

Unit 1: Fundamental Of E-Commerce

What is E-Commerce?

- Sharing Business information, maintaining Business relationship and conducting business transaction using computer connected to a telecommunication network is called E-Commerce.
- Buying and Selling Products and Services using Internet.
- It is a short form of Electronic commerce.
- Commercial transactions conducted electronically on the Internet.
- Electronic commerce use technologies such as mobile commerce, electronic funds transfer, supply chain management, Internet marketing, online transaction processing, electronic data interchange (EDI), inventory management systems, and automated data collection.
- Electronic commerce is generally considered to be the sales aspect of e-business. It also consists of the exchange of data to facilitate the financing and payment aspects of business transactions.

Application of E-Commerce

The applications of E-commerce are used in various business areas such as retail and wholesale and manufacturing. The most common E-commerce applications are as follows:

- **Retail and wholesale:** E-commerce has a number of applications in retail and wholesale. E-retailing or on-line retailing is the selling of goods from Business-to-Consumer through electronic stores that are designed using the electronic catalog and shopping cart model.
- Cybermall is a single Website that offers different products and services at one Internet location. It attracts the customer and the seller into one virtual space through a Web browser.
- **Marketing:** Data collection about customer behavior, preferences, needs and buying patterns is possible through Web and E-commerce. This helps marketing activities such as price fixation, negotiation, product feature enhancement and relationship with the customer.
- **Finance:** Financial companies are using E-commerce to a large extent. Customers can check the balances of their savings and loan accounts, transfer money to their other account and pay their bill through on-line banking or **E-banking**.
- **Manufacturing:** E-commerce is also used in the **supply chain operations** of a company. Some companies form an electronic exchange by providing together buy and sell goods, trade market information and run back office information such as inventory control.

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- This speeds up the flow of raw material and finished goods among the members of the business community.
- **Auctions:** Customer-to-Customer E-commerce is direct selling of goods and services among customers. It also includes **electronic auctions** that involve bidding.
- Bidding is a special type of auction that allows prospective buyers to bid for an item. For example, airline companies give the customer an opportunity to quote the price for a seat on a specific route on the specified date and time.
- **Electronic Tickets:** E-commerce is also used to buy railway reservation tickets, movie tickets, airline tickets online.

Difference Between traditional commerce and Electronic commerce

Traditional Commerce:- The merchant use traditional business model for selling products to customer.

- They use bricks and mortar business model for selling products to the customer.
- Brick-and-mortar businesses are companies that have a physical presence and offer face-to-face customer experiences.
- They have not adopted online platform for their business process including marketing, selling, planning and other activities.
- They use mostly paper based documents for business activities.

Electronic Commerce:- The merchant use electronic medium for selling products to customer.

- They use bricks and clicks business model for selling product to the customer.
- Bricks and Click business are companies that have physical presence and also online marketplace for selling products.
- They have adopted online website for their business process and other activities.
- They also used pure click model for online shopping for customer.
- They use latest technologies for selling products to its customer including electronic payment system, electronic data interchange, internet marketing.

Distribution Channels:

- E-commerce has grown in importance as companies have adopted pure-click and brick-and-click channel systems. We can distinguish pure-click and brick-and-click channel system adopted by companies.
- Pure-click or pure play companies are those that have launched a website without any previous existence as a firm.

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- Bricks-and-clicks companies are those existing companies that have added an online site for e-commerce.
- Click-to-brick online retailers that later open physical locations to supplement their online efforts.

Products that best suited for electronic commerce:

Business processes that are well-suited for electronic commerce:

- Sale/purchase of new books and CDs
- Online delivery of software
- Advertising and promotion of travel services
- Online tracking of shipments

Products that best suited for traditional commerce:

Business processes that are well-suited to traditional commerce:

- Sale/purchase of high fashion clothing
- Sale/purchase of perishable food products
- Sale of expensive jewelry and antiques

- In general, products that buyers prefer to touch, smell, or otherwise closely examine are difficult to sell using e-commerce.

Combination of Both:

Some business processes can be handled well using a combination of electronic and traditional methods:

- Sale/purchase of automobiles
- Online banking
- Sale/purchase of investment/insurance products

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Pure v/s Partial E-Commerce:

- Three dimension to focus :
 1. The product and service sold.
 2. The process for selling these products.
 3. The delivery agents.

