

# “Electronic intermediaries: research and practice of electronic intermediaries in export marketing”

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## Electronic intermediaries: research and practice of electronic intermediaries in export marketing

### Abstract

This study investigates the use of an electronic intermediary (e-intermediary) in international commerce. Specifically, this paper aims to provide a comprehensive understanding of an e-intermediary regarding the growth of e-commerce in export marketing. An e-intermediary is a typical form of e-commerce. The popularity of e-commerce allows market intermediaries to connect between manufacturers and customers around the world using advantage of a computer network's capacity to reduce transaction costs. As a result, e-intermediaries are playing an important role in international commerce.

Based on two theoretical foundations, this study provides some propositions regarding e-intermediary use. First, it is intended to justify intermediary use in electronic international commerce from the transaction cost analysis, arguing that intermediaries can make the market transactions easier and more efficient by reducing coordination costs. The resource-based view is another theory that can confirm the e-intermediary use in the international commerce. This study can justify the e-intermediary use from the resource-based view showing specific internal resources that contribute to the choice of the e-intermediary use.

**Keywords:** export marketing, trade intermediary, B2B, electronic commerce.

### Introduction

The Internet is becoming an important medium for market transactions. The Internet has motivated firms to participate in e-commerce, because it can reduce costs in market transactions. Early literature regarding e-commerce insisted that direct exchanges via the Internet might lower transaction costs incurred (Narayandas et al., 2002; Sarkar et al., 1995). In export marketing, it was believed that an exporter of one country could trade directly with customers of other countries via its online catalogs or Internet exchange at a much lower transaction cost than incumbent distributors could match (Narayandas et al., 2002). If the expectations were true, market intermediaries who interpose themselves between manufacturers and customers must have disappeared. However, there are still diverse intermediaries in the export marketing.

Interestingly, a few researchers argue that the use of an intermediary may reduce transaction costs in e-commerce (Sarkar et al., 1995). Finding the ideal buyer or supplier in e-marketplaces can be extremely time consuming and costly. Moreover, finding relevant sources in the "virtual jungle" is a hard challenge for non-experienced users (Ancel, 1999). Small and medium exporters usually do not have enough resources and experience regarding foreign markets (Peng and Ilinitch, 1998). Small and medium exporters also face significant uncertainty in electronic international commerce. According to the literature reviews, an e-intermediary can be an effective alternative for them to reduce transaction costs regarding uncertainty in electronic international commerce. In other words, electronic intermediation plays an im-

portant role to reduce transaction costs in export marketing as a direct Internet-based exchange does.

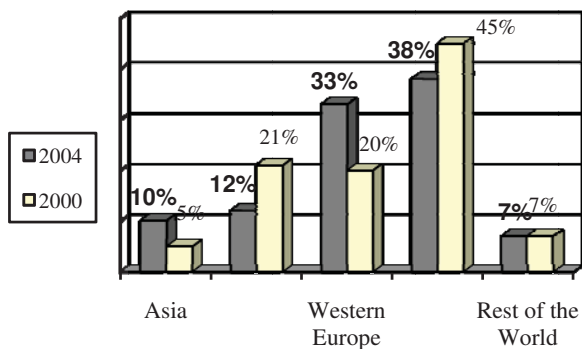
This study begins with an assessment of current electronic international commerce. In specific, the phenomenon of expanded e-commerce in export marketing is first described. Also, various roles of e-commerce and e-intermediary in export marketing are discussed with major research questions and scope of this study. Following the sections, a detailed explanation of a traditional export intermediary is provided. An e-intermediary is a new export intermediary in international commerce. Therefore, many functions and roles are shared between electronic and traditional intermediaries. This study translates the concept of a traditional export intermediary into the study of an e-intermediary, which is not studied systematically. This study also compares roles of the traditional intermediary with those of an e-intermediary in export marketing. Finally, theoretical underpinnings of the e-intermediary in the export marketing are identified and discussed.

### 1. Expansion of e-commerce and its effects on export marketing

The growth of Internet users worldwide grows by 10 percent each month (Bartels, 2003). The Internet is often considered to be fundamentally changing the business paradigm (Prasad et al., 2001). In market transactions, the Internet has also become an important medium (Bailey and Bakos, 1997). A typical by-product of the Internet's development is e-commerce. E-commerce is a way of doing real-time business transactions via telecommunication networks, when the customer and the merchant are in different geographical places (Glossary of Telecommunication Terms, 1996). Also, e-commerce is a commercial transaction with business partners, including buyers

or sellers, over the net (Mahadevan, 2000). According to Palmer (1995), e-commerce includes the support of markets, inter-firm coordination, and information exchange via electronic means. E-commerce is also a broad concept that includes virtual browsing of goods on sale, selection of goods to buy, and payment methods (Glossary of Telecommunication Terms, 1996).

Business-to-business e-commerce via the Internet continues to grow (Bartels, 2003). Boston Consulting Group estimates that one-fourth of all U.S. business-to-business purchasing could be done electronically. U.S. business-to-business e-commerce will grow by 33 percent each year and reach \$2.8 trillion in transaction value between 1998 and 2003. According to International Data Corp (IDC), the value of worldwide e-commerce in 2000 was US\$350.38 billion (Wikibooks, 2011). This is projected to climb to as high as US\$3.14 trillion by 2004. Also, IDC estimates an increase in Asia's percentage share in worldwide e-commerce revenue from 5% in 2000 to 10% in 2004 as shown in Figure 1.



Source: Wikibooks (2011).

