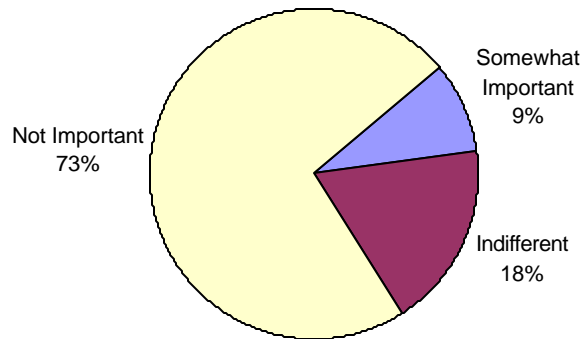
A majority of e-commerce portal/site members did not consider e-commerce important for the promotion of their companies, for driving sales or for their procurement purposes. This response ultimately describes the lack of understanding or knowledge of many SMEs of e-commerce, and its potential to transform and improve their businesses.

Another explanation for this response could be the fact that most of these companies have been with an e-commerce site for less than a year and the resultant outcomes expected are not yet evident to the companies.

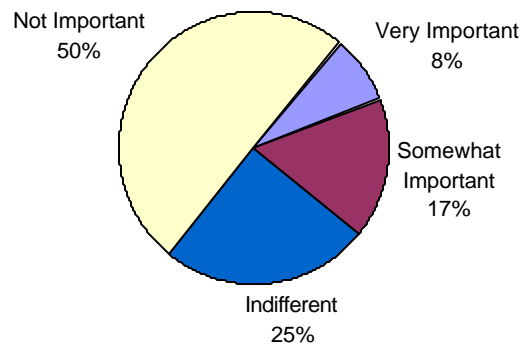
**Figure 44-A. Importance of e-Commerce Site to Company for Promotion**



**Figure 44-B. Importance of e-Commerce Site to Company for Sales**



**Figure 44-C. Importance of e-Commerce Site to Company for Procurement**





## **F. Issues and Concerns of SMEs on E-Commerce Sites**

- *Satisfaction with e-commerce sites*

36% of the firms are “very satisfied” with their membership in e-commerce sites, 18% are “satisfied”, while another 36% remain neutral regarding their satisfaction of the site. One company, however, was “very dissatisfied” with their site – a government portal.

It appears that these firms are easily satisfied with their sites because their expectations are based on a minimum of services provided by their e-commerce sites for a small fee. The fact that these firms do not consider these e-commerce sites as important and that these companies have no other expectations from their ecommerce sites can be attributed to the type of service they currently receive from their e-commerce sites - a simple company profile listing.

- *Continued Use of e-Commerce Sites*

91% of SMEs surveyed, who are currently members of e-commerce sites, will continue to use their current e-commerce sites. Only one company has decided to discontinue use of its chosen e-commerce site. Most of these companies have chosen sites that are reasonably priced or free of charge. Only one company, a member of the European Chamber of Commerce of the Philippines, decided to discontinue use of the site. This can be attributed to the higher cost of being a member of the organization and the online presence only being part of this package cost.

- *Will non-users of e-commerce sites join one?*

84 firms currently do not belong to an e-commerce portal/site. Of the 84 firms, only 20% (17 firms) are considering joining an e-commerce portal/site.

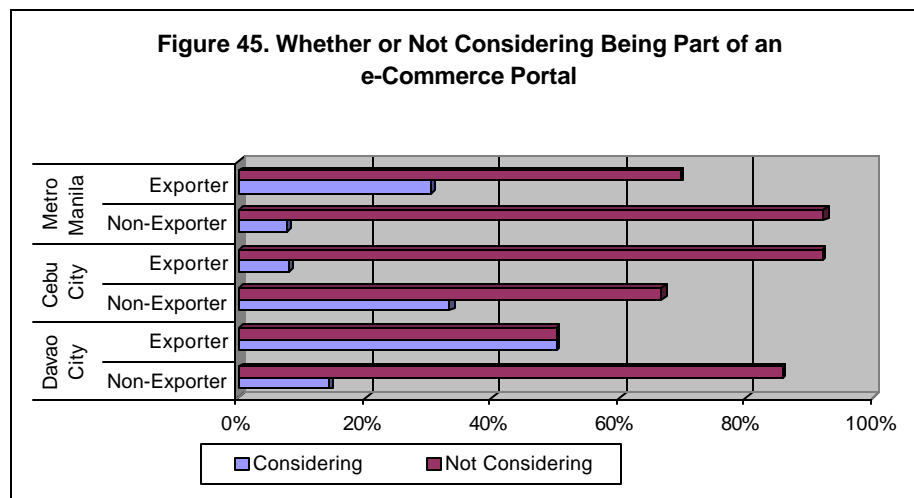
Of the 17 firms,

- 47% (8 firms) are from Metro Manila
- 35% (6 firms) are from Cebu
- 18% (3 firms) are from Davao
- 65% (11 firms) are exporters
- 35% (6 firms) are non-exporters

Of the 17 firms, 59% (10 firms) are planning to join one in the next 12 months.

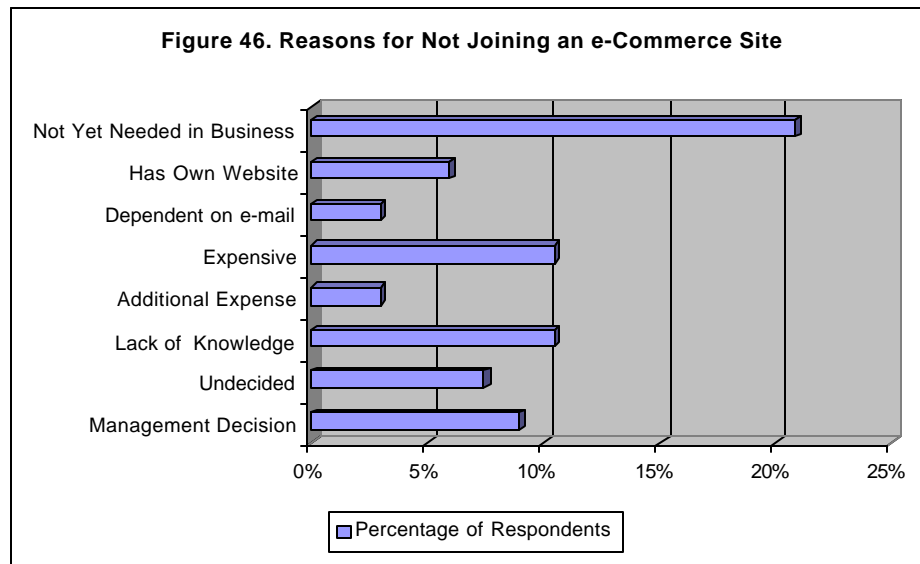
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- *Why Not Join an e-Commerce Site?*

Of the 84 firms that currently do not belong to an e-commerce portal/site, 80% (67 firms) of Internet users said they will not join an e-commerce site, either due to lack of interest or do not find joining an e-commerce site important to their business. The other 20% (or 14 firms) noted that an e-commerce site is not YET needed in their business.