- **Pure E-commerce:-** All dimension are digital .
- Pure E-Commerce concerns business whose transactions are largely carried out on the Internet.

Ex. You buy an E-book from eBay. The product is digital , the process for selling product is also online and the delivery of product(E-book) is also online medium. E-book is downloaded to your computer.

Ex. You reserve an online railway tickets from website.

- **Partial E-commerce:-** All other possibilities include a mix of digital and physical dimension.

Ex. You buy a laptop or mobile from online shopping website.

The product that are selling through online medium, but delivered physically by post.

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Model of E-Commerce or Classification of E- Commerce based on transaction parties.

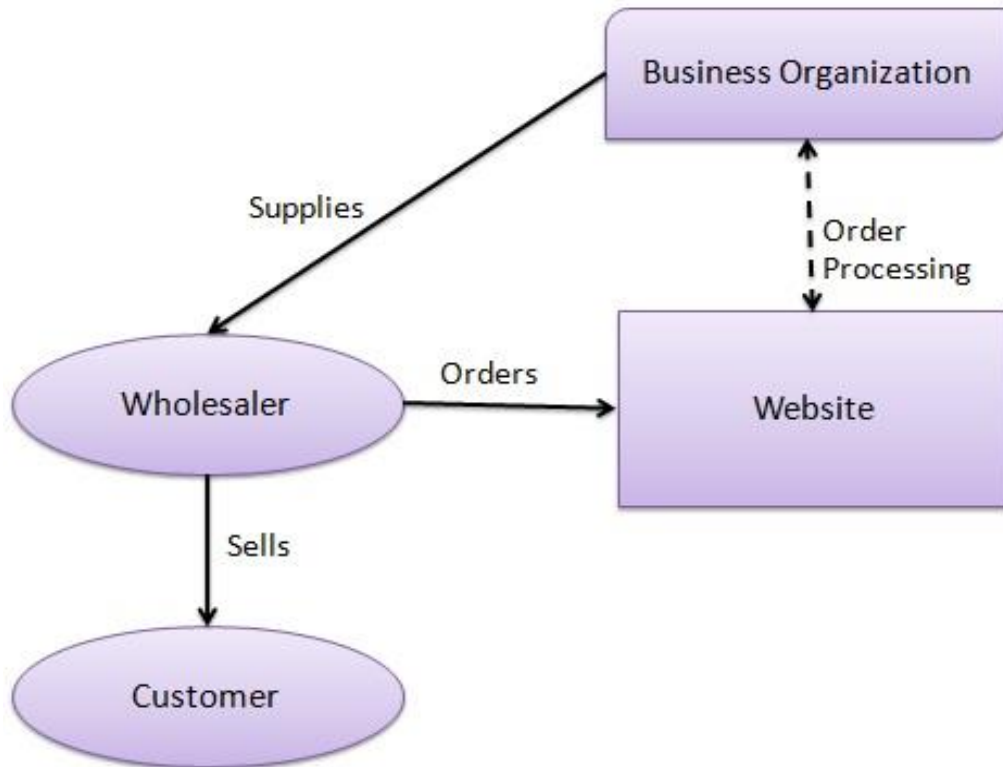
- There are mainly five model of E-Commerce.

1. **B2B (Business to Business)**
2. **B2C(Business to consumer)**
3. **C2B(Consumer to Business)**
4. **C2C(Consumer to Consumer)**
5. **B2G(Business to Government)**

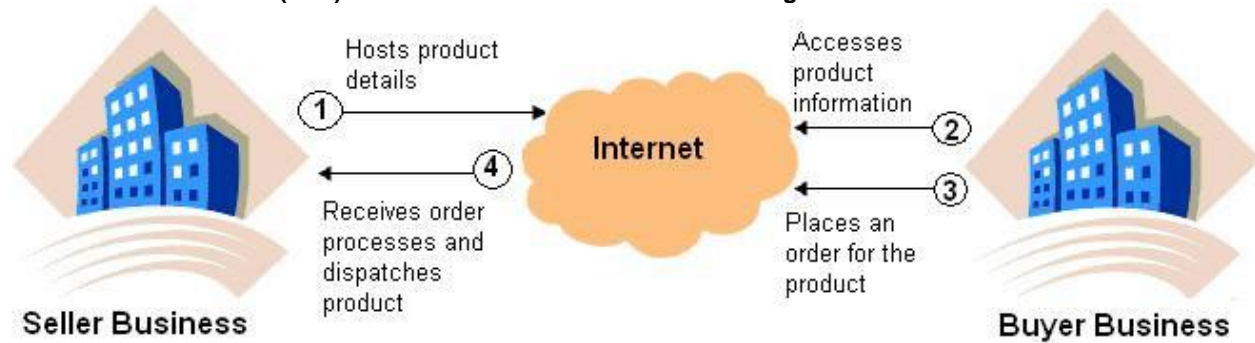
1. **Business to Business:-** Business-to-Business e-commerce hold electronic transactions between businesses.