Fig. 1. Worldwide e-commerce revenue in 2000 and 2004

E-commerce presents a wealth of opportunities to streamline international trade. Empirical data shows that the growth of e-commerce has enlarged online exporting. Zapf (2000) argues that global online exporting could be US\$1.4 trillion in 2004. Table 1 below illustrates the estimation of online exporting in the world for 2004. According to the empirical data, Western Europe, North America, and Asia-Pacific are expected to lead by \$692 billion, \$462 billion, and \$219 billion each in global online exports in 2004 (U.S. Department of Commerce, 2002; The Beacon Council, 2002; Paris, 2001).

Table 1. Estimated amount of world online exporting

Region/major country	Volume of online exporting (US\$ billions)
Western Europe/Germany	692/144
North America/U.S.	462/210
Asia-Pacific/Japan	219/57

Source: U.S. Department of Commerce (2002), The Beacon Council (2002), Paris (2001).

The ratio of e-commerce used for exporting has continued to increase. Zapf (2000) argues that 83 percent of e-commerce in Canada, 53 percent of e-commerce in the UK and Europe, 38 percent of e-commerce in Asia and Pacific, and 10 percent of e-commerce in the U.S. would be used for exports by 2003. In other words, e-commerce has become an important medium for export marketing.

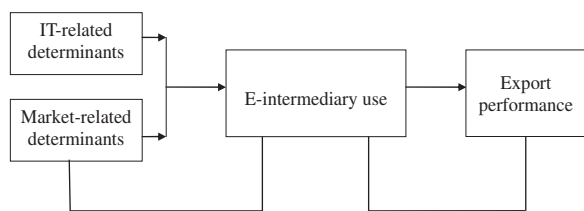
Despite little theoretical and empirical research, intermediaries have played a major role in export marketing (Trabold, 2002; Chalmin, 1987). Exporting is the most commonly used entry mode by small and medium-sized enterprises (SMEs) to enter the global market. However, SMEs typically lack the necessary resources to engage in a direct exporting. Intermediaries, connecting manufacturers of one country and customers of another country, have provided alternatives for SMEs to export (Lee and Danusutedjo, 2000). With the development of e-commerce, an exporter could trade directly with foreign customers via online catalogs or Internet exchange at much lower transaction costs than incumbent distributors could match (Narayandas et al., 2002). With this expectation, many entrepreneurs deployed Internet-based businesses built on vendor-to-buyer auctions and catalog exchange, adopting a direct Internet-based exchange (Narayandas et al., 2002). If this argument is proved, intermediaries connecting between manufacturers and customers would have disappeared in e-commerce. However, it is clear that something is wrong with the expectation. There are still various types of intermediaries, and they will not be easily displaced in e-commerce. Moreover, an alternative market intermediary, called an e-intermediary, is emerging in electronic international commerce.

There are diverse terms to refer to this relatively new form of export. "Cyber trader," "virtual exporter," "e-exporter," and "electronic intermediary" are some names for the alternative market intermediary (Soon et al., 2002; Searing, 2001; Lee and Danusutedjo, 2000; Clark and Lee, 1999; Bailey and Bakos, 1997). Among these terms, "electronic intermediary" is the most frequently used. From the related literature, we define an e-intermediary as an independent market intermediary serving as business-to-business (B2B) e-marketplace in which qualified members simply post requests to buy or sell (Soon et al., 2002; Searing, 2001; Clark and Lee, 1999). Sales representatives of the e-intermediary then search around the global for companies to supply or purchase the posted products, matching between exporters and foreign customers (Clark and Lee, 1999). Previous literature has argued that as e-commerce lowers the cost of market transactions, traditional roles for intermedia-

ries will be eliminated (Bailey and Bakos, 1997). However, intermediaries are taking new roles in e-commerce (Bailey and Bakos, 1997). An e-intermediary increases efficiency for searching, bargaining, and monitoring in e-commerce (Clark and Lee, 1999). As a consequence, trade parties may achieve cost-efficient market transactions via e-intermediary use in export marketing.

## 2. Major research questions and scope of the study

The emergence of an e-intermediary is an outcome of the development of e-commerce (Trabold, 2002; Chalmin, 1987). Considering its characteristics, an e-intermediary is an appropriate market intermediary for small and medium exporters who lack the necessary knowledge and resources to engage in international commerce. This study aims at better understanding an e-intermediary in export marketing. Despite a short history, many exporters are using e-intermediaries to penetrate the global market. The question then arises as to led them to use e-intermediaries. Also, are exporters using e-intermediaries better than those who don't? If so, why does this occur? To answer these questions, two theoretical foundations are applied. Based on the resource-based view and the transaction cost analysis, determinants of e-intermediary use in export marketing are investigated. Also, based on the transaction cost analysis, the relationships between e-intermediary use and export performance (focusing on transaction costs) are investigated. The scope of this study is illustrated in Figure 2. Next, detailed explanations of traditional and electronic export intermediaries are provided.



Resource-based view, Transaction cost analysis Transaction cost analysis

Fig. 2. Modeling e-intermediary use in export marketing

## 3. Traditional intermediaries in export marketing

**3.1. Emergence of traditional intermediaries.** An export oriented e-intermediary is an export intermediary in the electronic international commerce. Therefore, it must be preceded to study a traditional export intermediary before investigating an e-intermediary in detail. Despite its importance, there has been little theoretical and empirical research about the traditional export intermediary (Peng and Ilinitch, 1998; Leonidou and Katsikeas, 1996). The export intermediary is defined as a specialist firm that functions as the

export department of several manufactures in non-competitive lines (Trabold, 2002; Root, 1994; Chalmin, 1987). Most small and medium businesses were away from exporting due to their limited resources and lack of knowledge regarding foreign markets as well as the perceived risk and uncertainty surrounding international sales (Peng and Ilinitch, 1998; Ilinitch, Peng, Eastin, and Paun, 1993). Nevertheless, exporting is still regarded the most appropriate strategy for small and medium businesses to enter the global market (Bowyer, 2002). The export intermediary can be an efficient alternative to locate and negotiate with foreign customers for small and medium businesses intimidated by the challenges associated with exporting (Lee and Danusutedjo, 2000; Peng, 1998).

