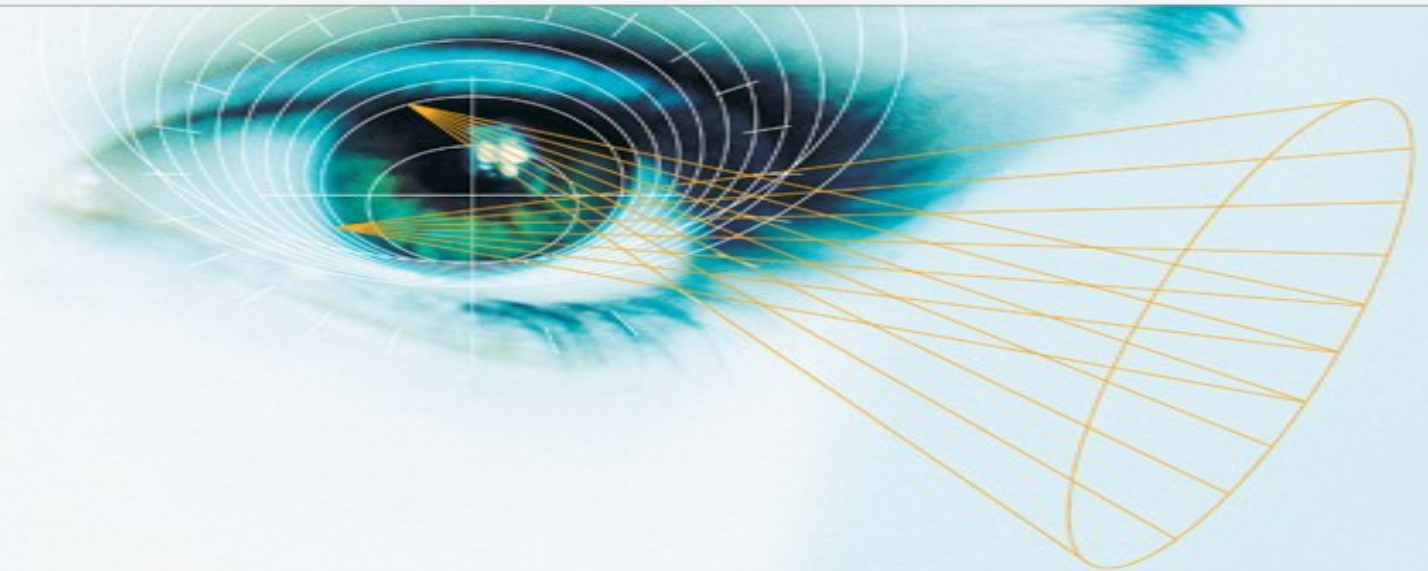


Chapter 5

ELECTRONIC COMMERCE

Strategies for the New Economy



> Management Information Systems

for the Information Age >>>

/// / Seventh Edition // / //

_Stephen Haag / Maeve Cummings

STUDENT LEARNING OUTCOMES

1. Define and describe the 9 major e-commerce business models.
2. Identify the differences and similarities among customers and their perception of value in B2B and B2C e-commerce.
3. Compare and contrast developing a marketing mix in B2B and B2C e-commerce.

STUDENT LEARNING OUTCOMES

1. Summarize ways of moving money in e-commerce and related issues.
2. Discuss major trends that are impacting both the e-commerce world and society in general.

WHAT'S REPLACING THE DAY AFTER THANKSGIVING FOR SHOPPING SALES?

- *Black Friday* is traditionally a big day for retailers
- It's when Christmas shoppers spend a lot of money, moving retailers out of the *red* and into the *black*
- But Black Friday may soon be replaced by Cyber Monday
- *Cyber Monday* is the Monday after Thanksgiving when people go back to work and buy products online

WHAT'S REPLACING THE DAY AFTER THANKSGIVING FOR SHOPPING SALES?

- The “e” in e-commerce changes a lot of things
- For example, Black Friday is a brick-and-mortar concept; Cyber Monday is an “e” (electronic) concept
- No matter, any kind of commerce is still just commerce
- And all businesses must execute well to survive and thrive

WHAT'S REPLACING THE DAY AFTER THANKSGIVING FOR SHOPPING SALES?

