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Chapter 5

Emerging Modes of Business

E-BUSINESS

E-business may be defined as the conduct of industry, trade and commerce using the computer networks.

E-business versus e-commerce: Though, many a times, the terms e-business and e-commerce are used interchangeably, yet more precise definitions would distinguish between the two. E-business is a more elaborate term and comprises various business transactions and functions conducted electronically, including the more popular gamut of transactions called 'e-commerce.' e-commerce covers a firm's interactions with its customers and suppliers over the internet.

SCOPE OF E-BUSINESS

The scope of e-business is quite vast. Almost all types of business functions such as production, finance, marketing and personnel administration as well as managerial activities like planning, organising and controlling can be carried out over computer networks. The other way of looking at the scope of e-business is to examine it in terms of people or parties involved in electronic transactions.

Viewed from this perspective, a firm's electronic transactions and networks can be visualised as extending into three directions viz., (i) B2B which is a firm's interactions with other businesses, (ii) B2C i.e., a firm's interactions with its customers and (iii) intra-B or a firm's internal processes.

(i) B2B Commerce: Here, both the parties involved in e-commerce transactions are business firms, and, hence the name B2B, i.e., business-to-business (see Figure 5.1). Creation of utilities or delivering value requires a business to interact with a number of other business firms.

(ii) B2C Commerce: 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. B2C commerce, therefore, entails a wide gamut of marketing activities such as identifying activities, promotion and sometimes even delivery of products (e.g., music or films) that are carried out online.

(iii) Intra-B Commerce: Here, parties involved in the electronic transactions are from within a given business firm, hence, the name intra-B commerce. Use of computer networks makes it possible for the marketing department to interact constantly with the production department and get the customized products made as per the requirements of the individual customer.
In a similar vein, closer computer-based interactions among the other departments makes it possible for the firm to reap advantages of efficient inventory and cash management, greater utilisation of plant and machinery, effective handling of customers' orders, and effective human resource management.

(iv) 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.

An excellent example of this is found at eBay where consumers sell their goods and services to other consumers.

BENEFITS OF E-COMMERCE

1. Business Organisation:

(i) Expands the marketplace to national and international markets,

(ii) Gradual decline in the cost of operations,

(iii) Competitive advantage over competitors,

(iv) Small firms co-exist with big firms (win-win).

2. Benefits to Consumers and Society

(i) Flexibility,

(ii) Competitive price/discounts,

(iii) Customised products,

(iv) Quick and Timely delivery,

(v) Employment potential,

(vi) Interaction with consumers,

(vii) Wider outreach.

BENEFITS OF E-BUSINESS

(i) Ease of formation and lower investment requirements: **e-business is relatively easy to start. The benefits of internet technology accrue to big or small business alike.**

(ii) Convenience: **Internet offers the convenience of '24 hours × 7 days a week × 365 days' a year. E-business is truly a business as enabled and enhanced by electronics and offers the advantage of accessing anything, anywhere, anytime.**

(iii) Speed: **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 softwares, movies, music, e-books and journals that can even be delivered online.

(iv) 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.**

(v) Movement towards a paperless society: **Use of Internet has considerably reduced dependence on paperwork.**

LIMITATIONS OF E-BUSINESS

(i) Low personal touch: **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.**

(ii) 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. At times, due to technical reasons, web sites take unusually long time to open. This may further frustrate the user.**

(iii) Need for technology capability and competence of parties to e-business: **E-business requires a fairly high degree of familiarity of the parties with the world of computers.**

(iv) 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. Moreover, one does not know even the location from where the parties may be operating. It is riskier, therefore, transacting through internet.**

(v) 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 organisation's plans of entry into e-business.**

SOME E-BUSINESS APPLICATIONS

E-Procurement: It involves internet-based sales transactions between business firms. It is a digital marketplaces that facilitate online trading between multiple buyers and sellers.

E-Bidding/E-Auction: Most shopping sites have 'Quote your price' whereby you can bid for the goods and services. It also includes e-tendering whereby one may submit tender quotations online.

E-Communication/E-Promotion: Right from e-mail, it includes publication of online catalogues displaying images of goods, advertisement through banners, pop-ups, opinion poles and customer surveys, etc. Meetings and conferences may be held by the means of video conferencing.

E-Delivery: It includes electronic delivery of computer software, photographs, videos, books (e-books) and journals (e-journals) and other multimedia content to the user's computer. It also includes rendering of legal, accounting, medical, and other consulting services electronically.

E-Trading: It involves securities trading, that is online buying and selling of shares and other financial instruments.

ONLINE TRANSACTIONS

There are three stages involved in online transactions. Firstly, the pre-purchase/sale stage including advertising and information-seeking; secondly, the purchase/ sale stage comprised of steps such as price

negotiation, closing of purchase/ sales deal and payment; and thirdly, the delivery stage.
The information is exchanged in the traditional business mode too, but at severe time and cost constraints. Face-to-face interaction is a traditional business mode. Exchange of information through the telephone is also cumbersome. It requires simultaneous presence of both the parties for verbal exchange of information. Information can be transmitted by post too, but this again is quite a time consuming and expensive process. Internet comes in as the fourth channel which is free from most of the problems referred to above.

PROCESS OF ONLINE TRADING FROM A CUSTOMER'S STANDPOINT.