- *Use of e-commerce in the next 12 months*

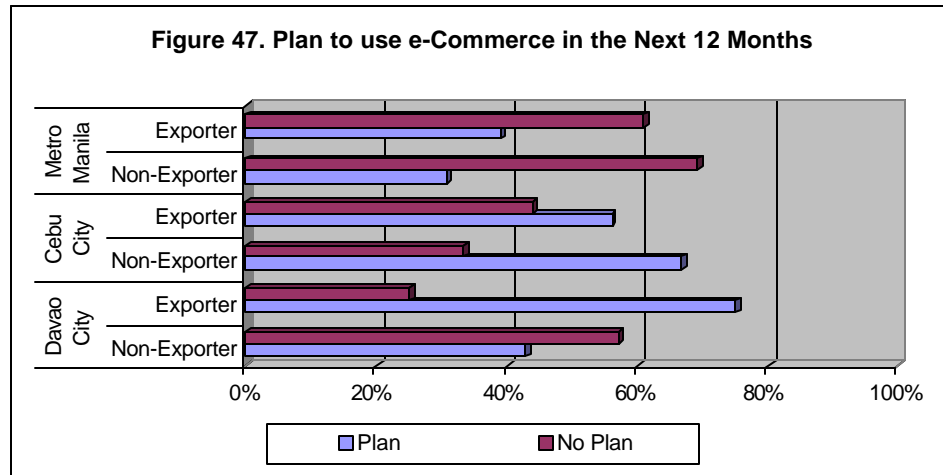
Of the 84 firms that currently do not belong to an e-commerce site, 49% (41 firms) plan to join one in the next 12 months. Of the 41 companies,

- 32% (13 firms) are from Metro Manila

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- 54% (22 firms) are from Cebu
- 15% (6 firms) are from Davao
- 63% (26 firms) are exporters
- 37% (15 firms) are non-exporters



Also, of the 41 firms that plan to use e-commerce in the next 12 months, 80% (or 33 companies) have NO concerns about engaging in e-commerce.

Those who have indicated that they have concerns (the other 20% or 8 firms) are worried primarily with the security of online transactions. The particulars of these companies are as follows:

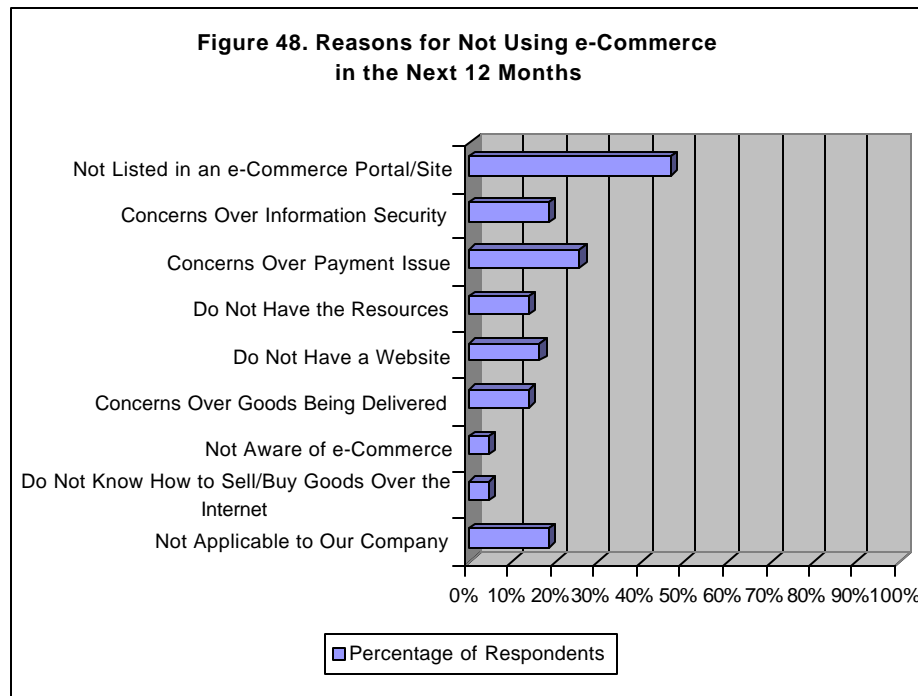
- 38% (3 firms) are from Metro Manila
- 50% (4 firms) are from Cebu
- 12% (1 firms) is from Davao
- 63% (5 firms) are exporters
- 37% (3 firms) are non-exporters

Of the total 33 firms that do NOT have concerns with regard to engaging in e-Commerce,

- 30% (10 firms) are from Metro Manila
- 55% (18 firms) are from Cebu
- 15% (5 firms) are from Davao
- 64% (21 firms) are exporters
- 36% (12 firms) are non-exporters

- *Reasons for NOT using e-commerce in the next 12 months*

51% (43 firms that do not plan to join an e-commerce portal/site) also do not plan to use e-commerce in the next 12 months – most of whom are exporters.



## **VIII. Internet Banking**

### **A. Profile of SME I-Banking Users**

Of the 352 firms who are Internet users, only 5% (16 firms) use Internet banking. Of the 16 firms using I-banking, exporters are just as likely to use I-banking as non-exporters, with 37.5% coming from Metro Manila, another 37.5% coming from Cebu and 25% of users coming from Davao.

Among the 336 non-users of I-banking,

- 43% (144 firms) are from Metro Manila
- 37% (124 firms) are from Cebu
- 20% (68 firms) are from Davao
- 60% (202 firms) are exporters
- 40% (134 firms) are non-exporters

### **B. Profile of SMEs Engaged in Internet Banking**

- *Profile*

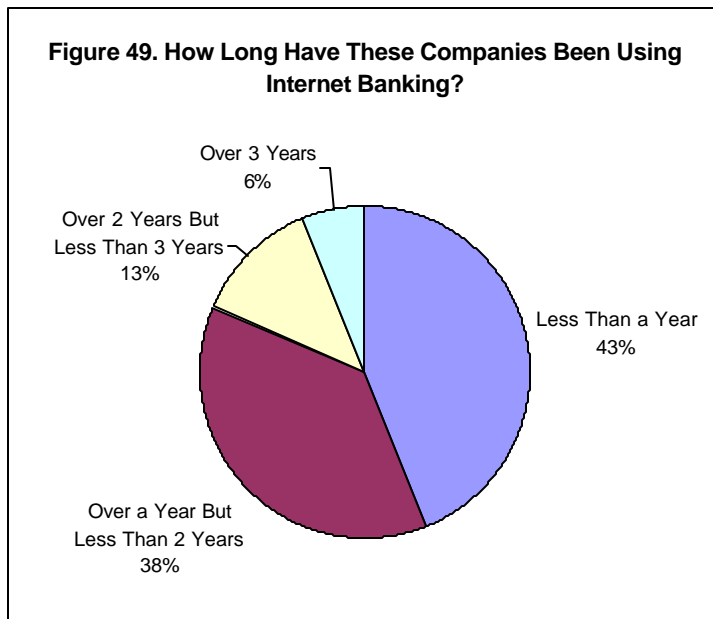
44% (7 firms) of the SMEs surveyed using Internet banking have been using it for less than a year, 38% (6 firms) have been using Internet banking for over a year but less than