- Business-to-business (B2B) describes commercial transactions between businesses, such as between a manufacturer and a wholesaler, or between a wholesaler and a retailer.
- The overall volume of B2B (Business-to-Business) transactions is much higher than the volume of B2C transactions.
- The primary reason for this is that in a typical supply chain there will be many B2B transactions involving sub components or raw materials, and only one B2C transaction, specifically sale of the finished product to the end customer.
- For example, an automobile manufacturer makes several B2B transactions such as buying tires, glass for windscreens, and rubber hoses for its vehicles. The final transaction, a finished vehicle sold to the consumer, is a single (B2C) transaction.
- Website following B2B business model sells its product to an intermediate buyer(wholesaler) who then sells the product to the final customer.
- As an example, a wholesaler places an order from a company's website and after receiving the consignment, sells the end product to final customer who comes to buy the product at wholesaler's retail outlet.
- Example of B2B www.indiamart.com, www.grainger.com
- Grainger.com sells industrial supplies to large and small businesses through its website.

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Business-to-Business- (B2B) E-commerce online businesses selling to other businesses.

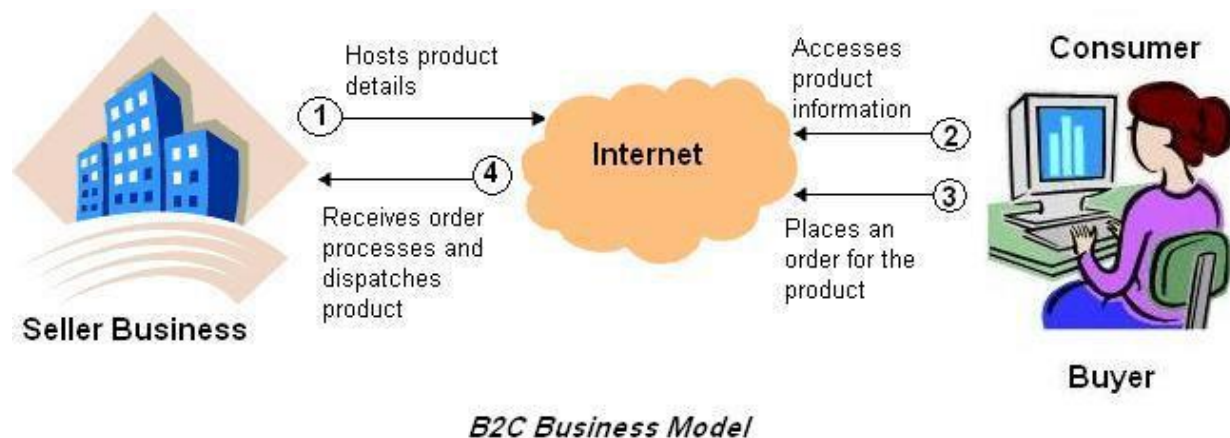
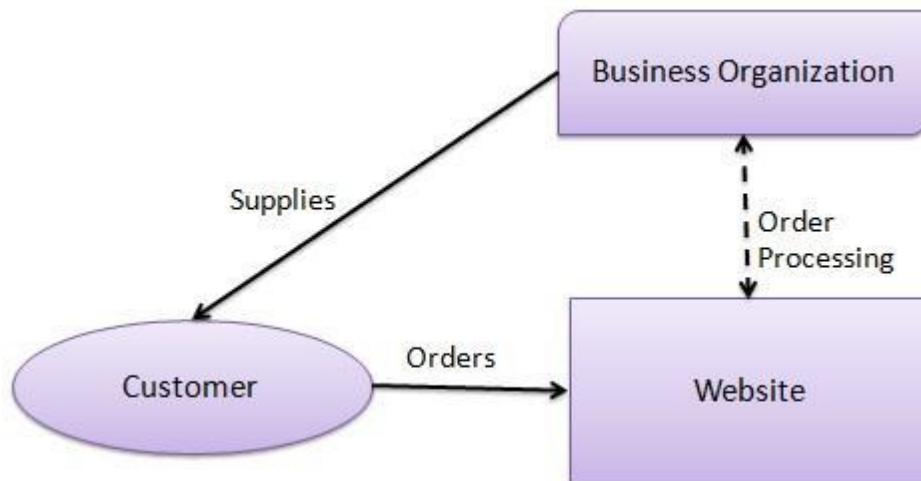