The export intermediary was originated in the largest Japanese trading conglomerates, known as Sogo Shosha (Peng and Ilinitch, 1998). Sogo Shosha helped members of their respective industrial groups, known as the Keiretsu, penetrate foreign markets (Kotabe, 1984). By the early 1980s, export intermediaries handled approximately 50 percent of Japan's exports (Kotabe, 1984; Yoshihara, 1982). Throughout the 1970s and 1980s, many countries encouraged the development of local versions of Sogo Shosha (Peng and Ilinitch, 1998). Governments in several countries, including Korea, Taiwan, Thailand, Turkey, China, and the U.S., used legislation to spur the development of indigenous export intermediaries (Peng and Ilinitch, 1998; Amine, 1987; Cho, 1987). However, the results of these government-supported export intermediary development efforts varied from country to country (Brewer, 1993). South Korea and Turkey commanded 51 percent and 38 percent of their countries' total exports (Cho, 1987). However, in other countries, the results were not successful (Peng and Ilinitch, 1998; Root, 1994).

Despite many media to facilitate a direct exchange, the export intermediary is still used by many exporters. Moreover, some social and institutional factors mitigate against the elimination of traditional intermediaries (Sarkar, Butler, and Steinfield, 1995). Inertia to keep traditional intermediation, the importance of human touch, regulatory concerns, and the significant limitations of current web technologies also contribute to the use of traditional intermediaries in export marketing. The export oriented e-intermediary stems from the traditional export intermediary. A type of the e-intermediary is not formalized due to its short history. Therefore, reviewing types of the traditional export intermediary may be helpful to understand the type of the e-intermediary in export marketing.

**3.2. Types of traditional intermediaries.** There are several types of traditional export intermediaries: commissioned agents, export management companies (EMCs), export trading companies (ETCs), and ETC cooperatives (Lee and Danusutedjo, 2000; De Noble et al., 1989; Perry, 1989; Amine, 1987; Amine et al., 1986; Bello and Williamson, 1985). Commissioned agents act as brokers, linking product or service with a specific foreign buyer. Generally, the agent or broker will not fulfill the orders, but rather will pass them for acceptance (De Noble et al., 1989). EMCs act as the offsite export department, representing a company's product to prospective oversea purchasers (Lee and Danusutedjo, 2000; Perry, 1989). Hiring an EMC is often a viable option for small and medium exporters that lack the time and expertise to break into international markets on their own (Amine et al., 1986). Sometimes, EMCs assist in arranging export financing for the exporters but they do not generally assure payment to the manufacturers (Lee and Danusutedjo, 2000; Perry, 1989). ETCs perform many of the functions of EMCs, but they tend to be demand-driven and transaction-oriented, acting between buyers and sellers.

Sogo Shosha is a typical ETC. ETCs can be classified into several types such as General Trading Companies (GTCs), Export Trading Companies (ETCs), Federated Export Marketing Groups (FMGs), and etc. (Amine, 1987). Among them, GTCs and ETCs are representative ones. GTCs were historically involved in generalized import-export activities. Mitsui (Japan), SCOA (France), East Asiatic (Denmark), Jardine Matheson (Hong Kong) are examples of GTCs (Amine, 1987). ETCs were designed to promote growth of exports. Daewoo (Korea), Interbrass (Brazil), and Sears World Trade (U.S.) are examples of ETCs (Amine, 1987). Unlike GTCs, ETCs are export oriented rather than import intermediaries.

**3.3. Roles of traditional intermediaries.** Literature identifies several roles of the traditional export intermediary. Well-managed search costs, lack of privacy, incomplete information, contracting risk, and pricing are typical roles of the traditional intermediary in export marketing (Resnick et al., 1994). Reducing coordination costs, addressing problems of asset specificity, and promoting standardization are also important roles of the export intermediary (Malone et al., 1987). Theoretically, the Transaction Cost Theory (TCA) is closely associated with the roles of the traditional export intermediary. Williamson (1996), a typical transaction cost theorist, argues that the costs of contracting, enforcing the contracts, and dealing with unforeseen circumstances are the motivations to use an export intermediary. According to the literature review, the roles of

the traditional export intermediary can be classified as follows.

First, traditional export intermediaries provide useful market information to exporters to assist them in identifying and taking full advantage of business opportunities. Through their global networks and drawing on their experiences in carrying out international trade transactions, traditional export intermediaries are able to gather and analyze information quickly and accurately. Moreover, traditional export intermediaries provide updates on business trends, market conditions and individual commodities and products, as well as, advice on legal matters and local business customers to assist exporters in realizing the potential of their products (Lee and Danusutedjo, 2000). Second, traditional export intermediaries aggregate buyer demand or seller products to achieve economies of scale or scope and to reduce bargaining asymmetry (Bailey and Bakos, 1997; Resnick et al., 1994). Third, traditional export intermediaries protect exporters and sellers from the opportunistic behaviors of other participants in a market by becoming an agent of trust (Bailey and Bakos, 1997). Fourth, traditional export intermediaries facilitate the market by reducing operating costs (Bailey and Bakos, 1997; Malone et al., 1987). Fifth, traditional export intermediaries can match buyers and sellers effectively. Sixth, traditional export intermediaries sometimes provide credit supervision as well as financing. A critical obstacle of the development of international trade is a lack of credit information on potential buyers and sellers (Lee and Danusutedjo, 2000). Export intermediaries overcome this problem while sharing a portion of the risk of trade transactions (Lee and Danusutedjo, 2000). Finally, to facilitate export transactions, traditional export intermediaries utilize a range of financing schemes such as assisting clients in use of letter of credit financing, providing goods on credit to buyers while paying sellers on delivery, and offering installment payment arrangements (Lee and Danusutedjo, 2000).