1. Do you shop for gifts online? If so, at what sites and for what occasions?
2. What's your take on people spending time at work to shop for personal items?
3. How can brick-and-mortar retailers take advantage of Cyber Monday?

INTRODUCTION

- E-commerce is changing everything
- ***Electronic commerce (e-commerce)*** – commerce, but it is commerce accelerated and enhanced by IT
 - Build powerful relationships with customers
 - Build powerful relationships with suppliers
 - Build powerful relationships with partners

INTRODUCTION

- But e-commerce is still commerce
- You must have a clear ***path-to-profitability (P2P)***, a formal business plan that outlines key business issues such as...
 - Customer targets
 - Marketing strategies
 - Operations strategies
 - Projected income statement and balance sheet targets

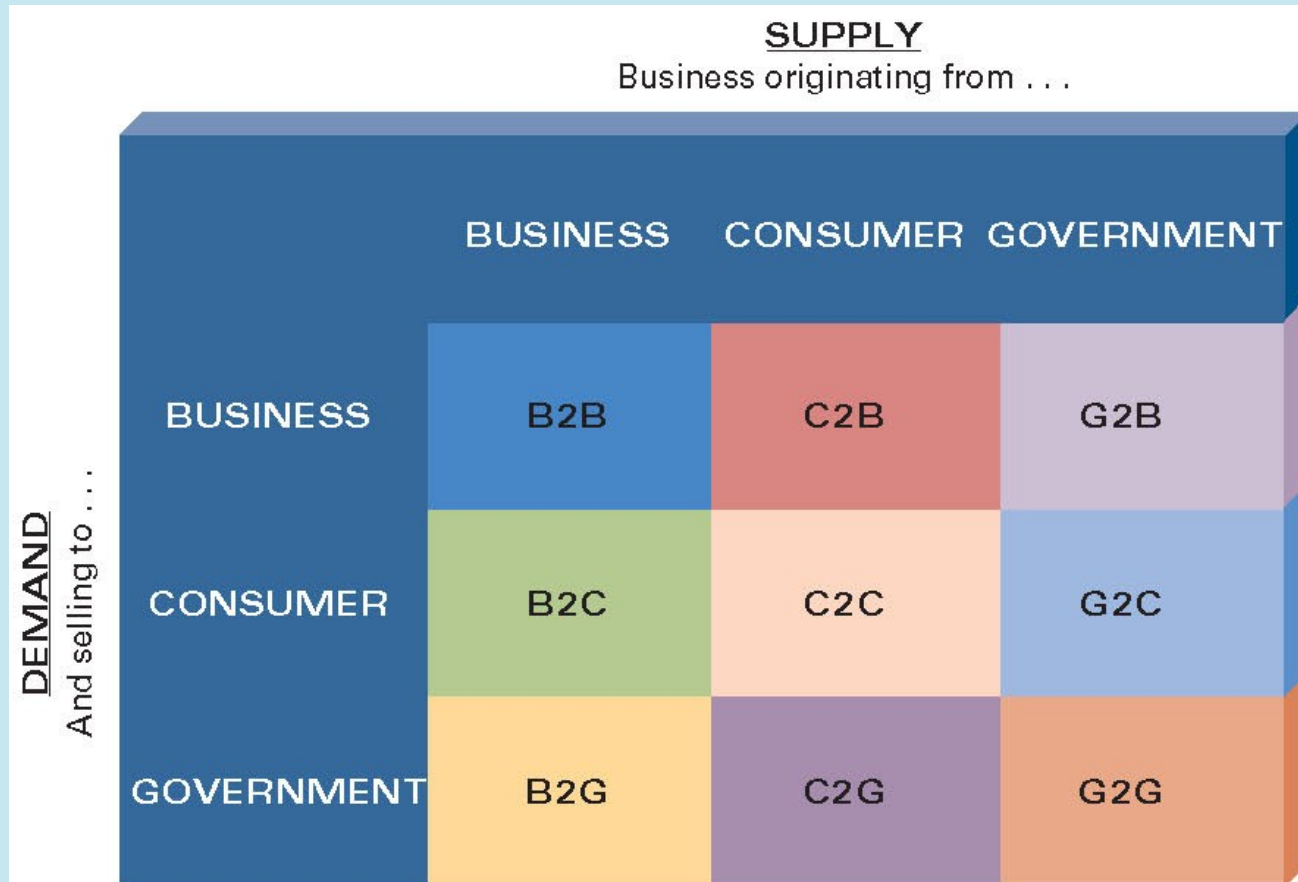
CHAPTER ORGANIZATION

1. E-Commerce Business Models
 - Learning outcome #1
2. Understand Your Business, Products, Services, and Customers
 - Learning outcome #2
3. Find Customers and Establish Relationships
 - Learning outcome #3