B2B Business Model

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Business - to - Consumer (B2C):-

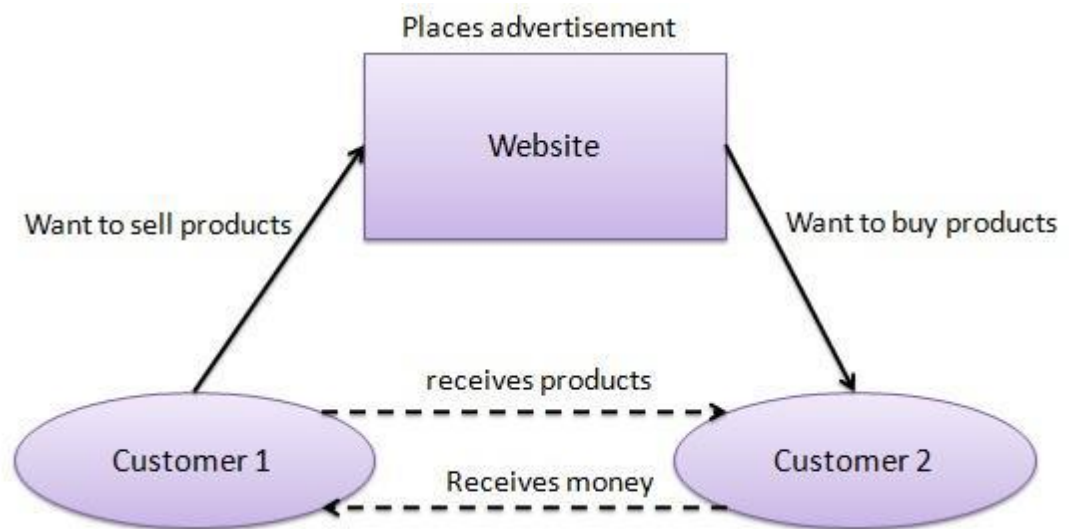
- In B2C model the Business organization sell the product or services directly to customer online.
- Website following B2C business model sells its product directly to a customer. A customer can view products shown on the website of business organization.
- The Customer can choose a product and order the same.
- Website will send a notification to the business organization via email and organization will dispatch the product to customer.
- EX. www.flipkart.com www.amazon.com



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Consumer - to - Consumer (C2C) :-

- In C2C business model consumer can buy and sell product to each other.
 - Website following C2C business model helps consumer to sell their assets like residential property, cars, motorcycles etc. by publishing their information on the website.
 - Website may or may not charge the consumer for its services.
 - Another consumer may opt to buy the product of the first customer by viewing the post/advertisement on the website.
- Ex. OLX, Quicker, ebay.com



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Consumer-to-Business (C2B) Model:-

- The C2B model involves a transaction that is conducted between a consumer and a business Organization.
- It is similar to the B2C model, however, the difference is that in this case the consumer is the seller and the business organization is the buyer.
- In this kind of a transaction, the consumers decide the price of a particular product rather than the supplier. www.freelancer.com
- This category includes individuals who sell products and services to organizations.
- For example, www.monster.com is a Web site on which a consumer can post his bio-data for the services he can offer. Any business organization that is interested in deploying the services of the consumer can contact him and then employ him, if suitable. www.monster.com
- Let us look at another example of the C2B model. Jack needs to buy an airline ticket for his journey from New York to New Jersey. Jack needs to travel immediately. Therefore, he searches a Web site for a ticket. The Web site offers bidding facility to people who want to buy tickets immediately. On the Web site, Jack quotes the highest price and gets the ticket.
- Consumer-to-business (C2B) is a business model in which consumers (individuals) create value and businesses consume that value. For example, when a consumer writes reviews or when a consumer gives a useful idea for new product development then that consumer is creating value for the business if the business adopts the input.
- Ex- a photographer or designer offering stock images to companies by selling his artwork through website to business. www.istockphoto.com

