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What Is E-Commerce? An Introduction to the Industry

April 4, 2020 by [James Morrish](#) [7 Comments](#)

The term e-commerce was coined back in the 1960s, with the rise of electronic commerce – the buying and selling of goods through the transmission of data – which was made possible by the introduction of the electronic data interchange. Fast forward fifty years and **e-commerce has changed the way in which society sells goods and services.**

E-commerce has become one of the **most popular methods of making money online** and an attractive opportunity for investors. For those interested in [buying an e-commerce business](#), this article serves to provide an introduction to e-commerce, covering **the reasons for its popularity**, the **main distribution models** and a **comparison of the major e-commerce platforms** available.

If you are interested in valuing or selling an e-commerce business, please take a look at our [How to Value and Sell and E-Commerce Business](#) article.



What is E-Commerce?

'E-commerce' and 'online shopping' are often used interchangeably but at its core e-commerce is much broader than this – it **embodies a concept for doing business online**, incorporating a multitude of different services e.g. **making online payments, booking flights etc.**

E-commerce has **experienced rapid growth since its humble beginnings** with e-commerce sales projected to [grow to 599.2 billion USD by 2024](#). The COVID-19 outbreak saw e-commerce sales spike 25% in March 2020 alone. The power of e-commerce should not be underestimated as it continues to pervade everyday life and present significant **opportunities** for small, medium, and large businesses and online investors. You don't need to look far to see the potential of e-commerce businesses. [Amazon](#), for example, which set the standard for customer-orientated websites as well as a lean supply chain, is selling [over 4000 items a minute](#) from SMBs alone.

Why Do People Buy 'Online'?

1. **Lower Prices:** Managing an online storefront is **far cheaper than an offline, brick and mortar store**. Typically **less staff are required** to manage an online shop as web-based management systems enable owners to **automate inventory management** and warehousing is not necessarily required (as we discuss later). As such, e-commerce business owners **can afford to pass operational cost savings on to consumers** (in the form of product or service

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able to shop around, typically purchasing from online outlets instead.

2. **Accessibility and Convenience:** Unlike many offline stores, consumers can access e-commerce websites 24 hours a day. Customers can read about services, browse products and place orders whenever they wish. In that sense, online shopping is **extremely convenient and gives the consumer more control**. Furthermore, those living in more remote areas are able to order from their home at a touch of a button, saving them time travelling to a shopping centre.
3. **Wider Choice:** For the past twenty years, the growth of online shopping has to a large extent been based around increased choice. With an almost endless choice of brands and products to choose from, consumers are **not limited by the availability of specific products** in their local town, city or country. **Items can be sourced and shipped globally**. Interestingly, one recent study found that consumers are actually starting to become frustrated by [e-commerce sites that offer too much choice](#). Whichever way you look at it though, more choice has likely been a good thing over the long term.

Naturally e-commerce has **significant benefits for the consumer**, but it has also been useful for businesses too. Next, we look at some of the reasons **why businesses have been quick to race into the space**.



Why Do Businesses Sell ‘Online’?

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often significantly reduced or otherwise eliminated. Further, customer service and other administrative tasks can be automated or outsourced at a relatively low-cost. As such, **higher margins can usually be achieved when selling via an online store** compared to operating an offline business.

2. **Scalability:** With a brick and mortar business, the owner is often limited by the amount of people who can physically be in the store at any one time. There is **no limit when trading online**. Running an e-commerce business means **tapping into a truly global market**. Furthermore, online platforms enable rapid scaling. With the **emergence of social media and content marketing** as well as the option of generating traffic and conversions through **pay-per-click (PPC)**, expanding into new regions or markets can happen quickly. A great example of this in practice is [Choxi](#), a business that experienced [1,023% growth in revenue](#) in just one year.
3. **Consumer Insight / Technology:** E-commerce businesses typically collate a tremendous amount of customer data. With every element of consumer behavior being tracked, e-commerce business owners are able to **understand, tweak and improve the customer shopping experience** for customers – making **data-led decisions to increase conversion rates and sales**. With technology rapidly evolving, it is important that online retailers use tools such as Google Analytics correctly **to understand their customers' buying habits**, unlocking **insight from this data presents a unique advantage, not available to offline stores**. Those who leverage the right systems and technology can see their businesses grow extremely quickly.

Having understood the benefits of running an e-commerce business, it's time to turn attention towards the **different types of e-commerce businesses available**.

Overview of E-Commerce Fulfilment Models

There are **three main fulfillment models** associated with e-commerce that dictate the role of the retailer as well as the way in which a product is stored and distributed to the end-user. These models have a **significant impact on the operational characteristics of the business** and its day-to-day running as well as the overall operating margin. The three main models are:

1. Dropshipping Model

In a dropshipping model, the e-commerce business takes **no physical possession of the items on sale**. The store owner does not keep products in stock and there is no inventory held. Instead, orders are **sent directly to the manufacturer**, who is responsible for storing the items and shipping them to the customer. In this sense, [the merchant never sees or touches](#) the products, which has some unique advantages over adopting a more traditional order fulfillment model.