CHAPTER ORGANIZATION

1. Move Money Easily and Securely
 - Learning outcome #4
2. E-Business Trends
 - Learning outcome #5

E-COMMERCE BUSINESS MODELS



B2B E-Commerce

- ***Business to Business (B2B) e-commerce*** – when a business sells products and services to customers who are primarily other businesses
 - Where all the e-commerce money is
 - Basically, it's about businesses doing business with other businesses
 - Supply chain management (from Chapter 2) is a big part of B2B e-commerce

B2C E-Commerce

- ***Business to Consumer (B2C) e-commerce*** – when a business sells products and services to customers who are primarily individuals
 - B2C is the glitzy e-commerce like iTunes, eBay, etc
 - B2C is a primary focus of the later sections in this chapter

C2B E-Commerce

- ***Consumer to Business (C2B) e-commerce*** – when an individual sells products and services to a business
 - True economic inversion of the B2C model
 - Fotolia is a good example (www.fotolia.com)
 - There you can post photos and videos and businesses will pay you a royalty to use them (if they like what you offer)
 - You can also advertise businesses on your personal Web site (called an *affiliate program*) and receive monies for visitors who jump from your site to the business' Web sites

C2C E-Commerce

- ***Consumer to Consumer (C2C) e-commerce*** – when an individual sells products and services to another individual.
 - You selling to another person (or the reverse)
 - Usually occurs through an intermediary such as eBay

B2G E-Commerce

- ***Business to Government (B2G) e-commerce*** – when a business sells products and services to a government entity.
 - Lockheed providing products and services to DoD
 - Fairly large e-commerce model in terms of revenue
 - Most U.S. government entities (for sure at the federal level) won't do business with your business if you can't do it electronically

C2G E-Commerce

- ***Consumer to Government (C2G) e-commerce*** – when an individual sells products and services to a government entity
 - You selling something to the government
 - This market is quite small and unremarkable
 - Most times, “you” must register as a business before selling something to the government, which would then become B2G e-commerce

G2B E-Commerce

- ***Government to Business (G2B) e-commerce*** – when a government entity sells products and services to businesses
 - SBA providing surety guarantees, disaster assistance, ombudsmen, etc to small businesses
 - TSA holding auctions and selling off confiscated items (most times, you must be a “business” to participate in these auctions)
 - U.S. Geological Survey (DOI) selling detailed survey data to businesses

G2C E-Commerce

- ***Government to Consumer (G2C) e-commerce*** – e-commerce activities performed between a government and its citizens
 - Does not fit well at all within the traditional supply-and-demand e-commerce notion
 - Paying taxes, registering vehicles, etc

G2G E-Commerce

- **Government to Government (G2G) e-commerce**
 - e-commerce activities within a nation's government (can also refer to e-commerce activities between 2 or more nations' governments)
 - **Vertical govt integration** – e-commerce among agencies up and down federal and local levels
 - **Horizontal govt integration** – e-commerce among agencies within one level (e.g., federal)
- Mainly about information sharing, not commerce

UNDERSTAND YOUR BUSINESS, PRODUCTS, SERVICES, & CUSTOMERS

- To be successful, you must...
 - Define your products and services
 - Define your target customers
 - B2B (other businesses)
 - B2C (individuals)
 - Define your customers perception of the value of your products and services

Who Are Your Customers?

