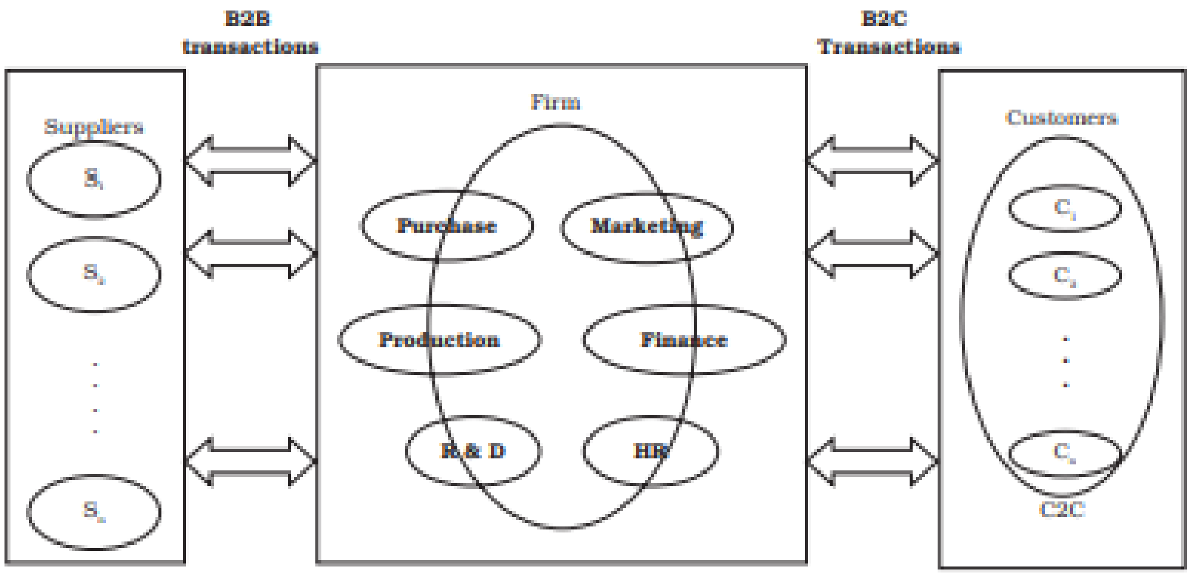
E-Commerce

E-Commerce is the buying and selling of products and services by businesses and consumers through an electronic medium, without using any paper documents. E-commerce is widely considered the buying and selling of products over the internet, but any transaction that is completed solely through electronic measures can be considered e-commerce.

Scope of E-Commerce

1. B2B Commerce: Here, both the parties involved in e-commerce transactions are business firms, and, hence the name B2B, i.e., business-to business. Creation of utilities or delivering value requires a business to interact with a number of other business firms which may be suppliers or vendors of diverse inputs; or else they may be a part of the channel through which a firm distributes its products to the consumers.
2. B2C Commerce: As the name implies, B2C (business-to-customers) transactions have business firms at one end and its customers on the other end. Although, what comes to one's mind instantaneously is online shopping, it must be appreciated that 'selling' is the outcome of the marketing process. And, marketing begins well before a product is offered for sale and continues even after the product has been sold. For example, the manufacture of an automobile requires assembly of many components which in turn are being manufactured elsewhere— within the vicinity of the automobile factory or even overseas. To reduce dependence on a single supplier, the automobile factory has to cultivate more than one vendor for each of the components. A network of computers is used for placing orders, monitoring production and delivery of components, and making payments.
3. Intra-B Commerce: Here, parties involved in the electronic transactions are from within a given business firm, hence, the name intra-B commerce. As noted earlier too, one critical difference between e-commerce and e-business is that, e-commerce comprises a business firm's interaction with its suppliers, and distributors/other business firms (hence, the name B2B) and customers (B2C) over the internet. While e-business is a much wider term and includes the use of intranet for managing interactions and dealings among various departments and persons within a firm.
4. C2C Commerce: Here, the business originates from the consumer and the ultimate destination is also consumers, thus the name C2C commerce. This type of commerce is best suited for dealing in goods for which there is no established market mechanism, for example, selling used books or clothes either on cash or barter basis. The vast space of the internet allows persons to globally search for potential buyers.