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Buying wholesale is arguably closest to the traditional offline retail model. In effect, the business owner (retailer) **acquires stock directly from a wholesaler** at a discounted rate, applies a margin onto each product and decides to deliver to consumers directly.

Benefits of Dropshipping vs. Traditional Order Fulfilment:

- **Eliminates Inventory Risk:** One of the biggest drawbacks of running an offline retail business or a non-dropship e-commerce business is the fact that generally speaking inventory has to be acquired upfront. Naturally, buying stock costs money and with **no 100% guarantee of being able to sell it**, there is an inherent risk to the business owner. Drop-shipping however, **does not generally require any upfront investment** in inventory.
- **Less Time / Lower Ongoing Costs:** Shipping products requires a certain amount of owner and staff time. **Time will be required to not only order stock but manage it**, ensuring optimal stock control at all times to avoid turning away orders, all of which can be avoided with a drop-shipping model. Instead, the owner can be free to use this time to **manage the overall strategy of the business** and to ensure sales objectives are being met.
- **Product Flexibility:** If dropshipping, as a retailer, you have the flexibility to **try out new product lines in your online store** and sales channels which enables business owners to 'go to market' more quickly – an attractive proposition if looking to secure market share for a unique e-commerce value proposition.

Whilst there are numerous advantages to the drop-shipping model, there are also **some drawbacks that require careful consideration:**

Benefits of Traditional Order Fulfilment vs. Dropshipping Model:

- **Lower Cost of Goods Sold (COGS):** It is well-documented that a **stocking retailer pays less than a drop-shipping retailer** for the same stock-keeping unit (SKU). As such, e-commerce business owners should look to weigh up the potential for fixed cost savings against the impact of a reduced margin on each SKU sold. Further, when scaling a drop-ship e-commerce business, the business tends **not to benefit from economies of scale**, in the same way that a non-drop ship business would. The marginal costs of employing a drop-ship model are the same whether 100 products or 10,000 products are sold.
- **Inventory Management:** Naturally, being in control of stock control allows you to **know when you are running out and need to reorder** in order to fulfil customer demand at that particular point in time. Running a drop-shipping business means **high reliance on suppliers**, who have to be relied upon to uphold inventory best practice and communicate their inventory levels in a timely manner.

products are likely to occur and this is **your responsibility, as the merchant to adequately resolve**. Further, the choice of suppliers who drop-ship can be limited, reducing the scope to potentially diversify your product offering (from the outset and in the future). If adopting a traditional model, you can set delivery standards and design all elements of customer service.

3. Outsourced Fulfilment Model

The retailer may wish to market products from a supplier that does not provide a dropshipping service. If the retailer wants to avoid end-to-end fulfilment (like the traditional model), then a **hybrid approach** can be adopted – using a ‘**fulfilment house**’. In this model, companies such as [Shipwire](#) are commissioned to handle the product side of the business, on behalf of the retailer. Generally, speaking, they are **responsible for collecting products from the supplier, holding the product at their distribution centers, all packaging as well as onward order fulfilment** (to the customer). This service comes at a cost – minimum fees, return fees and setup fees are commonplace and should be fully weighed up beforehand.

Dropshipping vs. Traditional Order Fulfilment Summary

Dropshipping is a great option to have, particularly when starting out with an e-commerce business. Cash flow management is easier and there is a **reduced burden on the workforce** associated with fulfilment. That said, wholesale offers the **longer-term benefits of higher margins** and allows greater scope for building a truly differentiated brand. If a product is high-margin, an outsourced fulfilment route is possible, but should be fully evaluated.

Overview of E-commerce Platforms

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platform is important; it will determine the basic customer experience, checkout process and the day-to-day management of orders etc.

To begin with, a decision needs to be made between a **hosted or custom installation**. Going down a 'hosted' route means that the **hosting provider is responsible for maintenance of the hardware** in their own data center. A **custom installation** will mean **acquiring your own hardware**. Both have practical implications for the owner, we have detailed some considerations below.

A Comparison: Hosted vs. Custom Installation

- **Technical Support:** Hosted carts do not require technical knowledge, **you do not have to be a technical expert**. As part of the monthly subscription, hosted companies will provide **24-hour technical support** (if anything goes wrong). A custom installation will require either yourself or a technical developer to be at hand to resolve any issues that may arise, as the site is self-hosted. This can be **costly in terms of fees** (if you are not technical) particularly if there is any site downtime that leads to a loss in e-commerce sales. As a site owner, if you are able to do the **maintenance and back-end development yourself**, a custom installation should be fine.
- **Customization and Features:** Hosted carts are generally **very feature-rich** and will have a large roadmap of features and upgrades to improve user experience on-site, analytics etc. over time. This is all **included in the monthly subscription**. That said, hosted platforms do **cater for a huge number of customers** and only popular features are likely to be released. If you need a lot of customization or a specific feature set, it may be worth going down a custom route. A custom site has many advantages, including **complete control and personalization of the buying experience**. A hosted template on the other hand, may not offer the experience that you are looking for. If **budget is restricted** and a relatively standard check out process is required, a hosted solution should be fine.