## **SMEs and e-Commerce in Three Philippine**

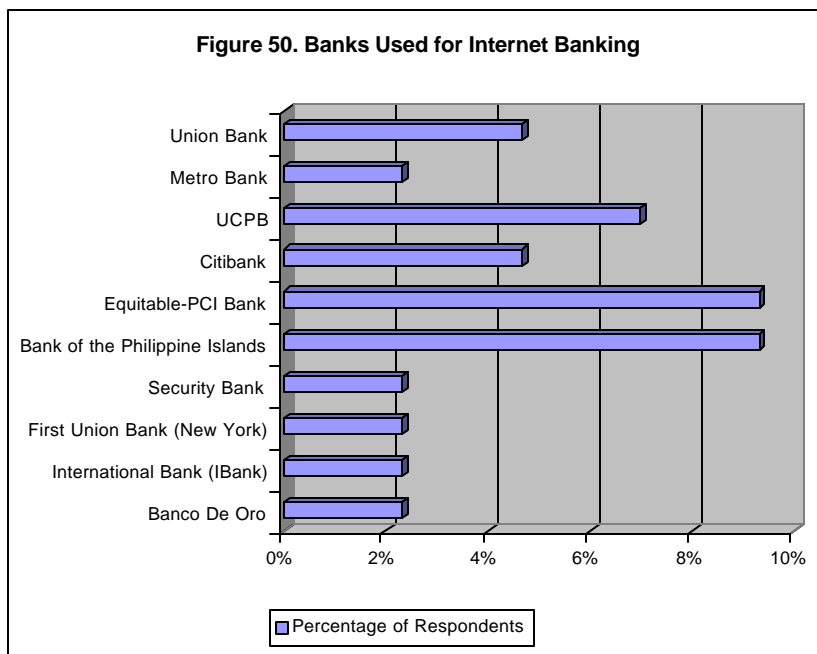
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2 years, 12% (2 firms) have been using this facility for over 2 years but less than 3 years, and 6% (1 firm) have been using I-banking for over 3 years.



Most of the SMEs surveyed using Internet banking used multiple banks for their transactions. Two large domestic commercial banks stand out as equally used by these SMEs – Bank of the Philippine Islands (BPI) and Equitable PCI Bank.



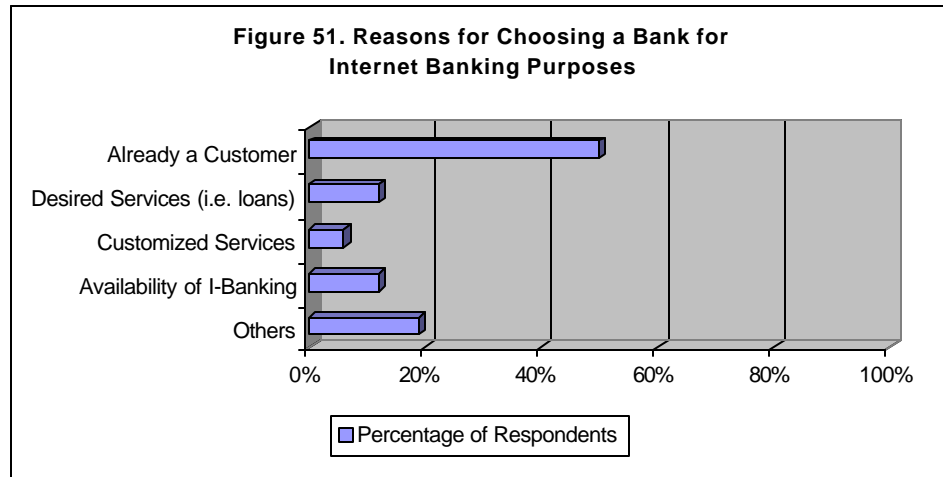
## **SMEs and e-Commerce in Three Philippine**

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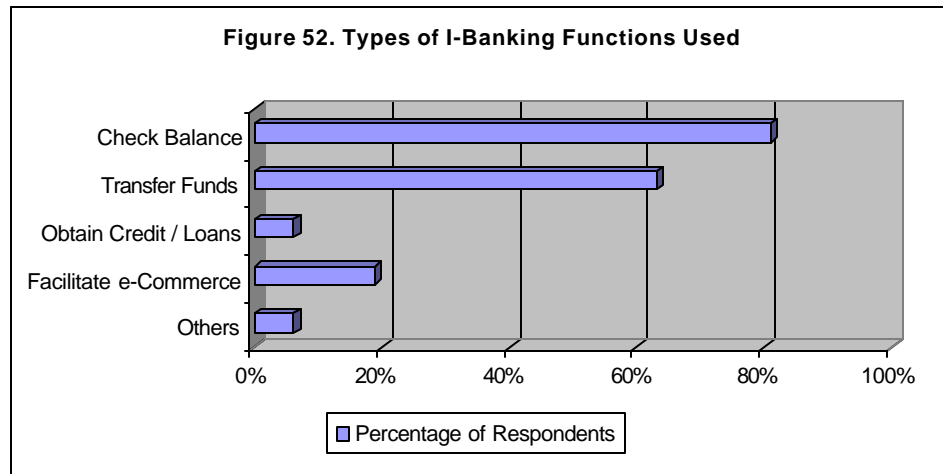
- *Reasons for Choosing an bank for purposes of I-banking*

Most SMEs surveyed preferred to use Internet banking with banks where they already have a relationship – that is, they are already client-depositors in the bank.



### **C. I-Banking Functions**

SMEs surveyed that use I-banking use this facility primarily to check their balances and transfer funds.



### **D. Issues and Concerns about I-Banking**

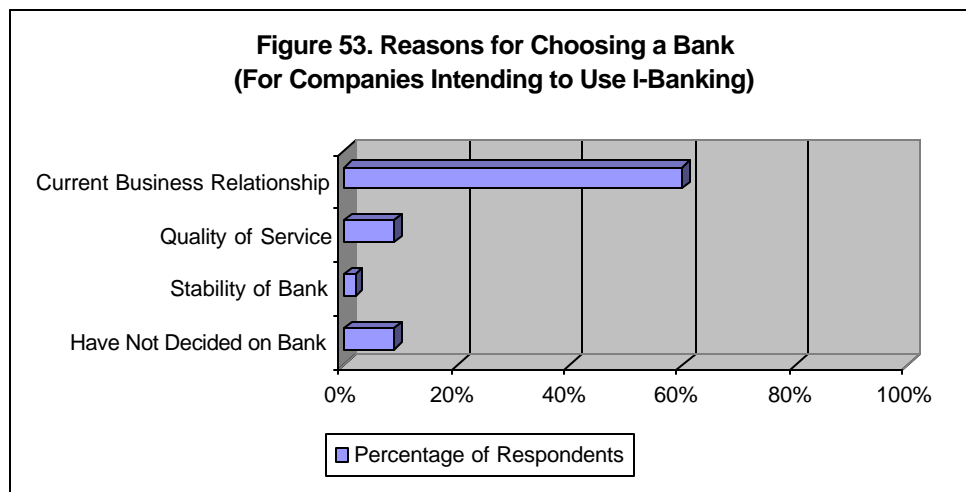
75% (12 firms) of I-banking users surveyed said they have no concerns about using this facility. However, of the 25% (4 firms) who have expressed concerns about using I-banking, half are worried about security, while the other half complain that the I-banking system they use is usually down.

### **E. Intentions to use I-Banking in the next 12 months**

Of the 336 firms that currently do NOT use I-banking, 19% (65 firms) said they plan to use this facility in the next 12 months. These firms say they intend to use I-banking primarily to check their balances and transfer funds.