- Business to Business
 - Other businesses
- Business to Consumer
 - Individuals
- Each is different and has different needs and wants

Customer Product and Service Value Perception

Business to Consumer (B2C)	Business to Business (B2B)
<ul style="list-style-type: none">• Convenience—low-priced but something needed on a frequent basis	<ul style="list-style-type: none">• Maintenance, repair, and operations (MRO) materials—necessary items that do not relate directly to the company's primary business activities
<ul style="list-style-type: none">• Specialty—higher-priced, ordered on a less frequent basis, and often requiring customization	<ul style="list-style-type: none">• Direct materials—materials used in production in a manufacturing company or placed on the shelf for sale in a retail environment
<ul style="list-style-type: none">• Commoditylike—the same no matter where you buy it	
<ul style="list-style-type: none">• Digital—the best of all because of low cost of inventory and shipping	

B2C: Convenience Versus Specialty

- Convenience
 - Lower priced
 - Purchased frequently
 - Example: common food items
- Specialty
 - Higher priced
 - Purchased less frequently
 - Example: Stereos, computers

B2C: Commoditylike and Digital

- Commoditylike
 - Same no matter where you purchase it
 - Examples: books, music, movies
 - Price and ease of ordering are important
- Digital
 - Purchased and delivered over the Internet
 - Best product type for B2C e-commerce
 - Examples: Music, software

B2C: Mass Customization

- ***Mass customization*** – the ability of an organization to give its customers the opportunity to tailor its products or services
 - Dell – customized computer purchases
 - Apple iTunes – only the music you want (not necessarily the whole album)

B2B: MRO Versus Direct

- ***Maintenance, repair, and operations (MRO) materials (indirect materials)*** – materials necessary for running a company but do not relate to the company's primary business activities
 - Similar to convenience items in B2C
 - Office supplies, repair parts, lubricating oils

MRO Materials

- Buyers in B2B make large purchases
- Can then demand a discount (not true in B2C)
- Can team up with other buyers to create demand aggregation
- ***Demand aggregation*** – combining purchase requests from multiple buyers which justifies a larger discount

Direct Materials

- ***Direct materials*** – materials that are used in production in a manufacturing company or are placed on the shelf for sale in retail environments
 - Relate directly to a company's primary business activities
 - Quality, quantity, and delivery timing are important