Intra-firm
B transactions

Benefits of E-Commerce

1. Ease of formation and lower investment requirements: Unlike a host of procedural requirements for setting up an industry, e-business is relatively easy to start. The benefits of internet technology accrue to big or small business alike.
2. Convenience: Internet offers the convenience of '24 hours × 7 days a week × 365 days' a year business that allows customers to go for shopping well after midnight. Such flexibility is available even to the organizational personnel whereby they can do work from wherever they are, and whenever they may want to do it.
3. Speed: As already noted, much of the buying or selling involves exchange of information that internet allows at the click of a mouse. This benefit becomes all the more attractive in the case of information-intensive products such as software, movies, music, e-books and journals that can even be delivered online.
4. Global reach/access: Internet is truly without boundaries. On the one hand, it allows the seller an access to the global market; on the other hand, it affords to the buyer a freedom to choose products from almost any part of the world. It would not be an exaggeration to say that in the absence of internet, globalization would have been considerably restricted in scope and speed.
5. Movement towards a paperless society: Use of internet has considerably reduced dependence on paperwork and the attendant 'red tape.' Even the government departments and regulatory authorities are increasingly moving in this direction whereby they allow electronic filing of returns and reports

Limitations of E-Commerce

1. Low personal touch: High-tech it may be, e-business, however, lacks warmth of interpersonal interactions. To this extent, it is relatively less suitable mode of business in respect of product categories requiring high personal touch such as garments, toiletries, etc.
2. Incongruence between order taking/giving and order fulfilment speed: Information can flow at the click of a mouse, but the physical delivery of the product takes time. This incongruence may play on the patience of the customers. At times, due to technical reasons, web sites take unusually long time to open. This may further frustrate the user.
3. Need for technology capability and competence of parties to e-business: e-business requires a high degree of familiarity of the parties with the world of computers. And, this requirement is responsible for what is known as digital divide, that is the division of society based on familiarity and non-familiarity with digital technology.
4. Increased risk due to anonymity and non-traceability of parties: Internet transactions occur between cyber personalities. As such, it becomes difficult to establish the identity of the parties.
5. People resistance: The process of adjustment to new technology and new way of doing things causes stress and a sense of insecurity. As a result, people may resist an organization's plans of entry into e-business.

Resources Needed for Implementation of E-Commerce

Setting up of any business requires money, men and machines (hardware). For e-business, you require additional resources for developing, operating, maintaining and enhancing a website where 'site' means location and 'web' means world wide web (www). Simply speaking, a website is a firm's location on the world wide web. Obviously, website is not a physical location. Rather, it is an online embodiment of all the content that a firm may like to provide to others.

Differences between Traditional and E-Business

Basis	**Traditional Business**	**E-Business**
Ease of formation	Difficult	Simple
Physical presence	Required	Not required
Locational requirements	Proximity to source of raw materials or market for products	None
Cost of establishment	High	Low due to requirement of physical facilities
Operating cost	High due to fixed charges associated with investment in fixed assets	Low as reliance is on network than ownership of resources
Nature of contract with suppliers and customers	Indirect through intermediaries	Direct
Nature of internal communication	Hierarchical - from top level management to middle to low level management to operatives	Non-hierarchical allowing direct vertical, horizontal and diagonal communication.
Response time for meeting customers / internal requirements	Long	Instantaneous
Shape of organizational structure	Vertical / tall due to chain of command	Horizontal / flat due to directness of command and communication
Business processes and length of cycle	Sequential precedence – successon relationship. Purchase – production / operation – marketing – sales. Cycle is longer	Simultaneous different processes and cycle is shorter
Inter-personal touch	More	Less
Opportunity for physical pre-sampling of products	Much more	Less for tangible goods but music, books and software can be sampled online
Ease of going global	Less	Cyberspace has no boundaries
Government patronage	Shrinking	Increasing, due to IT sector being top priority
Nature of human capital	Semi-skilled and unskilled manpower	Technically and professionally qualified manpower
Transaction risk	Low due to face to face contact	High due to distance and anonymity of the parties

