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Final Report

Introduction to E-Business

The positive impact of E-commerce in
developing economies

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Abstract

In recent years the rise of electronic commerce and internet related businesses has made a significant impact on the economy of larger developed countries such as China and the USA. With the rise in internet use and social media influence, businesses have moved many activities online or have even outsourced to other international companies. E-Commerce has also positively impacted businesses in developing countries by allowing them to gain access to a larger consumer market. In addition to the benefits to companies, E-commerce has positively influenced developing nations by means of job creation and an increase in International trade.

This paper explores the positive impacts of E-commerce on smaller developing economies.

Keywords: App, B2B, B2C, E-Commerce, ITC, Online transaction, Social Media.

1. Introduction

In the 21st century the rise of the internet has made a significant impact on both individuals and society as a whole. The internet has not only changed the way we communicate and interact with friends and family but also the way we conduct business.

With the rise in the use of the internet and internet based services, a vast number of businesses have transferred many of their activities online. In the last two decades the increase in the use and development of Electronic Commerce from here on referred to as E-Commerce is evident in developed countries due to the fact that developing countries lack the necessary infrastructure to take full advantage of the internet ^[1]. However with time developing countries can take a leap forward by skipping some of the stages in the development of information technology through which developed countries have had to pass ^[3].

Online business transactions allow businesses to gain access markets that were once out of their reach. By using the readily available social media platforms businesses can advertise and market their goods and services to a wider consumer base. Businesses may utilize the internet to contact suppliers or even outsource some of their commercial activities to other local or international

businesses thus saving time and money. Additionally the use of online transactions may reduce the need of physical infrastructure which in the long run saves resources.

This paper proceeds as follows. Following chapter provides an overview of E-Commerce, the models and applications. In chapter 3 we examine E-Commerce benefits to the customer. In chapter 4 we discuss the impact of E-Commerce on business enterprises. Chapter 5 examines the economic benefits and employment opportunities fostered by Electronic Commerce. Finally the concluding remarks.

2. E-commerce

E-Commerce may be defined simply as the activity of buying or selling of products and services through the use of the internet. When we consider the term E-Commerce, the first thing that may come to mind is online shopping and companies such as Alibaba, Amazon and eBay however E-Commerce is not limited to online retailing. Modern E-Commerce encompasses the use of the internet to conduct commercial activities (The trading of goods and services) for at least one part of the transaction's life cycle, thereby facilitating online retailing, electronic markets, group purchasing, online auctions and other online services^[2].

E-Commerce is normally classified by two common methods: they are by the types of Products traded and the nature of the participants. When considering the products traded E-Commerce can be broken down to three distinct categories:

- **Physical Products-** These are tangible items such as: Clothes, food Items, furniture, hardcopy books and house hold appliances. These products are shipped to the customer or the customer may decide to pick up the item at a location of their convenience.
- **Digital Products-** Intangible products such as: e-books, music, text, images, video(movies) and software
- **Services-** These are services done online which may include: Accounting services, booking of tickets online, online banking and online bill payment.

The other method of classifying E-Commerce is by the nature of the participants which consists of six different categories:

- **Business-to-Business (B2B):** In this model, both participants are businesses, which may be mainly bulk purchasing of products or a manufacturer purchasing raw materials to use them to create their own products. B2B relationships may also be one business obtaining services from another example a law firm obtaining accounting services from an accounting firm.
- **Business-to-Consumer (B2C):** This is where businesses conduct transactions directly with customers, when most people hear "E-Commerce," they think of B2C. Examples are companies like Amazon, Taobao and other online retailers. B2C may also include services such as bill payments and booking tickets online.
- **Consumer-to-Business (C2B):** In this model customers may advertise their requirements for a product or service and allow businesses to bid to win the project. A common example would be a customer contacting multiple construction companies about building a house.
- **Consumer-to-Consumer (C2C):** A perfect example is eBay, a popular platform for enabling consumers to sell to other consumers. Because eBay is a business, this model may also be called C2B2C—consumer-to-business to-consumer. Still, the primary function of eBay is to connect consumers directly.
- **Business-to-Administration (B2A):** In this model "Administration" relates to government entities. Governments may require products or services from an online business.
- **Consumer-to-Administration (C2A):** This model is a form of E-Government where consumers can use electronic means to make payments or file tax returns.

E-Commerce business models may be in the form of a completely online business or a brick and mortar store with an E-Commerce website, commonly referred to as "Bricks and clicks". There are instances where customers may choose to transact entirely online or pay online and visit the store to physically pick up the product, this called Online to Offline (O2O) examples include Apple, DELL and KFC.

3. Impact on Consumers

One of the major factors of customers choosing to purchase a product is the cost, in a study conducted by Brynjolfsson and Smith found prices for books and CDs on average to be about 10 per cent lower on the Internet compared with traditional retailers in the United States^[4]. Items bought online are often cheaper than those purchases in traditional retail stores. The reduction in the cost of the product may be a direct or indirect result of the reduced cost of online retailing as compared to traditional stores.