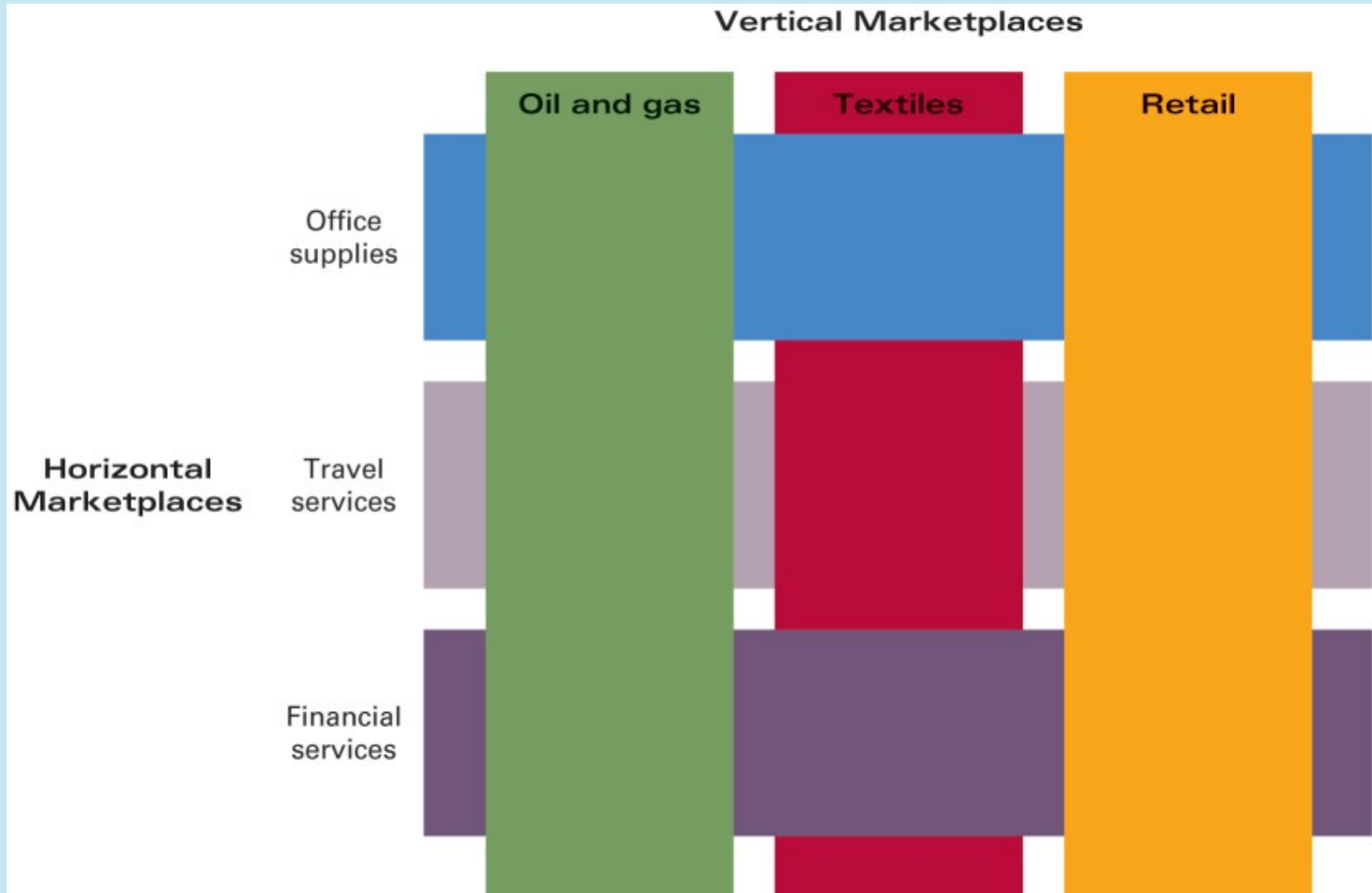
Direct Materials

- Buyers can participate in reverse auctions for direct materials
- **Reverse auction** – process in which a buyer posts its interests in buying items and sellers compete by submitting successively lower bids
 - The lowest bidder wins

B2B: Horizontal Versus Vertical

- B2B e-commerce takes advantage of e-marketplaces
- ***Electronic marketplace (e-marketplace)*** – interactive business providing a central market where multiple buyers and sellers can engage in e-commerce
 - Horizontal e-marketplaces
 - Vertical e-marketplaces

E-Marketplaces



Horizontal E-Marketplace

- ***Horizontal e-marketplace*** – connects buyers and sellers across many industries
 - Primarily for MRO materials
 - All industries need office supplies, travel, and the like

Vertical E-Marketplace

- ***Vertical e-marketplace*** – connects buyers and sellers in a given industry
 - Primarily for direct materials
 - Each industry has unique direct material needs
 - Covisint (www.covisint.com) – automotive
 - Many others

To Summarize

- B2C
 - Varying demographics and lifestyles
 - Convenience versus specialty products
 - Commoditylike and digital work best of all
 - Mass customization necessary in some instances

To Summarize

- B2B
 - MRO versus direct materials
 - Demand aggregation is present
 - E-marketplaces are vitally important
 - Horizontal (MRO materials mainly)
 - Vertical (direct materials mainly)

FIND CUSTOMERS AND ESTABLISH RELATIONSHIPS

- You must first find customers
- Then establish relationships
- Otherwise, you can't make a sale
- B2C and B2B techniques are very different

Business to Consumer

- Need to determine your marketing mix
- **Marketing mix** – set of marketing tools your organization will use to pursue its marketing objectives in reaching and attracting potential customers
 - There are many such tools for B2C

B2C Marketing Mix Tools

- Registering with search engines
- Online ads
- Viral marketing
- Affiliate programs

Registering with Search Engines

- Some search engines will list your site for free
- Others charge a fee
- For an additional fee, your site can appear at top of a search list (every time)

Online Ads

- **Online ads (banner ads)** – small advertisements that appear on other sites
- Two variations are:
 - **Pop-up ad** – small Web page advertisement that appears on your screen outside the current Web site
 - **Pop-under ad** – pop-up ad you do not see until you close your current browser window

Online Ads

port: Giambi failed amp...