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Business to Government (B2G):-

- In B2G the transaction are done between business parties and Government.
- B2G model that refers to businesses selling product,service or information to governments or Government agencies.
- B2G network or models provide a way for businesses to bid on government projects or products that government might purchase for their organization.
- B2G activities are conducted via the internet through real time bidding.
- B2G also referred to as public sector marketing.
- Ex.- online tender from government agencies. www.nprocure.com

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Driving Force of E-Commerce:-

Market and Economic Pressures

1. Strong competition: Now competitions the part of any business and companies are implementing new techniques every day to bear their competitors. E-Commerce is one of the tools of recent days, which is adopted by the companies.

2. Global Economy: In Present Scenario world becomes a global village and there are standard patters in market for business, so every country must follow these norms. There is huge gap between the growth rate of developed and developing nation, so more and more developed nations are investing in every part of world. E-Commerce is the need of such a scenario.

3. Extremely Low Labour Cost in Some Countries: Now this the common feature of business that companies are having manufacturing units in one are of the world and the same products is marketed in other part of the world. Definitely some medium is required to maintain it and e commerce is providing such medium.

4. Frequent Changes in Market demands: As we discussed above that the age of techolnology so any change which takes place in part of the world, rapidly reflects every where so e-commerce it the tool which is necessary to sustain in present fast changing world.

5. Increase Expectation of Consumers: The expectation of consumers about quality and services are very high, so it works like driving force for e-commerce.

6. Awareness Among Consumers: Awareness Among Consumers: Now consumers are well aware. Internet, print media and electronic media keep update the consumers about new products and their rates.

Societal And Environmental Pressures

1. Government Regulations: Every country have its own rules and regulations but now a days almost every country have well defined cyber laws which provides a right environment for the e commerce.

2. Reductions in Government subsidies: Now world is very open, some countries provides lot of rebate in tax and in other forms to do business. But some other countries reducing the soaps for business. E-commerce provides the opportunity to take these challenges.

3. Rapid Political Changes: Whenever government changes n any country there are some changes in guidelines and polices towards the business. It is also work as driving force for the e-commerce.

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Technological Pressures

Rapid Technological Changes: Technology is the factor, which provides e-commerce an opportunity to become and perfect solution for business.

New Technologies: New and secure technology available in the market, which provides an easy, cheap and secure platform for the e-commerce.

Information Overload: By using e-commerce we can easily efficiently manage information about the product and other business related things. This is a cheap and secure medium for managing important information.

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Advantage of E-Commerce (Benefits of E-Commerce)

- **E-Commerce advantages can be broadly classified in three major categories:**
- **Advantages to Organizations**
- **Advantages to Consumers**
- **Advantages to Society**

Advantages to Organizations

- Using E-Commerce, organization can expand their market to national and international markets with minimum capital investment. An organization can easily locate more customers, best suppliers and suitable business partners across the globe.
- E-Commerce helps organization to reduce the cost to create process, distribute, retrieve and manage the paper based information by digitizing the information.
- E-commerce improves the brand image of the company.
- E-commerce helps organization to provide better customer services.
- E-Commerce helps to simplify the business processes and make them faster and efficient.
- E-Commerce reduces paper work a lot.
- E-Commerce increased the productivity of the organization.

Advantages to Customers

- 24x7 support. Customer can do transactions for the product or enquiry about any product/services provided by a company any time, any where from any location. Here 24x7 refers to 24 hours of each seven days of a week.
- E-Commerce application provides user more options and quicker delivery of products.
- E-Commerce application provides user more options to compare and select the cheaper and better option.

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- A customer can put review comments about a product and can see what others are buying or see the review comments of other customers before making a final buy.
- E-Commerce provides option of virtual auctions.
- Readily available information. A customer can see the relevant detailed information within seconds rather than waiting for days or weeks.
- E-Commerce increases competition among the organizations and as result organizations provides substantial discounts to customers.