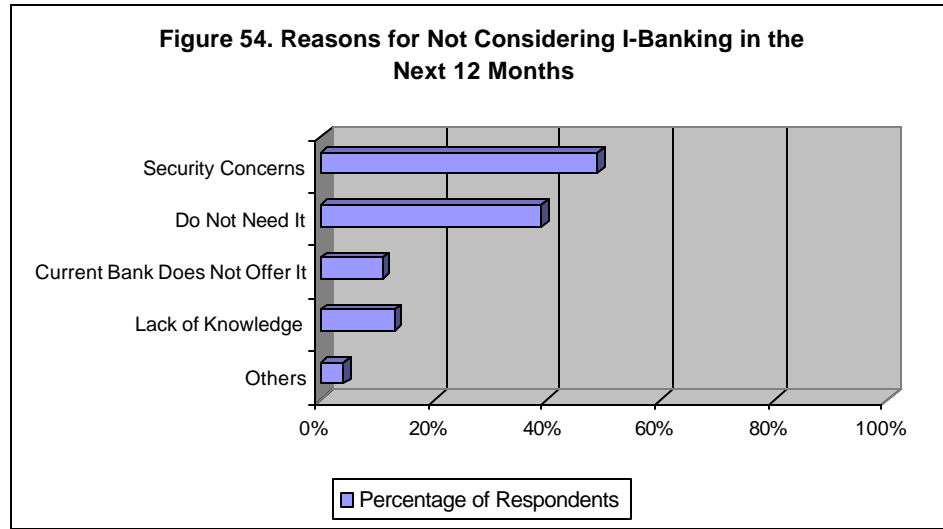
Of the 65 firms that intend to use I-banking in the next 12 months,

- 46% (30 firms) are from Metro Manila
- 31% (20 firms) are from Cebu
- 23% (15 firms) are from Davao
  
- 52% (34 firms) are exporters
- 48% (31 firms) are non-exporters



### **F. Reasons for not considering to use I-banking in the next 12 months**

271 firms do NOT intend to use I-banking in the next 12 months for the following reasons: 49% (133 firms) said they have security concerns, 39% (105 firms) indicated that they do not need I-banking, 13% (35 firms) said that they lack the knowledge to do I-banking and 11% (30 firms) said their current bank does not offer the I-banking service.



## **IX. Non-Users of ICT**

### **A. Sample Profile**

29% (146 firms) of total SMEs surveyed do not use the Internet in any way. Of the 146 non-users, 33% (48 firms) plan to use the Internet in the near future, while 67% (98 firms) still have no plans to use the Internet in the near future.

Among the 48 firms that intend to use the Internet in the near future,

- 33% (16 firms) are from Metro Manila
- 48% (23 firms) are from Cebu
- 19% (9 firms) are from Davao
  
- 31% (15 firms) are exporters
- 69% (33 firms) are non-exporters.

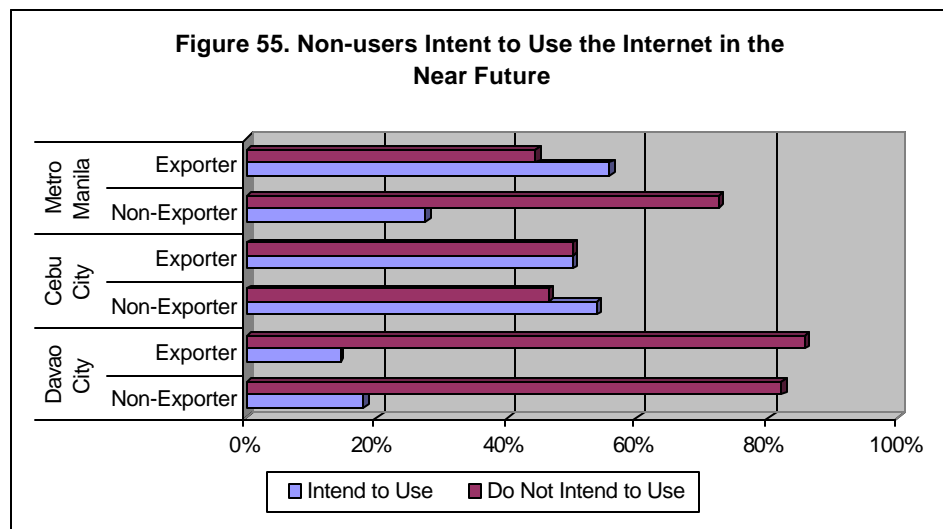
Among the 98 firms that do NOT intend to use the Internet in the near future,

- 34% (33 firms) are from Metro Manila
- 21% (21 firms) are from Cebu
- 45% (44 firms) are from Davao
  
- 24% (24 firms) are exporters
- 76% (74 firms) are non-exporters



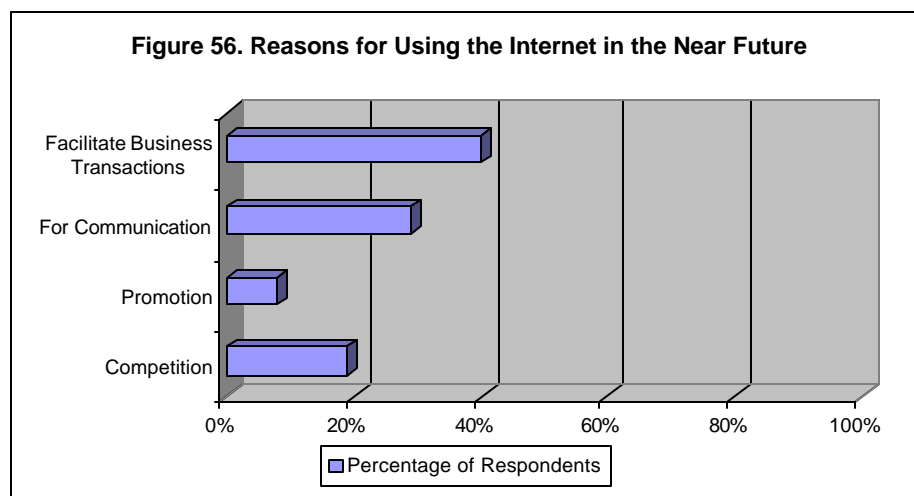
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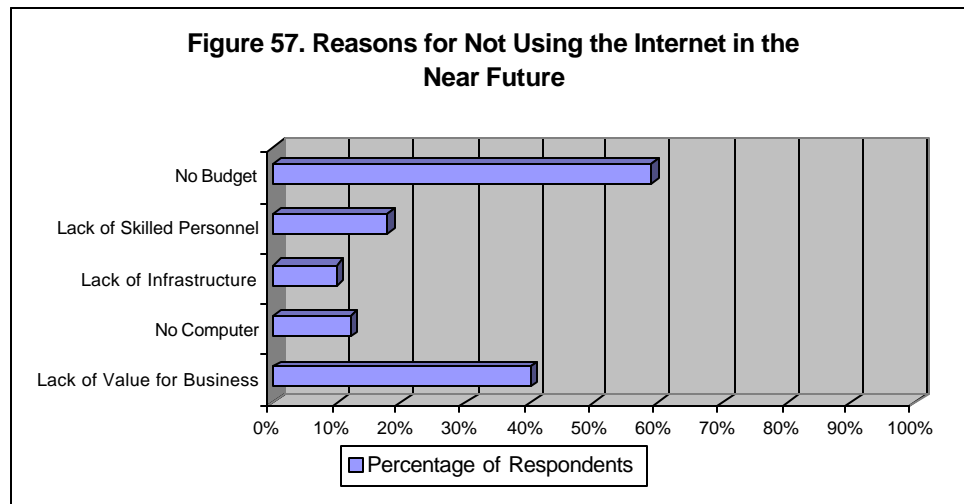
### B. Driving Factors and Considerations on ICT Use in Business

40% of firms who are currently non-Internet users intend to use the Internet in the near future because they realize this will facilitate business transactions, while 29% intend to use the Internet primarily for communication purposes.



### C. Issues and Concerns of the Traditional Non-User Market

59% of the non-user respondents are still wary of using the Internet because of budgetary constraints, while 40% indicated that they do not see the value of using the Internet for their businesses. A further 18% said that they lack the skills, as well as their personnel, to use the Internet.