Online Transactions

An online transaction, also known as a PIN-debit transaction, is a password-protected payment method that authorizes a transfer of funds over an electronic funds transfer (EFT)

1. Registration: Before online shopping, one must register with the online vendor by filling-up a registration form. Registration means that you have an 'account' with the online vendor.
2. Placing an order: You can pick and drop the items in the shopping cart. Shopping cart is an online record of what you have picked up while browsing the online store.
3. Payment mechanism: Payment for the purchases through online shopping may be done in several ways:
    a) Cash-on Delivery (CoD): As is clear from the name, payment for the goods ordered online may be made in cash at the time of physical delivery of goods.
    b) Cheque: Alternatively, the online vendor may arrange for the pickup of the cheque from the customer's end. Upon realization, the delivery of goods may be made.
    c) Net-banking Transfer: Modern banks provide to their customers the facility of electronic transfer of funds over the net. In this case, therefore, the buyer may transfer the amount for the agreed price of the transaction to the account of the online vendor who may, then, proceed to arrange for the delivery of goods.
    d) Credit or Debit Cards: Popularly referred to as 'plastic money,' these cards are the most widely used medium for online transactions. In fact, about 95 per cent of online consumer transactions are executed with a credit card. Credit card allows its holder to make purchase on credit. The amount due from the card holder to the online seller is assumed by the card issuing bank, who later transfers the amount involved in the transaction to the credit of the seller.
    e) Digital Cash: This is a form of electronic currency that exists only in cyberspace. This type of currency has no real physical properties but offers the ability to use real currency in an electronic format.

Security of Online Transactions

E-commerce Security is a part of the Information Security framework and is specifically applied to the components that affect e-commerce that include Computer Security, Data security and other wider realms of the Information Security framework. E-commerce security has its own nuances and is one of the highest visible security components that affect the end user through their daily payment interaction with business. The “E-commerce” term refers to online payment transaction between Businesses to Consumer (B2C), or between Businesses to Business (B2B).

1. Transaction risks: Online transactions are vulnerable to the following types of transaction risks:
   a) Seller denies that the customer ever placed the order or the customer denies that he ever placed the order. This may be referred to as ‘default on order taking/giving.’
   b) The intended delivery does not take place, goods are delivered at wrong address, or goods other than ordered may be delivered. This may be regarded as ‘default on delivery’.
   c) Seller does not get the payment for the goods supplied whereas the customer claims that the payment was made. This may be referred to as ‘default on payment’.
   d) As for the payments, we have already seen that in almost 95 per cent of the cases people use credit cards for their online purchases. At the time of confirming the order, the buyer is required to furnish the details such as the card number, card issuer and card validity online. For protecting the credit card details from being misused, shopping malls these days use the encryption technology such as Netscape’s Secure Sockets Layer (SSL).
2. Data storage and transmission risks: Information is power indeed. But think for a moment if the power goes into the wrong hands. Data stored in the systems and en-route is exposed to a number of risks. Vital information may be stolen or modified to pursue some selfish motives or simply for fun/ adventure.

Meaning of Outsourcing

Outsourcing

Outsourcing is the contracting out of an internal business process to a third-party organization. The term "outsourcing" became popular in the United States near the turn of the 21st century. Outsourcing sometimes involves transferring employees and assets from one firm to another, but not always.