Customers will be able to enjoy better support on purchases by using the online platform provided by businesses, these include better product specifications, after sales support and troubleshooting assistance can all be provided online. Additionally customers can also provide feedback to businesses on products and services which can be used by other customers when making a decision on a purchase.

E-Commerce also provides customers with an ease of doing business, instead of standing in line for a long time to pay a utility bill or obtain banking services these can all be done online freeing up customers' time. Additionally obtaining government services such as applying for licenses and permits can also be done online.

Social media has made it possible for customers to share links and recommendations to products. Online shopping has become a social event which gave the rise to group buying. Group buying, Groupon or Tuán Gòu 团购 which originated in China is when products and services are sold at significantly reduced prices on the condition that a minimum number of buyers would make the purchase^[10].

4. The Impact on businesses

Reduced cost of products and services are another benefit brought on by ecommerce, as stores move online the need for large commercial space for conducting business is rendered obsolete. As stores move online business can save on the cost of purchasing or renting of retail outlets. An additional savings may be due to the reduction of staff and electric energy needed to operate an online retail store. E-commerce technologies also cut transaction costs by allowing both manufactures and consumers to skip through the intermediaries ^[11].

Online transactions are one of the key factors in E-Commerce; by using the internet sellers can actively advertise and market their products using social media to potential customers thus reducing the significance of geographic proximity and traditional business networks ^[5]. Additionally the internet effectively opens markets that were previously closed; this may be considered as another form of trade liberalization. This proves that E-Commerce enables businesses in developing countries to extend their reach outside their domestic markets and participate in the international market. This will not only lead to a larger consumer base but also provide businesses with the means of easy access to raw materials from potential suppliers ^[3].

There is a common saying that: “The customer is always right” and most business aim to please their customers, therefore by providing good quality online customer support business can thereby satisfy and retain more customers ^[12].

Social media in recent years have made a significant impact on businesses in terms of advertising, marketing and online retail. Business will usually place links on their social media pages to their E-Commerce platform to conveniently redirect potential customers to make a purchase or view products which they may purchase in the future. Additionally Many E-Commerce platforms may include an option to share the link to a product to social media platforms where customers can recommend products to their friends.

5. Economic Impact

There are several studies which have suggested that trade also stimulates internet use. For example, a study suggests that the extent to which a country is integrated into the global economy can play a role in its access to IT ^[6]. However after careful contemplation of recent global trends I would suggest that the extent to which a country has access to and its use of ICT will determine its role in the global economy.

E-Commerce also encourages the need for employment in the ITC industry. Jobs such as software development and Database management are very popular since they are required to create and maintain the digital infrastructure essential for E-Commerce. Additional employment can be created in the fields of courier services and social media marketing fostering a need for independent contractors.

(Nuray) states that, "E-commerce will also have a significant impact on trade in services. The most relevant change in trade in services is E-commerce's and ICT's ability to make non-tradable services into tradable. Activities that were previously non-tradable (i.e. research and development, computing, inventory management, quality control, accounting, personnel management, marketing, advertising and distribution) will be traded through the use of E-commerce". This enables companies that mainly offer services may advertise and offer services to potential customers on the international market.

The potential benefits from international E-Commerce to a developing country arise from a reduction in the cost of imports as much as from an increase in the price received for exports. Even if a country does not export any services, it can benefit from imports of services, paying for them in terms of goods. Cheaper availability of medical, engineering and architectural services, long-distance learning and reduced costs of transactions can confer benefits even if the country does not immediately export the services traded through Internet ^[3].

"Productivity may be increased not only in the information and communication producing sectors but in sectors of the economy that do not produce information and communications technology" (Nuray). The use of the internet can make the process of initiating and doing trade a lot easier, faster, and less expensive. Collecting information is a costly activity when it involves

acquiring information across international borders. In fact, these costs can be so high that they can be considered a substantial barrier to trade. Finding the right supplier, specifying the product's requirements and quality, negotiating the price, arranging deliveries and marketing products is also very costly. With the use of E-Commerce these activities can occur without having both buyers and sellers in close physical proximity. In this respect, the internet will likely promote trade much in the same way as lifting other trade barriers would thereby creating an increase in the volume of international trade^[3].

Conclusion

The internet is quickly opening new opportunities for everyone to participate in the global economy, businesses, consumers and developing countries can all benefit from those opportunities. It is essential for developing nations to embrace the internet and the new trends of conducting business.

In this new age and new economy ITC has become a main production factor, innovation and development in technical areas will have a major impact in sustainable economic development. The rise of internet based services and E-Commerce has the potential to foster immense growth to developing economies in terms of employment, ICT development, service industries and volume of international trade. It is imperative that governments of smaller developing nations with limited resources acknowledge the benefits related to productivity and efficiency generated by E-Commerce.

The benefits of E-Commerce on the economy will play a key role in developing nations becoming competitive on the international market. I hereby conclude by saying that it is crucial that governments take an active role in fostering the development of the digital economy, ignoring this rare opportunity at this crucial time would be detrimental to productivity and economic development.

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