## **D. The Prospective User Market**

### **1. Website Importance**

- *Intent to develop a company website in the next 12 months*

Of the 48 firms that intend to use the Internet in the near future, 38% (18 firms) intend to develop their own company website. Of the 18 firms, 94% (17 firms) said they want to develop a website for marketing and promotion purposes.

Of the 18 firms that intend to develop its own company website,

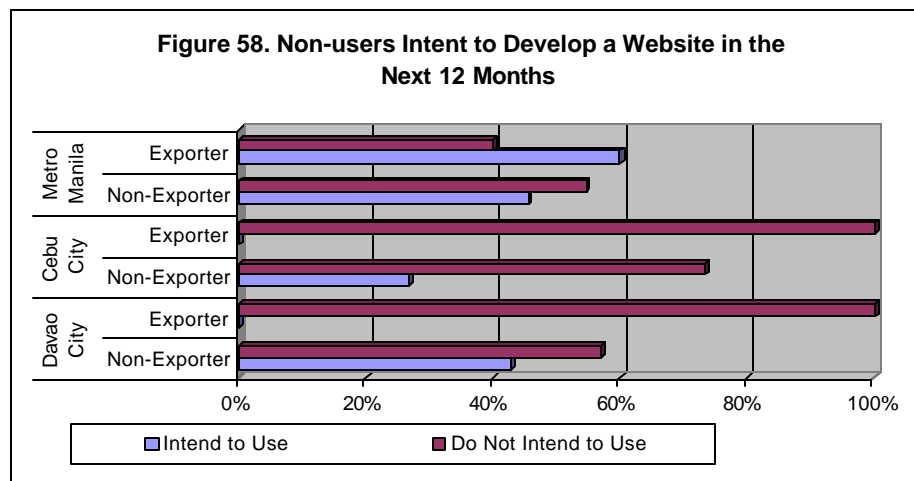
- 39% (7 firms) are from Metro Manila
- 50% (9 firms) are from Cebu
- 11% (2 firms) are from Davao
- 39% (7 firms) are exporters
- 61% (11 firms) are non-exporters

Of the 30 companies that do NOT intend to develop its own company website,

- 30% (9 companies) are from Metro Manila
- 47% (14 companies) are from Cebu
- 23% (7 companies) are from Davao
- 27% (8 companies) are exporters
- 73% (22 companies) are non-exporters

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- *Reasons for not developing a website*

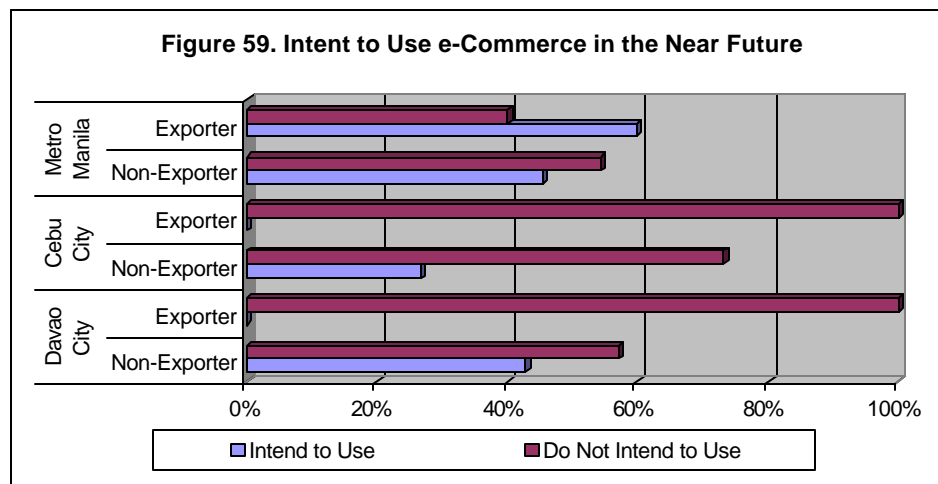
Non-Internet users in this sample have indicated that they do not intend to put up a company website, pointing to their lack of finances (47% of firms) and that they do not think that developing a website is important to their businesses (33% of firms).

## 2. E-commerce Importance

Of the 48 companies that intend to use the Internet in the near future, 31% (15 companies) also intend to engage in e-commerce.

Of the 15 companies that intend to engage in e-commerce,

- 53% (8 companies) are from Metro Manila
- 27% (4 companies) are from Cebu
- 20% (3 companies) are from Davao
- 20% (3 companies) are exporters
- 80% (12 companies) are non-exporters



## **X. Summary and Conclusion**

This survey gives us a profile of the extent of ICT use and its various applications among SMEs in the three largest metropolitan cities in the Philippines. Because the sample is not randomly generated, the conclusions of this study are not necessarily true for all SMEs in the three cities or indeed, for all SMEs in the country. However, in the absence of a more scientific study on Philippine SMEs and e-Commerce, the results of this study provide the best current indicators on issues related to SME use of ICT and e-commerce.

Nearly all of the SME respondents consider the Internet and e-Commerce as important to business - both in the present and in the future. Among the perceived drivers of doing business through the Internet are: convenience and efficiency; the drive to be competitive in the industry in order to keep up with existing trends; its necessity to business operations; and the attainment of customer satisfaction.

### ***Exporters and Non-exporters***

There are clear indications that exporters were more inclined to use information and communications technology in their daily operations because of their international clientele. There were also some indications that exporters were more likely to develop websites and take up e-commerce. However, because the survey results indicated a very small number of e-commerce users, this study cannot conclusively show a difference in behavior between exporters and non-exporters with regard to their uptake of e-commerce and its various applications. This study shows that Philippine exporters' use of e-commerce for their business is still at its very basic – from using their websites as a product catalogue and information distribution channel to using E-banking primarily for checking balances and transferring funds. The respondent exporters have also indicated during the interviews that they use ICT primarily as a means to maintain their client relationships – but that business deals are closed, more often than not, with face-to-face interaction. The exporters interviewed also said that they like to personally see and touch the products they buy (raw materials) and that they have some issues about purchasing online – from concerns that the actual products are not really of the same quality as indicated to non-delivery of orders bought online.

### ***Metro Manila, Cebu and Davao***

This study also indicates that there is no significant difference in ICT and e-commerce uptake between the respondents in Metro Manila and Cebu. The laggard user of ICT and e-commerce among the three metropolitan areas in the Philippines at the level of SMEs is Davao. This can be explained by a few factors. First, Davao is dominated by trading/service firms and agricultural companies rather than manufacturing companies. These industries are characterized by a chain of business relationships rather than a direct supplier to clientele transaction, which dominates many e-commerce users in the Philippines. Second, Davao, in terms of land area, is considered the biggest city in the

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Philippines and infrastructure (last mile) issues could be the reason for the low level of ICT usage. Third, large companies (i.e., branch and affiliate companies of Metro Manila headquarters) generally characterize ICT and e-commerce usage in Davao. Therefore, there is a greater need for ICT and e-commerce promotion and awareness at the level of SMEs in Davao. There may also be cost implications to the SME given the network infrastructure last mile problems. This issue may be a reason to find alternative Internet access solutions for Davao.

### ***General Behavior of SMEs***

The respondents identified barriers (both external and internal barriers) to increased ICT usage and patronage. The perceived external barriers include the unfavorable economic environment, the high cost of ICT technology (since many firms are willing to spend less on Internet expenditures) and security concerns. The identified internal barriers are poor internal communications infrastructure within SME firms; lack of ICT awareness and knowledge as well as inadequacy of ICT-capable and literate managers and workers; insufficiency of financial resources; and the perceived lack of relevance or value-added to their business.