MSN home | Hotmail | My MSN | Sign in

MLB GAMES - 05/23/2007MORE SCORES?SIGN INREGISTER

MIN @ TEX	TOR @ BAL	LAA @ DET	BOS @ NYY	PHI @ FLA	WAS @ CIN	SEA @ TB	NYM @ ATL	CLE @ KC	PIT @ STL	OKA @ CWS
2:05 ET	7:05 ET	7:05 ET	7:05 ET	7:05 ET	7:10 ET	7:10 ET	7:35 ET	8:10 ET	8:10 ET	8:11 ET

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Report: Giambi failed amphetamines test

Associated Press
Posted: 49 minutes ago

NEW YORK (AP) - [Jason Giambi](#) failed an amphetamines test within the last year, the Daily News reported Wednesday.

The newspaper reported that after the failed amphetamines test, Giambi is subjected to six additional tests for one year. The newspaper did not cite any sources in its report.

Giambi declined comment to the newspaper before the New York [Yankees](#) 7-3 loss to the Boston [Red Sox](#) on Tuesday night.

The [Yankees](#) slugger recently said in a USA Today interview that he was "probably tested more than anybody else."

Let him speak?

Jason Giambi seems like he wants to come clean, but baseball just wants him to stay quiet. Should they let him talk and face the steroids era head on? [Tell us your thoughts.](#)



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LowerMyBills.com

MLB NEWS

Banner ad for a loan lending services

Viral Marketing

- ***Viral marketing*** – encourages users of a product or service supplied by a B2C business to encourage friends to join in as well
 - Blue Mountain Arts (www.bluemountain.com)
 - Send a card
 - Card has link so the other person can send you a card back

Affiliate Programs

- ***Affiliate program*** – arrangement between two e-commerce sites that directs viewers from one site to another
 - If viewers buy at the second site, the second site pays a small fee to the first site
 - Usually a percentage of the sale

Affiliate Programs

- Click-throughs and conversion rates are important
- **Click-through** – count of the number of people who visit one site and use an ad to get to another
- **Conversion rate** – percentage of potential customers who actually buy something

Affiliate Programs

The screenshot shows the Amazon.com Associates program page. The browser window title is "Amazon.com - Microsoft Internet Explorer". The address bar shows a URL: <http://www.amazon.com/go/browse.html/103-6418752-5066222?node=3435371>. The page features a navigation bar with links like "amazon.com", "Your Store", "Make Money", "See All 31 Product Categories", "Your Account", "Cart", "Wish List", and "Help". Below this is a search bar and a "Web Search" button. The main content area is titled "Join Associates" and includes a "Member Sign-In" section with a "Log in" button. There is also a "Join Associates" section with a "Join now" button. The page provides information about the Amazon Associates program, including its history (starting in 1996) and its status as the largest online affiliate program. It lists three key points about how the program works: 1. Associates drive internet traffic to Amazon.com through specially formatted links. 2. Associates earn up to 10% in referral fees on all qualifying revenue made through their links. 3. We send quarterly payment to Associates. The page also mentions that once you join the program, you will have access to Associates Central, an extranet exclusive to Associates. It describes participation as easy and free, with three steps: 1. Complete the online application. 2. Create & post your links to Amazon.com using the Build Links tool in Associates Central. 3. Begin tracking your traffic and earnings reports online. Reports are updated daily. Finally, it provides more information about the program, including links to Compensation, Online Reporting, Link Types, Web Services, Current Associates, Vendors & Publishers, and Operating Agreement. At the bottom, it encourages users to start making money today by clicking a link for easy registration.

Amazon.com - Microsoft Internet Explorer

File Edit View Favorites Tools Help

Address <http://www.amazon.com/go/browse.html/103-6418752-5066222?node=3435371>

amazon.com Your Store Make Money See All 31 Product Categories Your Account Cart Wish List Help

Program Overview Marketplace Associates Advantage Web Services Paid Placements

Search Amazon.com GO

AP Web Search GO

Member Sign-In

Log in

Join Associates

Join now

Explore Associates

[Compensation](#)
[Online Reporting](#)
[Link Types](#)
[Web Services](#)
[Current Associates](#)
[Publishers & Vendors](#)

Join Associates

Already a member? [Sign-in here](#). Want to join? [Click here](#) for easy registration.

Starting in 1996, Amazon Associates program was the first online affiliate program of its kind. Today, it is the largest and most successful online affiliate program, with over 900,000 members joining world wide. If you are a Web site owner, Amazon seller, or Web Developer, you can start earning money today and earn up to 10% in referral fees.