(i) Registration: **Before online shopping, one has to register with the online vendor by filling-up a registration form.**

(ii) 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. After being sure of what you want to buy, you can 'checkout' and choose your payment options.**

(iii) Payment mechanism: **Payment for the purchases through online shopping may be done in a number of ways:**

Cash-on Delivery (COD): **Payment for the goods ordered online may be made in cash at the time of physical delivery of goods.**

Cheque: **Alternatively, the online vendor may arrange for the pickup of the cheque from the customer's end. Upon realisation, the delivery of goods may be made.**

Net-banking Transfer: **Modern banks provide to their customers the facility of electronic transfer of funds over the Internet using Immediate Payment Services (IMPS), NEFT and RTGS.**

Credit or Debit Cards: Popularly referred to as 'plastic money,' these cards are the most widely used medium for online transactions.

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.

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.

- 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'.

- 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'.

Online transactions, unlike arm's length transactions in physical exchange, are prone to a number of risks. Risk refers to the probability of any mishappening that can result into financial, reputational or psychological losses to the parties involved in a transaction. Because of greater probability of such risks in the case of online transactions, security and safety issues becomes the most crucial concern in e-business. One may broadly discuss these issues under three headings: transaction risks, data storage and transmission risks, and threat to intellectual property and privacy risks.

(i) Transaction risks: Online transactions are vulnerable to the following types of transaction risks: locations and service records.

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. These details may be processed offline; and only after satisfying himself or herself about the availability of the credit limits, etc., the seller may go ahead

with the delivery of goods. Alternatively, e-commerce technology today permits even online processing of the credit card information. 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).

(ii) 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. 'virus' and 'hacking'. VIRUS means Vital Information Under Siege. Actually, virus is a program (a series of commands) which replicates itself on the other computer systems. Installing and timely updating anti-virus programmes and scanning the files and disks with them provides protection to your data files, folders and systems from virus attacks.

(iii) Risks of threat to intellectual property and privacy: Internet is an open space. Once the information is available over the internet, it moves out of the private domain. It then becomes difficult to protect it from being copied. Data furnished in the course of online transactions may be supplied to others who may start dumping a host of advertising and promotional literature into your e-mail box. These are Junk mails.

RESOURCES REQUIRED FOR SUCCESSFULE-BUSINESS IMPLEMENTATION

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.

OUTSOURCING: CONCEPT

Outsourcing refers to a long-term contracting out generally the non-core and of late even some of the core activities to captive or third party specialists with a view to benefitting from their experience, expertise, efficiency and, even investment.

(i) Outsourcing involves contracting out: Literally, outsourcing means to source from outside what you have hitherto been doing in-house.

(ii) Generally non-core business activities are outsourced: Depending upon what business a company is in, there will be some activities that are central and critical to its basic business purpose. Other activities may be regarded as secondary or incidental to fulfilling that basic purpose.

(iii) 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 a large number of countries. A number of 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. If these processes could be centralised and parcelled out to a business unit created especially for this purpose, this would result in avoidance of duplication of resources, realisation of efficiency and economy's performance of same activity on a large scale at one or a few select locations, thereby resulting in substantial reduction in costs. Clearly, therefore, if the task of performing some activity internally is sufficiently large, it may be beneficial for the firm to have a captive service provider, i.e., a service provider set up for providing services of a given kind to only one firm.

SCOPE OF OUTSOURCING

Outsourcing comprises four key segments: contract manufacturing, contract research, contract sales and informatics (see Figure 5.5). The term outsourcing has more popularly come to be associated with IT-enabled services or Business Process Outsourcing (BPO). In fact, even more popular term is 'call centres' providing customer-oriented voice based services. About 70 per cent of the BPO industry's revenue comes from call-centers, 20 per cent from high-volume, low-value data work and the remaining 10 per cent from higher-value information work. 'Customer Care' accounts for the bulk of the call centre activities with 24 hours × 7 days handling of in-bound (customer queries and grievances) and out-bound (customer surveys, payment follow-up and telemarketing) traffic.

NEED FOR OUTSOURCING

(i) Focusing of attention: Business firms are realising the usefulness of focusing on just a few areas where they have distinct capability or core competence, and contracting out the rest of the activities to their outsourcing partners. Such a way of delimiting the scope of business enables them to focus their attention and resources on select activities for better efficiency and effectiveness.

(ii) Quest for excellence: Outsourcing enables the firms to pursue excellence in two ways. One, they excel themselves in the activities that they can do the best by virtue of limited focus. And, they excel by extending their capabilities through contracting out the remaining activities to those who excel in performing them. In the quest for excellence, it is necessary not only to know what you would like to focus on, but also what you would like others to do for you.

(iii) Cost reduction: Global competitiveness necessitates not only global quality, but also global competitive pricing. This happens due to the economies of large scale accruing to the outsourcing partners as they deliver the same service to a number of organisations. Differences in prices of factors of production across the countries are also a factor contributing to cost reduction.

(iv) Growth through alliance: Apart from financial returns, outsourcing facilitates inter-organisational knowledge sharing and collaborative learning. Today outsourcing not only provide routine, non-core processes, but also seeking to benefit from outsourcing such strategic and core processes as Research and Development.

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.

(iii) Resentment in the home countries: In the course of 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 particularly if the home country is suffering from the problem of unemployment.