**3.4. Benefits and costs of traditional intermediaries.** The roles of traditional export intermediaries bring several benefits for exporters. First, products gain exposure effectively in international markets with little or no commitment of staffs and resources from the company (Lee and Danusutedjo, 2000). Traditional intermediaries' experience and well-established networks of contracts may allow exporters to gain faster access to international markets than they could through establishing a relationship with a foreign-based partner (Bailey and Bakos, 1997). Also, traditional intermediaries lower or eliminate export start-up costs and therefore the risks associated with

exporting (Peng and Ilinitch, 1998). Although exporters may lose part of their profit margins from exporting, the economies of scale realized through increased production may offset the loss or be of higher beneficial (Malone et al., 1987). However, there are still some costs from the use of traditional export intermediaries. Exporters may lose some control over the way in which their products are marketed or serviced, as well as, some profit margin from exporting (Lee and Danusutedjo, 2000).

#### 4. Electronic intermediaries in export marketing

**4.1. Emergence of e-intermediaries.** An e-intermediary in export marketing stems from the traditional export intermediary. Traditional and electronic intermediaries are sharing a few common roles. However, there are still several differences between them. Most of all, an e-intermediary is based on the Internet and its graphical interface, the World Wide Web that originates and accelerates e-commerce (Prasad et al., 2001). The e-intermediary is thus an outcome of the development of the e-commerce. E-commerce is predicted to have tremendous growth into the 21<sup>st</sup> century. Given the projections that e-commerce will grow astronomically, firms of all sizes must become proactive in not only seeking out Internet opportunities, but in determining ways to exploit this revenue generating medium (Chrusciel, 2000). Early literature of e-commerce argued that companies would take advantage of direct electronic links, and, in the process, intermediaries would be eliminated (Bailey and Bakos, 1997; Sarkar et al., 1995).

However, e-commerce is a double-edged sword. On the one hand, a direct Internet-based exchange may lower transaction costs (Narayandas et al., 2002). On the other hand, the intermediaries can make the market transactions easier and more efficient, which also decrease transaction costs (Sarkar et al., 1995). In particular, many scholars agree with the necessity of intermediaries in electronic international commerce. For exporters, finding the ideal foreign customer in e-marketplaces can be extremely time consuming and costly (Lee and Danusutedjo, 2000). Also, widely available information infrastructures of intermediaries will reinforce the position of exporters in electronic international commerce (Sarkar et al., 1995).

The e-intermediary refers to an electronic third party, providing the IT and business infrastructure to facilitate the completion of commercial transaction over interorganizational computer networks (Clark and Lee, 1999). Lee and Danusutedjo (2000) define the e-intermediary as a business-to-business (B2B) global Internet marketplace achieving cost-effective international trade through the Internet. In export marketing, the following websites are the e-intermediaries for ex-

porters: [www.alibaba.com](http://www.alibaba.com), [www.ec21.com](http://www.ec21.com), [www.ecplaza.net](http://www.ecplaza.net), [www.ecplaza.net](http://www.ecplaza.net), [www.bestsmc.com](http://www.bestsmc.com), [www.export.gov](http://www.export.gov), and [www.cometotrade.com](http://www.cometotrade.com). In export oriented e-intermediaries, exporters and customers place bids and offers via terminals connected to the host computer of the intermediary, instead of coming to a physical market site. In many industries, exporters rely on an e-intermediary not simply to extend credit and fulfill smaller orders but to generate demand for their products (Narayandas et al., 2002). Also, the use of e-intermediaries can increase efficiency for researching, bargaining, and monitoring in electronic international commerce. Therefore, the e-intermediary is expected to bring significant change in the economics of marketing channels and the structure of distribution in export marketing (Clark and Lee, 1999).

**4.2. Roles of e-intermediaries.** In export marketing, traditional and electronic intermediaries share many common roles, including aggregation, facilitation, market information provision, and credit supervision (Goldsby and Eckert, 2003; Narayandas et al., 2002). However, degrees of the role are different between them. Also, there are some unique roles of e-intermediaries. First, e-intermediaries enhance the access to decision-making information by exploiting the use of contemporary technology in export marketing. Unlike traditional ones, e-intermediaries provide 24 hours, 7 days/week, and 365 days/year access. Second, e-intermediaries provide the collection of many demands from buyers and many products from sellers effectively via the Internet. Moreover, e-intermediaries provide an ongoing search for new potential customers in export marketing (Chrusciel, 2000). Third, e-intermediaries exist to support exchanges between exporters and customers by aggregating transactions to create economies of scale and scope (Clark and Lee, 1999). Fourth, e-intermediaries help to avoid "Deadweight" costs (lost cost due to unsuccessful searching) (Chrusciel, 2000). Literature agrees that the most critical role is to reduce transaction costs in international commerce. Economic efficiency is thus a major contribution for the use of e-intermediaries to export (Prasad et al., 2001; Lee and Danusutedjo, 2000; Clark and Lee, 1999; Benjamin and Wigand, 1995). Fifth, e-intermediaries provide assurances of maintaining honesty, integrity, reliability, and legitimacy to the economic transactions (Chrusciel, 2000). E-intermediaries prevent opportunistic behaviors and unfair trade practices by establishing policies and rules to build trust among market participants (Chrusciel, 2000; Clark and Lee, 1999). Two assumptions about human behaviors in the TCA are opportunism and bounded rationality (Williamson, 1991). When electronic export intermediaries can deliver verified information and keep that information transparent to the players in the exchange, they become an opportunism-

reducing influence. In general, the information sharing capabilities of an e-intermediary should greatly reduce the problem of bounded rationality (Goldsby and Eckert, 2003). Finally, there are some other value-added roles. Exporters can introduce/identify uniqueness of services and products, provide detailed product specifications, makes available a forum for advertising and

marketing new or existing products in the e-intermediaries. Also, e-intermediaries provide a forum for multiple products, monitoring of transaction data, and promote new technology after being tested (Chrusciel, 2000; Bakos, 1991). Table 2 summarizes the unique and common roles of traditional and electronic intermediaries in export marketing.