Scope of Outsourcing

1) Business process outsourcing (BPO): is a subset of outsourcing that involves the contracting of the operations and responsibilities of specific business functions (or processes) to a third-party service provider. BPO is typically categorized into back office outsourcing - which includes internal business functions such as human resources or finance and accounting, and front office outsourcing - which includes customer-related services such as contact center services.

2) Knowledge process outsourcing (KPO): describes the outsourcing of core information-related business activities which are competitively important or form an integral part of a company's value chain. KPO requires advanced analytical and technical skills as well as a high degree of specialist expertise. Reasons behind KPO include an increase in specialized knowledge and expertise, additional value creation, the potential for cost reductions, and a shortage of skilled labor. Regions which are particularly prominent in Knowledge Process Outsourcing include India and Eastern Europe.

Need for Outsourcing

Companies outsource to avoid certain types of costs.

1. Housekeeping is a core activity: for a hotel. In other words, depending upon what business a company is in, there will be some activities that are central and critical to its basic business purpose.
2. Quest for excellence: You are aware of the benefits of division of labour and specialization. Outsourcing enables the firms to pursue excellence in two ways. One, they excel themselves in the activities that they can do the best by limited focus.
3. Cost reduction: Global competitiveness necessitates not only global quality, but also global competitive pricing. As the prices turn southwards due to competitive pressures, the only way to survival and profitability is cost reduction. Division of labour and specialization, besides improving quality, reduces cost too.
4. Growth through alliance: To the extent you can avail of the services of others, your investment requirements are reduced, others have invested in those activities for you.
5. Boost to economic development: Outsourcing, more so offshore outsourcing, stimulates entrepreneurship, employment, and exports in the host countries (i.e., the countries from where outsourcing is done). In India in the IT sector alone, for example, there has been such a tremendous growth of entrepreneurship, employment, and exports that today we are the undisputed leaders as far as global outsourcing in software development and IT-enabled services are concerned.

Features of Outsourcing

1. Outsourcing involves contracting out: Literally, outsourcing means to source from outside what you have hitherto been doing in-house. For example, most companies have so far appointed their own sanitation staff for maintaining neatness, cleanliness, and overall housekeeping of their premises
2. Generally non-core business activities are outsourced: Sanitation and housekeeping functions are noncore for most organizations. Of course, for municipalities and sanitations services providers, these activities comprise the core of their business activity. Housekeeping is a core activity for a hotel. In other words, depending upon what business a company is in, there will be some activities that are central and critical to its basic business purpose.
3. Processes may be outsourced to a captive unit or a third party: Think of a large multinational corporation that deals in diverse products and markets them to many countries. Many processes such as recruitment, selection, training, record, and payroll (Human Resources), management of accounts receivable and accounts payable (accounting and finance), customer support/grievance handling /troubleshooting (marketing) are common to all its subsidiaries operating in different countries.

Concerns over Outsourcing

(i) Confidentiality: Outsourcing depends on sharing a lot of vital information and knowledge. If the outsourcing partner does not preserve the confidentiality, and, say, for example, passes it on to competitors, it can harm the interest of the party that outsources its processes.

(ii) Sweat-shopping: As the firms that outsource seek to lower their costs, they try to get maximum benefit from the low-cost manpower of the host countries. Moreover, it is observed that whether in the manufacturing sector or the IT-sector, what is outsourced is the kind of components or work that does not much build the competency and capability of the outsourcing partner beyond the skills needed to comply with a rigidly prescribed procedure/ method

(iii) Ethical concerns: Think of a shoe company that, to cut costs, outsources manufacturing to a developing country where they use child labour/women in the factories. Back home, the company cannot do so due to stringent laws forbidding use of child labour. Is cost cutting by using child labour in countries where it is not outlawed or where the laws are 'weak', ethical?

(iv) Resentment in the home countries: During contracting out manufacturing, marketing, Research and Development or IT-based services, what is ultimately contracted out is 'employment' or jobs. This may cause resentment back in the home country (i.e., the country from which the job is being sourced out) particularly if the home country is suffering from the problem of unemployment.