How the Program Works

1. Associates drive internet traffic to Amazon.com through specially [formatted links](#) that allow us to track sales and other activity.
2. Associates earn [up to 10%](#) in referral fees on all qualifying revenue made through their links.
3. We send quarterly payment to Associates.

Once you [join the program](#), we will give you access to Associates Central, our extranet exclusive to our Associates. This is the place where you will build your links, view your [traffic and earnings reports](#), and read about the latest news and opportunities available to you through the program.

Participation is Easy and Free

1. Complete the [online application](#).
2. Create & post your links to Amazon.com using our Build Links tool in Associates Central.
3. Begin tracking your traffic and earnings reports online. Reports are updated daily

More Associates Information

[Compensation](#)
[Online Reporting](#)
[Link Types](#)
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[Current Associates](#)
[Vendors & Publishers](#)
[Operating Agreement](#)

Start making money today. [Click here](#) for easy registration.

Business to Business Marketing

- Much more personal
- Not usually done with generic ads designed for mass distribution
- Often take place in e-marketplaces

Business to Business Marketing

- Once a contact is made, the relationship must be established
- This often requires face-to-face meetings
- Must also integrate the IT systems to the supplier business and customer business

To Summarize

- B2C
 - Marketing mix drives customers to Web site
 - Search engines, online ads, viral marketing, and affiliate programs
 - Focus on conversion rates to measure success

To Summarize

- B2B
 - Frequently occurs in an e-marketplace
 - Requires establishing formal business relationship
 - Requires IT system integration
 - Doesn't include broad and generic marketing mix

MOVE MONEY EASILY & SECURELY

- In e-commerce, most money moves electronically
- Security becomes very important

B2C Payment Systems

- Credit cards
- Financial cybermediaries
- Electronic checks
- Electronic Bill Presentment and Payment
- Smart cards

Financial Cybermediaries

- ***Financial cybermediary*** – Internet-based company that makes it easy for one person to pay another person or organization over the Internet
 - PayPal (www.paypal.com) is the most well-known

Financial Cybermediaries

The screenshot displays the PayPal homepage as it appeared in the early 2000s. The browser window is titled "PayPal - Welcome - Microsoft Internet Explorer". The address bar shows "http://www.paypal.com/". The page features a blue header with the PayPal logo and links for "Sign Up", "Log In", and "Help". Below the header is a navigation bar with tabs for "Welcome", "Send Money", "Request Money", "Merchant Tools", and "Auction Tools".

The main content area is divided into several sections:

- Member Log-In:** Includes fields for "Email Address" and "Password", a "Log In" button, and links for "Forgot your email address?" and "Forgot your password?".
- Join PayPal Today:** States "Now over 71 million accounts" and includes a "Sign Up Now" button.
- Learn more about PayPal Worldwide:** Accompanied by a globe icon.
- The Fast Safe Way to Pay:** A banner featuring a man and the text "PayPal is the global leader in online payments. Find out more".
- 16 Ways to Promote Your E-Business:** Offers to "Download your free guide today".
- Enterprise Solutions:** Includes a "Learn more" link.
- What's New:** Lists recent updates such as "Father's Day - Send him the FTC's 'Push' and Top e-card", "16 Ways to Promote Your E-Business", "Fight email fraud with the free SafetyBar", and a "Special offer to help you protect your identity".

At the bottom, there are links for "About", "Accounts", "Fees", "Privacy", "Security Center", "Contact Us", "User Agreement", "Developers", and "Jobs". A copyright notice states "Copyright © 1999-2005 PayPal. All rights reserved." and provides a link for "Information about FDIC pass-through insurance". Logos for "TRUSTe" and "6 PRIVACY BBS OutLine" are also visible.