SMEs use ICT mainly for communication and research. Very few use it for e-commerce. Not surprisingly, many SMEs consider e-mail as an important means for communication. However, the extent of this use is limited by the SMEs' recognition of the importance of face-to-face interaction with their buyers as well as suppliers. The level of confidence of using e-mail for communication with both suppliers and buyers only increases after an initial face-to-face interaction. E-mail, therefore, is a means for maintaining a business relationship.

ICT usage patterns show a progression from the use of the Internet for communication (primarily e-mail) to the use of the same for research and information search to the development of websites and then to use for e-commerce. Majority of the firms, which are Internet users, use the Internet to communicate with suppliers and customers only as a channel for maintaining business relationships. Once firms develop a certain level of confidence on the benefits of e-mail in the conduct of business transactions and the potential of creating sales from its use, they usually consider the option of developing their own website.

Based on the survey, the primary driver for the creation of a website is for advertising and promotion of the company and its products and services. Only few firms from the sample have their own websites. This is due to the lack of awareness and knowledge on the benefits of the maximized use of the same for business (in the area of promotion, sales and procurement). Moreover, very few firms consider selling products through the website. However, once these firms begin to see the concrete merits of having a website in terms of generating traffic, inquiries and eventually, sales, they will likely engage in e-commerce.

This survey shows that, in general, there are four main issues of concern that act as barriers to the increased uptake of information technology usage and e-commerce.

### **Lack of understanding of the value of e-commerce**

Most the SMEs surveyed have not taken up e-commerce, let alone use the Internet, because they fail to see the value of e-commerce to their businesses. Many perceive e-commerce as something to be used only by big companies and that it is an additional cost that will not bring any major returns on investment.

### **Lack of ICT Awareness and Knowledge**

People will play a vital role in the development of e-commerce. However, technology literacy is still very limited in the Philippines. The respondents identified the shortage of skilled workers as a key issue in moving forward with using information technology in their businesses.

### **Financial Costs**

Cost is a crucial issue. The initial investment for the adoption of a new technology is proportionately heavier for small than for large firms. The respondents identified the high cost of computers and Internet access to be a barrier to the uptake of e-commerce. Faced with budgetary constraints, SMEs consider the additional costs of ICT spending as too big an investment without immediate returns as SMEs may fear engaging in e-commerce because of a fear of a lack of a critical mass of users.

### **Infrastructure**

As indicated in the network and physical infrastructure profile, teledensity is still low. What was surprising in this survey is that though many of the telecommunications companies and ISPs are located in the key cities of Metro Manila, Metro Cebu and Metro Davao, a good number of the respondents identified the lack of infrastructure as a key barrier to e-commerce use.

### **Security**

Ensuring the security of payments and privacy of online transactions is key to the widespread acceptance and adoption of e-commerce. While the appropriate policies are in place to facilitate e-commerce, trust is still a barrier to using the Internet to make online transactions. Moreover, credit card usage in the Philippines is still relatively low – roughly 90% of Filipinos still conduct cash transactions.<sup>20</sup>

In order to deepen the insights generated by the survey, a number of firms surveyed were selected for more extensive interviews. These cases are presented in the next section.

## **XI. CASE STUDIES**

### **A. Assisting SMEs and Promoting e-Commerce in the Philippines**

#### **PDB SME SOLUTIONS, INC. (<http://www.sme.com.ph>)**

PDB SME Solutions, Inc., formerly PlantersbankeCommerce.com, Inc., provides Internet and non-Internet based business solutions to small and medium enterprises (SMEs) in the Philippines. Launched in June 2000, PDB SME Solutions, Inc. is a joint venture of three formidable institutions whose mission and strategic intent are focused on small and medium enterprises (SMEs), namely: **Planters Development Bank**, the multi-awarded largest private development bank in the Philippines devoted to servicing the different vital industries in the SME sector; **International Finance Corporation (IFC)**, a member of the World Bank Group established in 1956 to encourage private sector activity in developing countries; and **eVictor**, a systems engineering and consulting company, with leading expertise in all aspects of information technology founded in 1989 in Silicon Valley, California.

PDB SME Solutions' chief goal is to be the Philippines' preferred IT Company dedicated to the delivery of both technological and human resources to help SMEs' business needs. To achieve its goal, PDB SME Solutions, Inc. developed a membership program called SME.COM.PH – designed to establish a community of SME businesses who can do commerce in the Internet, share information, resources and benefits under one roof. For an annual fee of Php 8,000 (equivalent to US\$ 157), an SME can join this community and avail of an e-commerce solution package that will promote the company globally. For this annual fee, an SME will have the following:

1. Internet presence, where PDB SME Solutions, Inc. will create a two-page website for the company containing basic business information, contact details, and a catalogue of products and services offered
2. Reliable web hosting services
3. Domain name registration
4. Personalized email
5. Virtual marketplace, as SME.COM.PH also acts as a virtual shopping mall and business portal
6. Market expansion and search engine optimization, where the company will be listed in various local and international search engines
7. Entitlement to discounts to other web and non-web products and services offered by SME.COM.PH, which include software and hardware, business solutions, and small business information
8. Access to useful small business information, tips and advise from various SME experts
9. Free advertisement for the company, where the company is featured in the "SME of the Month" section of the SME.COM.PH homepage.

SME.COM.PH currently has 103 members from Metro Manila, Bulacan, Pampanga, and South Luzon (CALABARZON economic zone area). It is targeting 1,200 members by year-end 2002. To reach this target, SME.COM.PH is developing partnerships with

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organizations, associations, and chambers of commerce. It is currently planning to tie up with PhilExport (Philippine Exporters Confederation, Inc.) to develop the websites of its 3,000+ members. It is also planning to partner with the Philippine Jewelry Guild to develop its own e-commerce portal – a vertical supply and distribution chain management for the guild members set to be developed in a 15-hectare plot Subic.

SME.COM.PH believes in building the community of SMEs worldwide and does not charge a fee for referrals or transactions that occur between potential clients/buyers and their members online.

The company has also developed full product and service offerings to develop the SME sector in the Philippines, such as e-commerce business solutions to enhance business processes, such as payroll and accounting systems, eLogistics and business productivity software and web-enabling products that make it possible for SMEs to access e-commerce services and e-banking anytime, anywhere. It provides a “cataloguing system” through [authoriz.net](http://authoriz.net); organizes various workshops, seminars and conferences for SMEs; and for the delivery of goods sold through its virtual mall, it uses TNT for international and Metro Manila logistics and Aboitiz for the Visayas

### **B. Innovative Use of e-Commerce**

#### **THE ASIAN ARTIST (<http://www.theasianartist.com>)**

Born in 1999, TheAsianArtist.com makes modern art works by the best contemporary artists in Southeast Asia available online. While doing business it is also promoting Asian art globally.

Partnering with the most promising artists from the Philippines, Thailand, Malaysia, Indonesia, Vietnam, Singapore, and Cambodia, and networking with the finest galleries throughout the region, TheAsianArtist.com positioned itself to put the spotlight on upcoming contemporary artists from one of the most dynamic regions in the world.

Using e-commerce as its platform to promote and sell the artists of Asia - once rare, even obscure, finds – they have developed a clientele of buyers from New York, Japan, London, Paris, and Hong Kong.