Table 2. Roles of traditional and electronic intermediaries in export marketing

Common roles	<ul style="list-style-type: none"> <li>◆ Cost reduction</li> <li>◆ Aggregation</li> <li>◆ Facilitation</li> <li>◆ Market information provision</li> <li>◆ Increased trust</li> <li>◆ Credit supervision</li> <li>◆ Financing</li> <li>◆ Reduced risk</li> </ul>
Roles of electronic intermediary	<ul style="list-style-type: none"> <li>◆ Greater market access</li> <li>◆ Improved efficiency and lower costs</li> <li>◆ Improved speed, flexibility, and responsiveness in meeting customer or buyer need</li> <li>◆ Enhanced ability to overcome time, geographical and social barriers, trading borders of global markets</li> <li>◆ Enhanced legitimacy (firms are feeling the need to use e-intermediaries so they are not left behind)</li> <li>◆ Providing effective a forum for multiple products, monitor of transaction data, and promote new technology after being tested</li> <li>◆ Easing and speeding the exchange of real-time information</li> <li>◆ Making global advertising more affordable</li> <li>◆ Export promotion and information acquisition</li> </ul>
Role of traditional intermediary	<ul style="list-style-type: none"> <li>◆ Increased credibility through physical interaction</li> </ul>

**4.3. Benefits and costs of e-intermediaries.** An e-intermediary is originated and developed from e-commerce that is the fastest growing facet of Internet. Therefore, the e-intermediary is closely associated with the Internet. The Internet’s provision of low-cost and efficient interconnectivity has had a dramatic influence on the way in which business conducted. The Internet offers small and medium firms a level playing field in relation to their larger competitors (Prasad et al., 2001). The Internet can reduce the traditional importance of scale economies, make global advertising more affordable, and extend small and medium firms’ market reach globally (Prasad et al., 2001; Kotler, 2000; Quelch and Klein, 1996). Also, the Internet allows small and medium firms to communicate widely with individuals or trading partners as any large competitors are able (Poon and Swatman, 1997). As a consequence, the Internet accelerates the internationalization of small and medium businesses. Effective use of the Internet thus would provide even the smallest company with a low cost “gateway” to the global market (Stevenson and Hamill, 2002). The benefits of the Internet have something in common with those of e-intermediaries.

Reducing transaction costs from easier and more efficient market transactions is argued to be the typical benefit of the e-intermediary. In export marketing, e-intermediaries’ functions that benefit buyers include assistance in search and evaluation, need assessment and product matching, risk reduction, and product distribution/delivery (Clark and Lee,

1999). Buyers execute transactions based on electronic information without inspecting products, thus encountering risks of uncertain product qualities for the buyers (Clark and Lee, 1999). E-intermediaries’ functions that benefits exporters include creating and disseminating product information and creating product awareness, influencing consumer purchases, providing customer information, reducing exposure to risk, and reducing costs of distribution through transaction scale economies (Sarkar et al., 1995). Trading relationships formed by the e-intermediary may imply high degree of trust, which in turn may reduce transaction costs because expensive contractual or legal expenses to control opportunistic behaviors can be avoided (Zucker, 1986). Most of all, the elimination of geographical and social barriers is the most important benefit with the increase in productivity, efficiency, effectiveness and the accuracy of electronic transactions (Soon et al., 2002; Bakos, 1997).

However, there are some problems from the e-intermediary use in export marketing. Credibility is a very important factor in channel working relationships, in particular, for international commerce (Hessler, 1996). In electronic relationships, face-to-face communication is rare, which induces the lack of credibility. Payment is another concern in electronic export intermediaries. In the trading world, there are several types of payment terms such as cash in advance, letter of credit (L/C), drafts, and open accounts (Lee and Danusutedjo, 2000). Among them, L/C is the most popular. In general, traditional

export intermediaries offer full service to assist buyers and sellers regarding this payment issue. Opening an L/C through the Internet is already possible by connecting the e-intermediaries to banks that offer exporting services. Nevertheless, it is still limited and rare. Also, the majority of small and medium businesses' Web sites are badly designed, with weak content, poor functionality and interactivity, and provide no real value to new or potential customers (Stevenson and Hamill, 2002). In the case of e-intermediaries, exporters usually communicate with foreign customers via their Websites. Also, language and cultural barriers can be the factors preventing the use of e-intermediaries in export marketing (Lee and Danusutedjo, 2000). Next sections discuss the theoretical backgrounds of e-intermediary use in export marketing.

### 5. Theoretical underpinnings of electronic export intermediary use

Early academicians in e-commerce gave consideration to the question of why firms participate in the e-commerce. While few authors claim to base their works on specific theories, their thoughts are primarily embedded in the Transaction Cost Analysis (TCA). The TCA focuses on a firm's choice between internalized, vertically integrated structures, and the use of external market agents for carrying out activities that constitute its value system (Sarkar et al., 1995). Using a direct Internet-based exchange that has been justified by the TCA, arguing that lower transaction costs are incurred via the direct electronic

exchange (Bailey and Bakos, 1997). According to this argument, firms would take advantages of direct electronic links, and this would result in intermediaries being eliminated. However, market intermediaries are still playing an important role in e-commerce. Therefore, this study is intended to justify intermediary use in electronic international commerce from the TCA, arguing that intermediaries can make the market transactions easier and more efficient by reducing coordination costs.