Advantages to Society

- Customers need not to travel to shop a product thus less traffic on road and low air pollution.
- E-Commerce helps reducing cost of products so less affluent people can also afford the products.
- E-Commerce has enabled access to services and products to rural areas as well which are otherwise not available to them.
- E-Commerce helps government to deliver public services like health care, education, social services at reduced cost and in improved way.

E-Commerce Disadvantages

E-Commerce disadvantages can be broadly classified in two major categories:

- Technical disadvantages
- Non-Technical disadvantages

Technical Disadvantages

- There can be lack of system security, reliability or standards owing to poor implementation of e-Commerce.
- Software development industry is still evolving and keeps changing rapidly.
- In many countries, network bandwidth might cause an issue as there is insufficient telecommunication bandwidth available.

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- Special types of web server or other software might be required by the vendor setting the e-commerce environment apart from network servers.
- Sometimes, it becomes difficult to integrate E-Commerce software or website with the existing application or databases.
- There could be software/hardware compatibility issue as some E-Commerce software may be incompatible with some operating system or any other component.

Non-Technical Disadvantages

- Initial cost: The cost of creating / building E-Commerce application in-house may be very high. There could be delay in launching the E-Commerce application due to mistakes, lack of experience.
- User resistance: User may not trust the site being unknown faceless seller. Such mistrust makes it difficult to make user switch from physical stores to online/virtual stores.
- Security/ Privacy: Difficult to ensure security or privacy on online transactions.
- Lack of touch or feel of products during online shopping.
- E-Commerce applications are still evolving and changing rapidly.
- Internet access is still not cheaper and is inconvenient to use for many potential customers like one living in remote villages.

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E-Commerce model based on transaction (Revenue models).

- **Revenue model**:-Revenue model describe how the business will generate profit and produce a return on invested capital.
- Types of revenue models:
 1. **Advertising revenue model**
 2. **Subscription revenue model**
 3. **Transaction fee revenue model**
 4. **Sales revenue model**
 5. **Advertising-subscription mixed model**
 6. **Info-mediary model**

1. Advertising revenue model:-

- Web site that offers content, services and/or products also provides a forum for advertisements and receives fees from advertisers.
- Companies charge other for allowing them to place a banner on their website.
- By creating significant traffic, these e-businesses are able to charge advertisers for putting banner ads on their sites.
- Ex. web portal –yahoo, google.com
- Newspaper publisher -online newspaper use advertising for revenue generation.
- Targeted classified advertising website. Ex- monster.com.

2. Subscription revenue model:-

- Web site that offers users content or services charges a subscription fee for access to some or all of its offerings.
- An e-business might sell digital products to its customers, by using this model.
- Companies charge a monthly ,six monthly or yearly subscription fee for access the contents or service. Ex- Online music download, Online game, video download.

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- Ex.-Apple itunes for music ,microsoft xboxlive.com for online game.

3. Transaction fee revenue model:-

- Company that receives a fee for enabling or executing a transaction.
- Business offer services for which they charge a fee that is based on the Number or size of transaction they process.
- Ex. Travel agents. –Travel agent earn commission on each airplane ticket ,hotel reservation they book.
- These commission are paid to the travel agent by the transportation Provider. Ex – www.expedia.com

4. Sales Revenue model:-

- Company derives revenue by selling goods, information, or services to customers.
- Ex- www.amazon.com
- Amazon.com is a good example of this type.
- Amazon.com utilizes the services and technologies offered by the Web to sell products and services directly to the consumers.
- By offering good customer service and reasonable prices, these companies establish a brand on the Web.
- These companies eliminate the middleman by generating a portion of their total sale over the Web and by accessing difficult-to-reach customers.

5. Advertising –subscription mixed model:-

- This model generates revenue both from advertising and subscriptions.
- Ex- The New York Times and The Wall Street Journal use a Mixed advertising –subscription model.
- They use advertising and subscription for revenue generation.

6. Info-mediary model:-

- E-businesses that use this model collect information on consumers and businesses and then sell this information to interested parties for marketing purposes.
- For instance, bizrate.com collect information related to the performance of other sites and sells this information to advertisers. www.bizrate.com