TheAsianArtist.com uses PayPal, a payment network for online auction websites, used by eBay, which enables any business or consumer with an email address to securely, conveniently, and cost-effectively send and receive payments online. PayPal builds on the existing financial infrastructure of bank accounts and credit cards to create a global, real-time payment solution, ideally suited for small businesses, online merchants, individuals and others currently underserved by traditional payment mechanisms. TheAsianArtist.com deliberately chose PayPal because it charges only 1% of the total cost of the online transaction from the vendor. Using payment solutions in the Philippines would cost a vendor 6% of the transaction fee, while in Singapore, it is 3%. It was the goal of TheAsianArtist.com to make art readily available and affordable, and given the additional costs of insurance, packaging and logistics, the company wanted to keep the costs at a minimum in order not to hinder customers from purchasing online.



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Since the dot.com bust, the minimal online sales received by TheAsianArtist.com have further dipped. Online sales in 2001 even negligible, according to CEO Gigo Alampay. The company is currently overhauling its business model in order to spark online sales. But in order to do this, it sought to supplement and finance its e-commerce site by building a “brick and mortar” equivalent of TheAsianArtist.com – a gallery-cum-café in the Makati area, Manila’s financial district.

One of the major difficulties they are facing is the lack of trust for purchasing online. The company sees it as an issue not only of security but particularly a nuance in the art industry. Art buyers are particular with visual appeal and appreciation – that while the artwork can be seen in their web catalogue, art buyers still prefer to purchase works in galleries. Concerns also about packaging and shipment are concerns of art buyers. The packaging practice of auction houses like Sotheby’s or Christie’s or major galleries around the world are standard, and TheAsianArtist.com feels that this uncertainty stems from a new gallery medium – a website.

TheAsianArtist.com believes that their online sales will pick up by 2003. In consultation with major galleries, artists, and art patrons, they are addressing the numerous concerns that hinder the purchase of art works online.

### **C. Best practice of e-Commerce**

#### **ADRIAN DESIGNS (<http://www.adriandesigns.com>)**

Amando Loreno, Jr. was a manager in a firm engaged in the furniture business. In 1991, he decided to put up his own business focused on rattan furniture and accessories, which he established as a single proprietorship. He positioned his business in the industry as an exporter of rattan furniture. At the inception of the business, he tapped clients/customers from existing contacts and connections as a past manager of a firm engaged in the same business.

The company acquired its first computer in 1996, which was immediately hooked up to the Internet. A year after (1997), the company’s website ([www.adriandesigns.com](http://www.adriandesigns.com)) was created and launched. Through the website, it is able to generate an average of two (2) inquiries per week – from both local and international prospective buyers. While the company website primarily provides information on the company, it contains a guest book which tracks down inquiries by allowing prospective clients to submit comments and order certain items/products of interest (such as living room sets, dining room sets and bedroom sets, among others) with the simple click of a mouse. By such process of inquiry through the website, the company was able to generate a regular client, “*Trivial Monde*”, a furniture trader registered in Spain, from which it accounts **20-30%** of its gross sales. *Trivial Monde* regularly purchases one (1) container of furniture every two months.

The company likewise relies heavily on the use of the e-mail as a means of communication with its regular international clients such as Lane Venture, Capris Furniture, among others, both of which are US-based companies. Of note, 90% of its international clients are U.S. companies, which it managed to maintain because of constant online communication. The company likewise asserts that they were able to

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save more than 50% of communications costs by using the email rather than relying on telephones and fax machines.

### **D. E-commerce and the Tourism Industry**

#### **FOCUS TRAVEL AND TOURS, INC. (<http://www.focustravel.com.ph>)**

Focus Travel and Tours, Inc. has been in the travel and tourism industry for the last 17 years, started in 1984. A full service agency and a major outbound and inbound tour operator, the company has expanded and grown over the years effectively making a name in the travel industry. Based in Metro Manila where it has its head office and a computerized travel center, the company runs an extensive travel operations to different parts of the world, not to mention tours to many domestic points in the Philippines. IT has partner agencies in Australia, Russia, Thailand, U.S. (in New Jersey) and Singapore. It is duly accredited by the Department of Tourism as a competent Travel Agency, Local Tour Operator and a Tourist Transport Company. It is also a Philippine Airlines Awardee for 1994-1995.

While Focus Travel currently has a clientele list dating back to 1984, its realized that 80% of its monthly gross sales come from repeat customers. Furthermore, because the travel agency is located within an arcade that houses only travel agencies, Focus Travel decided that it needed to generate bigger advertisement and promotion for its firm because competition was so stiff for walk-in and new clients.

In late 2000, the son of the founders of Focus Travel, AJ Nilooban, a 19 year old university student, got involved in the family business and spearheaded its involvement in e-commerce and to further increase its visibility, signed on to be a member of a Philippine travel portal, *Viaje.ph*<sup>21</sup>, in late 2000.

Since it signed up with the travel portal, Focus Travel now generates 15% of its gross sales from online inquiries and receives eight inquiries per week through the portal. However, AJ Nilooban sees that this percentage can further increase if Focus Travel developed its website and was fully run by the company instead of *Viaje.ph*.

One cannot make a full e-commerce transaction on *Viaje.ph*. Customers cannot make a full transaction online, purchase directly through the website or make direct inquiries to the travel agency partner. *Viaje.ph* collects the inquiries directly and then emails the particular travel agency of the customer inquiry. This set-up is deliberate since *Viaje.ph* makes a 5-10% commission on all completed transactions – and without this control over the communications thread, there is a fear of losing the commission.

Focus Travel feels that this is a long process and that they are too dependent on *Viaje.ph* to relay the inquiries to them. Because of this set-up, Focus Travel feels that because their ability to respond in real-time to their potential customers is hindered, they actually end up losing customers this way.

To many travel agencies, their comparative advantage lies not only on competitive pricing, good service or customized service, but also in their ability to respond quickly to the needs of customers. Thus, to take advantage of the possibilities of e-commerce to

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grow the business, AJ Nilooban has just finished a database of its customers and is currently developing the company website, expected to be a full e-commerce travel site by mid-2003. They will still stay on with [Viaje.ph](http://Viaje.ph) – but by having its own company website, it does not have to depend on the portal for its new customers and therefore, it can maximize its customer reach globally.

### **E. E-Commerce and the Traditional Non-User**

#### **NATURE'S LEGACY (<http://www.natureslegacy.com>)**

After spending a year in furniture manufacturing, Pete H. Delantar and his wife, Catherine, explored the use of a novel material in furniture – Mactan stone and limestone, which are abundant in Cebu. He established an export-oriented single proprietorship in 1997 focused on the production of functional and decorative stone furniture -- from scientifically mixed components of natural aggregates, binder and glass fiber which are hand cast onto a mold – with designs inspired by both the classic past and the technological present. In August 1998, the business was incorporated as a closed corporation with 90% ownership attributed to the Delantars.

Most of company sales are closed through trade shows done locally and abroad and through personal encounters and meetings with customers/buyers.

The company patronizes the use of e-mail as a means for communication with customers/buyers only insofar as communication with existing buyers after an initial face to face meeting with the customers is concerned (i.e., for follow-up and interim communication before final close of deal, but not for the purpose of getting new clients). The company also has a website ([www.natureslegacy.com](http://www.natureslegacy.com)) which merely functions as an electronic catalogue or brochure and not for the purpose of facilitating online transactions. The company, however, recognizes the importance of using the e-mail inasmuch as it significantly reduces communication costs to more than 50%.