The resource-based view (RBV) is another theory that can justify the e-intermediary use in the international commerce. The RBV focuses on internal analysis such as firm strengths and weaknesses deepening firm resources. Resource-based theorists argue that firm resource contributes to the choice of a marketing strategy (Barney, 1991). Firm resources are also strengths that firms can use to conceive of and implement their marketing strategies (Barney, 1991). The use of e-intermediaries is a marketing strategy for an exporter in international commerce. According to the RBV, internal resources of the exporter must influence whether to use the e-intermediary. Therefore, this study can justify the e-intermediary use from the RBV, showing specific internal resources that contribute to the choice of the e-intermediary use. Table 3 summarizes two rationales. Next, a detailed explanation of two theories is provided. Also, we suggest some propositions on determinants and effects of e-intermediary use based on the two theoretical foundations.

Table 3. Summary of transaction cost analysis and resource-based view

	Transaction costs analysis	Resource-based view
Assumptions	<ul style="list-style-type: none"> <li>◆ Bounded rationality</li> <li>◆ Opportunism</li> </ul>	<ul style="list-style-type: none"> <li>◆ Firm heterogeneity</li> <li>◆ Resource immobility</li> </ul>
Main points	<ul style="list-style-type: none"> <li>◆ Interaction between assumptions of human behavior (bounded rationality &amp; opportunism) and dimensions of transactions (asset specificity &amp; uncertainty)</li> <li>◆ Maximizing profits as well as efficiency based on optimizing procedure</li> </ul>	<ul style="list-style-type: none"> <li>◆ Focusing internally on the firm and its resources</li> <li>◆ Strategic implications to achieve competitive advantage</li> </ul>
Points relevant to e-intermediary	<ul style="list-style-type: none"> <li>◆ Reduced coordination costs through easier and more efficient market transactions</li> <li>◆ Reducing monitoring or safeguard costs through decreased opportunism and bounded rationality</li> </ul>	<ul style="list-style-type: none"> <li>◆ Components of IT capability regarded as heterogeneous firm resources</li> <li>◆ Effects of firm resources on the choice of a marketing strategy</li> <li>◆ Role of firm resources to conceive of and implement a marketing strategy</li> </ul>
Unit of analysis	<ul style="list-style-type: none"> <li>◆ Industry</li> <li>◆ Firm</li> <li>◆ Governance instruments</li> </ul>	<ul style="list-style-type: none"> <li>◆ Firm</li> </ul>
Key authors	<ul style="list-style-type: none"> <li>◆ Coase (1937)</li> <li>◆ Williamson (1991)</li> <li>◆ Bailey and Bakos (1997)</li> <li>◆ Sarkar, Butler and Steinfield (1995)</li> </ul>	<ul style="list-style-type: none"> <li>◆ Barney (1991)</li> <li>◆ Peteraf (1993)</li> <li>◆ Grant (1995)</li> <li>◆ Rose, Beath, and Goodhue (1996)</li> </ul>

**5.1. The transaction cost analysis.** The transaction cost analysis belongs to the "New Institutional Economics" paradigm, which has replaced traditional neoclassical economics that emphasized profit maximization. While neoclassical economics views a

firm strictly as a production function, the transaction cost analysis views the firm as a governance structure, focusing on efficiency (Rindfleisch and Heide, 1997). The initial movement of the transaction cost analysis is attributed to Coase (1937), who focused on macro as-



pects, stating that firms and markets are alternative governance structures that differ in their transaction costs. Since then, the transaction cost theorists have focused on micro aspects within firm boundaries more than within the market. Williamson (1991) suggests that transaction costs include both the direct costs of managing relationships and the possible opportunity costs of making inferior governance decisions. This study aims to investigate determinants and effects of e-intermediary use at the firm level, thus corresponding to Williamson’s approach regarding unit of analysis.

Williamson’s micro framework rests on the interplay between two main assumptions of human behavior (bounded rationality and opportunism) and two key dimensions of transaction (asset specificity and uncertainty). Bounded rationality means that decision makers have constraints on their cognitive capabilities and limits on their rationality (Rindfleisch and Heide, 1997). These constraints become problematic in an uncertain environment. Opportunism represents that decision makers may seek to serve their self-interest, and that it is difficult to know who is trustworthy and who is not. Most transaction cost theorists argue that lower transaction costs are incurred via a direct Internet-based exchange in e-commerce (Bailey and Bakos, 1997; Sarkar et al., 1995). This study, then, suggests that a market intermediary also plays an important role to decrease transaction costs. Small and medium exporters do not have enough resources and experience regarding foreign markets; it is a challenge for them to find the ideal foreign customer in the “virtual jungle” (Ancel, 1999; Peng and Ilinitch, 1998). Therefore, they may face high coordination costs in electronic international commerce (Sarkar et al., 1995). Participating parties may then exchange product or price information efficiently via an e-intermediary. Furthermore, exporters can obtain an ongoing search for new potential customers in the e-intermediary (Chrusciel, 2000). As a consequence, e-intermediary use may help exporters decrease coordination costs in electronic interna-

tional commerce. These arguments lead to the following proposition.