- **Mobile-friendly:** By 2022, global mobile data traffic will reach an [annual rate of 77.6 exabytes per month](#) (up from 19.01 in 2018). In most countries (including the US), **smartphones represent more mobile transactions than tablets**. For e-commerce, this is a big shift and it is **important to be mobile-optimized and mobile-friendly** to ensure the best possible user experience. Hosted solutions such as Shopify come with **'responsive' themes** enabling a great look on mobile and tablet devices. If self-hosting for the benefit of customization and extension, ensure that you speak to your developer about the implications from a mobile-readiness standpoint.
- **Cost:** Hosted solutions provide extremely **high performance for a relatively low-cost monthly cost**. If looking to self-host, a custom installation will require a **one-time fee** for installation and you will need to source and manage the hardware and infrastructure which could be very expensive. Over time however, the total monthly fee for some platforms **can equal the cost of paying for a self-hosted platform**. As such, it is worth weighing up the other trade-offs rather than basing the decision purely on cost.

It is important to remember that if a **self-hosted solution is preferable, shopping carts can be switched**. Businesses sitting on out-dated self-hosted installations can be moved over to hosted carts at a relatively low-cost (depending on level of complexity, number of integrations). Further, it is important to **plan ahead and research** when deciding on which route to take – hosted may make sense now, but as the business grows self-hosted could make more sense.

Considering a Provider

Having decided on the relative **merits of growing the business via a hosted vs. self-hosted route**, there are plenty of options available in terms of solution providers. We recently [assessed a number](#)

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Self-Hosted Carts:

- [Magento](#)
- [OpenCart](#)
- [Zen Cart](#)
- [X-Cart](#)

Hosted Carts:

- [Shopify](#)
- [BigCommerce](#)
- [Volusion](#)

If more information is required, there are a number of articles written on the subject that cover [platform comparisons in more detail](#).

Key areas of focus should include:

- Pricing
- Platform Speed
- Storage Space
- Relative Cost of Templates
- Blog Functionality
- Shopping and Marketing Features
- Back-end and Security Features
- Help and Support

Having a **broad idea of your requirements** for each of the items listed above is an important aspect of deciding whether to re-platform. Platform choice will depend on the business in question and specific goals. It is worth spending some time **detailing specific requirements out, in order to speed up the process**.

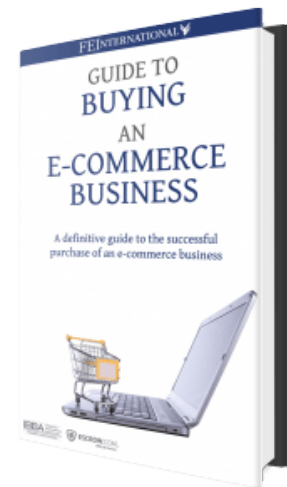
Conclusion

E-commerce has **grown rapidly and changed significantly** over the years, as such there is plenty for buyers, investors and entrepreneurs to be mindful of. **Understanding different fulfilment models, as well as the pros and cons of different platforms**, is critical when evaluating potential e-commerce businesses for sale.

Business - FREE Course

Combining more than **ten years of experience**, this free e-mail course contains all of the information you need to **master the profitable world of buying an e-commerce business**.

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James Morrish

James is an Executive Broker at FE International. Starting out in management consulting in 2011, James worked with a range of technology majors before making the move into website brokerage in 2014. At FE International, James is responsible for small cap deals, liaising and building relationships with buyers as well on-boarding new clients.

Comments

Ashley McDonald says

[November 4, 2015 at 9:56 am](#)

Hey James! Just a quick one, do you have any tips for using GA to improve customer shopping experience? This is an area I have little experience in.

Thanks,

Ashley McDonald

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James Morrish says

[November 4, 2015 at 3:00 pm](#)

Hi Ashley,

Yes, there are lots of ways of using GA to your advantage.

I'd start by looking at purchase pathways; identifying where your potential customers are dropping off the site.

Google have a great guide that talks to this subject well.

Thanks,

James

[Reply](#)

Anna says

[November 4, 2015 at 11:58 am](#)

Wow, what a great review! 😊

[Reply](#)

James Morrish says

[November 4, 2015 at 3:01 pm](#)

Thanks Anna – very kind of you!

James

[Reply](#)

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Tom Bevan says

[November 5, 2015 at 1:57 pm](#)

James

Thanks for this, very useful!

Owning an e-commerce business is the way forward!

Thanks!

Tom 😊

[Reply](#)

James Morrish says

[November 5, 2015 at 3:01 pm](#)

Hi Tom,

For some, owning an e-commerce business can be rewarding and highly lucrative experience.

Have you heard of FBA? This is another model of selling products online that would no doubt be of interest to you.

Thanks,

James

[Reply](#)

Huw C says

[November 5, 2015 at 2:58 pm](#)

Thank you FEI!

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