While the company generally recognizes the benefits of e-commerce to business (such as ease, speed and convenience), it prefers to maintain its primary and current marketing strategy, which is to get prospective clients, and close deals through trade shows and strategic personal business meetings. One of the primary hindrances of using e-commerce as a mode of doing business is the company's lack of trust and confidence in the Internet, particularly in the area of maintaining security, confidentiality and integrity of online transactions. Should it eventually accept purchase orders online, the company is inclined to practice the paper-to-follow norm. Furthermore, given the nature of its products and marketing strategy, where craft and design is considered a value-added commodity, over which it can claim intellectual property, it chooses to limit access to the viewing of products online and therefore the lodging of purchase orders online; hence, hampering the use and growth of ecommerce in its business. The company believes that face-to-face meetings during the close of sales are still the optimal strategy to get the best deal.

On the other hand, its customers and clients likewise prefer the company's prescribed mode of doing business because they can see, touch and feel the products before making a final decision to purchase.

## **XI. Policy Implications and Recommendations**

Any program aimed at enhancing the competitiveness of SMEs would benefit from a national database of SMEs. The lack of a national database means that program progress cannot be measured.

The Department of Trade and Industry should also develop standard measurements and definitions of SME size (i.e., DTI currently defines SMEs in three ways – capitalization, asset size and number of employees) and e-commerce. This standard definition should also conform to global norms so that the collection of data for international comparability is facilitated.

### **Awareness Campaign on e-Commerce**

This survey revealed that the lack of SME appreciation for e-commerce. Most of the SMEs have identified their lack of knowledge of technology to be one of the main barriers to using e-commerce. Government and the private sector partnerships should be developed to disseminate information to SMEs about ecommerce policies, best practices, success stories, and opportunities and obstacles relating to the use of ICTs and e-commerce. These awareness campaigns may come in the form of online newsletters and bulletins; training courses and workshops on e-commerce, security and privacy; awards programs; and the creation of information centers to assist SMEs in doing e-commerce. Ultimately, this information campaign should come in the form of an overall e-commerce development strategy for the economy, focusing on its various innovative applications for SMEs.

### **Private Sector Participation**

The market ultimately drives e-commerce development, but it is the private sector that fuels it. The private sector should be proactive in developing an SME development program where various sectors can provide technical assistance to SMEs and its uptake of e-commerce. Banks are encouraged to develop “SME desks” in order to address the specific needs of SMEs. In particular, steps should be taken to provide incentives to individuals to become entrepreneurs by lowering borrowing rates, provide incentives to SMEs which intend to use e-commerce in their business operations, and provide credit extension facilities to SMEs in order for them to use ICT and e-commerce.

### **e-Government**

e-Government refers to the use by government agencies of information and communication technologies (ICT) that have the ability to transform relations with citizens, businesses, government employees, and other arms of government in the delivery of services. For the World Bank, it is the use of ICT to improve the efficiency, effectiveness, transparency, and accountability of government.<sup>22</sup> E-Government is a tool by which limitations of time, distance, and cost are reduced, thereby **enhancing citizens’ access to government services**. Citizens will no longer have to wait in line to claim birth certificates, licenses or visas. Citizens will have better access to public

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government information such as application requirements, study and employment opportunities, policies and regulations. The availability of these services will be extended outside the brick-and-mortar office and beyond the eight-hour workday of the government agency.<sup>23</sup>

Government should be the lead-user of e-commerce – prompting various business and private sector related activities to move online. In effect, government becomes a positive influence in prompting SMEs and other businesses to adopt and use e-commerce. This can come in the form of various transactions such as company registration, taxation, applications for a variety of employee- and business-related requirements, etc. Also, with the Philippine government moving towards online procurement, the government is able to provide bidding opportunities to SMEs, who may not normally have the chance to bid against larger businesses.

### **Network Infrastructure**

The network infrastructure becomes crucial to e-commerce uptake of SMEs. However, the network is fully concentrated in the key cities of the Philippines and in areas near economic zones. SMEs located in the periphery may not receive Internet access, or worse, may be charged higher Internet costs compared to other SME located in major cities. While cable Internet – high bandwidth, flat-free pricing for Internet access - is becoming increasingly available, moving away from the tedious “dial-up” process, this is still among the higher range Internet products available in the country. With the relatively high number of ISPs vying for a very limited user base, offering a wide range of pricing strategies targeting SMEs that suit various business needs or requirements can foster competition. If an ISP can develop a niche for servicing SMEs, many will be quick to follow suit, bringing down access prices and encouraging the laying out of “last mile” infrastructure to areas populated by SMEs. Needless to say, as long as high Internet costs and Internet metered charges exist, Internet and e-commerce uptake of SMEs will be take time.

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**Endnotes**

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<sup>1</sup> National Telecommunications Communication, 2001

<sup>2</sup> National Telecommunications Communication, April 2002

<sup>3</sup> National Telecommunications Communication, "Assessment of the Implementation of the Service Area Scheme," March 4, 2002. Unfortunately, all these landlines are not subscribed. The country's subscriber base is only 2,858,599.

<sup>4</sup> Carlos Opena Tulali, "Philippine Telecoms 2000 Report" (Pasig City, April 2001)

<sup>5</sup> <http://www.biz-lib.com/ZPB1530.html>

<sup>6</sup> National Telecommunications Commission, April 2002

<sup>7</sup> Jeremy Lieb, "Worldwide Internet Population: Asia" (CommerceNet 1999-2000).  
<http://www.commerce.net/research/stats/analysis/WWInternetPopul-Asia.pdf>

<sup>8</sup> <http://www.atimes.com/reports/CG18Ai01.html>

<sup>9</sup> Melvin G. Calimag, "Globe Unloads first GPRS Mobile Service in the Philippines," (Manila: Metropolitan Computer Times), February 27, 2002.

<sup>10</sup> Prudencia R. Orani, "Huge Growth for Broadband Services Seen for the Philippines," (Metropolitan Computer Times), February 13, 2002.

<sup>11</sup> DOTC , "An Infocomms Policy for the Information Economy," December 2000.

<sup>12</sup> Aniceto C. Orbeta, Jr., "E-commerce Beckons: ASEAN Responds," (PIDS Development Research News, Vol. XIX No. 3), p. 4.

<sup>13</sup> <http://www.e-magazineonline.com/spotlight/SPO/SPO0139.htm>

<sup>14</sup> Emmanuel C. Lallana and Rodolfo Noel S. Quimbo, "The Philippine e-Commerce Law: A Preliminary Analysis," September 2000

<sup>15</sup> Section 11, Article XII, 1987 Constitution

<sup>16</sup> Section 11, paragraph 1, Article XVI, 1987 Constitution

<sup>17</sup> <http://www.sme.ph/faqs1.htm>

<sup>18</sup> IDRC Canada Research Project entitled "SME Support Organizations Network - Asia". The overall objective of the Project is to establish an electronic network among SME support organizations in Asia to assist the SME organizations establish global linkages for tapping new business opportunities, technologies and other needed information. Support organizations will prepare the SMEs for cyber business promotion and gain better access to international markets.

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<sup>19</sup> <http://www.technonet.org.sg/project.htm#Philippines>

<sup>20</sup> <http://www.philippinestoday.net/February2002/datinemanila202.htm>

<sup>21</sup> Viaje.ph is an established Internet company based in the Philippines whose main goal is to service the web requirements of the global travel industry.

<sup>22</sup> World Bank e-Government Website <<http://www1.worldbank.org/publicsector/egov/>>

<sup>23</sup> Digital Philippines, "e-Government in the Philippines: Benchmarking Against Global Best Practices" (Manila: April 2002), pp. 4-5