*Proposition 1.1. The more efficient is market transactions via e-intermediary use, the lower is coordination costs in export marketing.*

Exporters seldom talk to foreign customers face to face. From an exporter’s point of view, it may be quite challenging to monitor or safeguard against opportunistic behaviors of foreign trade parties. An e-intermediary provides the assurance of maintaining honesty, integrity, reliability, and legitimacy in the economic transaction. An e-intermediary may prevent opportunistic behaviors and unfair trade practices by establishing policies and rules to build trust among market participants (Chrusciel, 2000; Clark and Lee, 1999). Exporters can thus decrease costs for monitoring or safeguarding against opportunistic behaviors, which corresponds to the transaction cost analysis’ concept. Therefore, assumptions and key concepts of the transaction cost analysis give a systematic explanation for using an e-intermediary in electronic international commerce. Based on the theoretical reviews, this research thus proposes the following.

*Proposition 1.2. The less is opportunism via e-intermediary use, the lower is monitoring or safeguard costs in export marketing.*

*Proposition 1.3. The less is bounded rationality via e-intermediary use, the lower is monitoring or safeguard costs in export marketing.*

Figure 3 illustrates the conceptual relationships between e-intermediary use and transaction costs regarding the transaction cost analysis. Drawing on the transaction cost analysis, we suggest that effects of e-intermediary use may decrease three types of transaction costs: coordination costs, monitoring costs, and safeguard costs. Accordingly, we derive a research model (Figure 3).

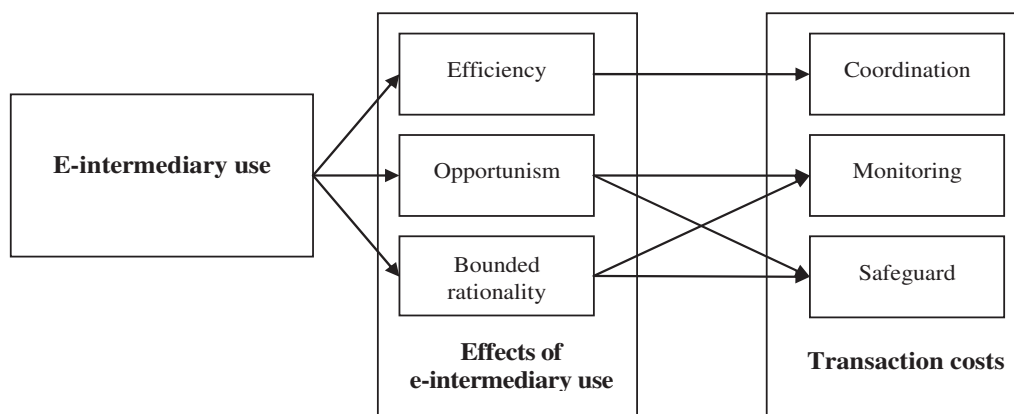


Fig. 3. Transaction costs in electronic intermediary use

**5.2. The resource-based view.** Internal analysis regarding strengths and weaknesses are fundamental to the resource-based view. This perspective is based on two assumptions. First, firms within an industry may be heterogeneous depending on their own resources. Second, the resources may not be perfectly mobile across firms (Barney, 1991). Resources are usually classified into three categories: physical capital, human capital, and organizational capital resources (Barney and Hesterly, 1996). The resources may be classified into tangible and intangible resources (Barney, 1991). Resource-based theorists argue that firms enable themselves to improve their efficiency and effectiveness by using the resources (Peteraf, 1993; Barney, 1991). Concepts of the resource-based view may apply in explaining e-intermediary use in international commerce. An e-intermediary is a medium for exporters to participate in electronic international commerce formed in World Wide Web (Clark and Lee, 1999). Therefore, knowledge and experience about IT (information technology) are required for exporters to use an e-intermediary effectively. Also, IT knowledge and experience may be considered unique firm resources that are valuable, rare, difficult to imitate, and non-substitutable by other competitors regarding the resource-based view (Barney and Hesterly, 1996). E-intermediary use can be a strategy for exporters, especially small and medium exporters, to export their products around the world. Resource-based theorists then argue that a firm's resources contribute to the choice of the firm's strategy (Grant, 1995). These arguments lead to the following propositions.

*Proposition 2.1. IT knowledge is positively associated with e-intermediary use in export marketing.*

*Proposition 2.2. IT experience is positively associated with e-intermediary use in export marketing.*

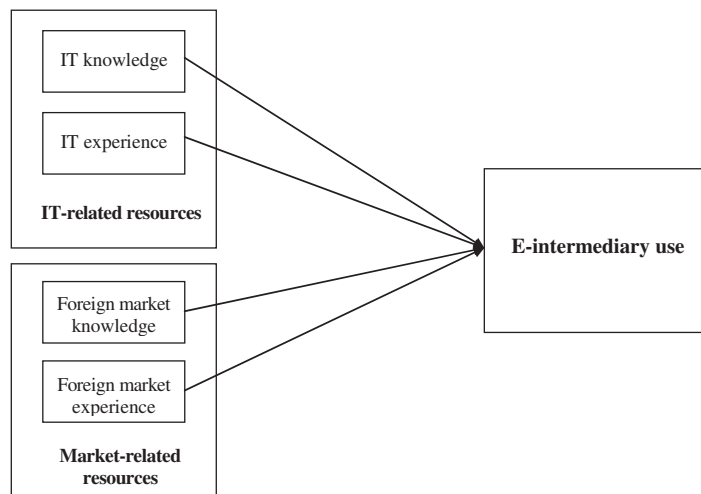
A certain level of foreign market knowledge and experience is also prerequisites to using an e-intermediary effectively. A firm is said to have a competitive advantage when it is implementing a

value creating strategy not simultaneously being implemented by any current or potential competitor (Peteraf, 1993). A firm is said to have a sustainable competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitor and when other firms are unable to duplicate the benefits of this strategy (Peteraf, 1993). Resource-based theorists recommend that firms discover their own valuable, rare, and costly-to-imitate resources and utilize them in the market where the resources can be best exploited. They argue that a firm's marketing strategy is chosen regarding its internal resources (Barney, 1991). Furthermore, firm resources are strengths that firms can use to conceive of and implement their marketing strategies (Barney, 1991). An e-intermediary can help exporters to provide various products or services efficiently and meet customers' needs effectively, which consist with the roles of marketing strategy (Stevenson and Hamill, 2002). E-intermediary use thus can be a marketing strategy for exporters to penetrate the global market. In sum, internal resources such as knowledge and experiences regarding foreign markets may influence whether to use a marketing strategy such as e-intermediary use in export marketing. These arguments lead to the following propositions.

*Proposition 2.3. Foreign market knowledge is positively associated with e-intermediary use in export marketing.*

*Proposition 2.4. Foreign market experience is positively associated with e-intermediary use in export marketing.*

Figure 4 illustrates the conceptual relationships between firm resources and e-intermediary use regarding the resource-based view. Drawing on the resource-based view, we suggest that resources that exporters possess can be used to conceive of and implement marketing strategy, e-intermediary use. Accordingly, we derive a research model (Figure 4).



**Fig. 4. Firm resources in electronic intermediary use**

## 6. Theoretical and managerial contributions

**6.1. Theoretical contributions.** An e-intermediary is an alternative export-oriented market intermediary that serves as an e-marketplace to connect exporters and foreign customers as well as provide market information. With the development e-commerce, an e-intermediary is playing an important role in export marketing. Nevertheless, no research makes an analysis in-depth of the e-intermediary. This study provides important theoretical implications to the literature on the e-intermediary in export marketing. This study uses the transaction cost analysis and resource-based view to explain the emergence and effects of an e-intermediary. First, this study justifies the emergence of the e-intermediary through the two theories. This study applies the transaction cost analysis to explain an indirect export intermediary unlike previous research that emphasized direct Internet-based exchange in e-commerce. Specifically, this study shows how e-intermediary use makes market transactions easier and more efficient, which decreases coordination costs. The roles of e-intermediary may encourage exporters to use it. The resource-based view is also used to justify the emergence of e-intermediary. IT and marketing capabilities are regarded as heterogeneous firm resources, which influence whether to use a marketing strategy. E-intermediary use can be considered an effective marketing strategy for exporters to participate in electronic international commerce. Particularly, an e-intermediary helps small and medium exporters compete with their larger competitors in the global market. Therefore, exporters' choice to use an e-intermediary may depend on their own internal resources. Second, this study uses the transaction cost analysis to explain the effects of e-intermediary use. The transaction cost analysis helps explain how e-intermediaries prevent opportunistic behaviors and unfair trade practices. Also, the theory can justify how reduced monitoring or safeguard costs through reduced opportunism and bounded rationality make market transactions efficient. Reviewing the theoretical implications assists in understanding how an e-intermediary may help exporters to penetrate the global market. This study is one of the first to provide the theoretical establishment of an e-intermediary. It is hoped that this assessment of the domain of e-intermediaries will provide a useful reference and further exploration of the topic. This study is a conceptual work. If this conceptual research can be proved by empirical works, the findings of this study will become even more influential.

**6.2. Managerial contributions.** This study is particularly significant for small and medium exporters who wish to enter into the global market. The development of e-commerce allows exporters many opportunities to

trade directly with foreign customers. A direct Internet-based exchange was believed by many traders and researchers to be the most efficient exporting channel. However, this type of exchange involves high risk. It is extremely time consuming, risky, and costly for small and medium exporters to find the ideal customer in electronic international commerce due to their limited foreign market knowledge and experience. A traditional export intermediary may be an effective alternative for them to decrease these problems but it can involve high cost, such as commission and agent fees. This study indicates an e-intermediary as a hybrid-exporting channel, combining a traditional intermediary and a direct Internet-based exchange. An e-intermediary provides low-cost and efficient interconnectivity, balancing between risk and cost. Furthermore, an e-intermediary can reduce the traditional importance of scale economies and make global advertising more affordable (Prasad et al., 2001). An e-intermediary thus offers small and medium exporters a level playing field in relation to their larger competitors. As a consequence, the internationalization of small and medium businesses can be accelerated by use of an e-intermediary. Since e-commerce presents both opportunities and threats to exporters, they need to recognize how such opportunities and threats may affect their marketing and business practices. An e-intermediary may be a realistic alternative to balance between the opportunities and the threats in electronic international commerce. We hope the findings of this study will help decision makers understand the effective strategy and exporting channel to penetrate the global market.

## Conclusion

The advent of the Internet has generated significant interest in e-commerce. Development of e-commerce is expected to bring changes in the economics of marketing and distribution channels by creating a new generation of market intermediary called an e-intermediary. This study highlights how an e-intermediary will allow small and medium exporters to effectively participate in the global market. Drawing on the resource-based view and transaction cost analysis, we suggest that which resources may contribute exporters to use an e-intermediary. Also, we discuss the effects of e-intermediary use to decrease transaction costs. Accordingly, we derive two research models. In general, previous e-commerce literature has insisted that a direct exchange via the Internet might lower transaction costs incurred. The literature, however, has neglected the role of a market intermediary in electronic international commerce. An e-intermediary is expected to bring significant changes to the economics of marketing channels and the structure of distribution in export marketing. Par-

ticularly, this study provides theoretical justifications of the determinants and effects of an e-intermediary. Knowing more about how e-intermediaries can play an important role in international commerce will

not only enhance the integration of major theories, but will also provide a firmer basis for our knowledge about the emerging intermediation in global trade.

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