Electronic Checks

- ***Electronic check*** – mechanism for sending money from your checking or savings account to another person or organization
 - Many implementations
 - Most common implementation is online banking

Electronic Bill Presentment & Payment

- ***Electronic Bill Presentment and Payment (EBPP)***
 - system that sends bills over the Internet and provides an easy-to-use mechanism (perhaps a button) to pay for them if the amount looks correct
 - Available through Checkfree (www.checkfree.com) and Quicken (www.quicken.com)

Smart Cards

- **Smart card** – plastic card (the size of a credit card) that contains an embedded chip on which digital information can be stored and updated
 - Debit cards are an implementation

B2C Payment Systems

- Must move money and other information such as shipping address
- Digital wallets can help
- **Digital wallet** – software and information
 - Software provides transaction security
 - Information includes delivery information and other forms of necessary information

Digital Wallets

- Can be...
 - Client-side – you create this digital wallet and keep it on your computer
 - Server-side (also called a thin wallet) – an organization creates this for you and keeps it on its servers

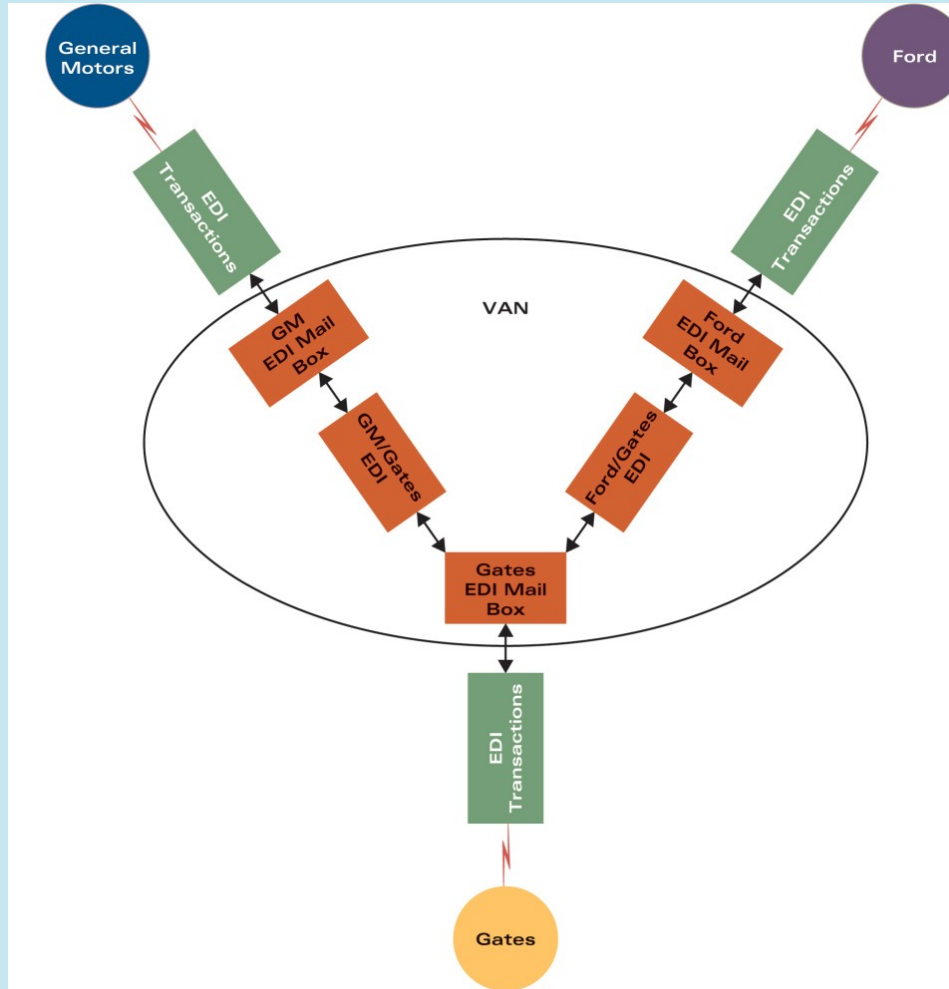
B2B Payment Systems

- Business customers...
 - Make large purchases
 - Will not pay with credit card or financial cybermediary
 - Use financial EDI
 - Pay for many purchases at once (perhaps the end of the month)

EDI

- ***Electronic data interchange (EDI)*** – direct computer-to-computer transfer of transaction information in standard business documents, such as invoices and purchase orders, in a standard format
 - How businesses communicate with each other
 - Used in e-marketplaces and VANs

EDI and a VAN



Financial EDI

- ***Financial EDI*** – an electronic process used primarily within B2B for the payment of purchases
 - This is electronic money in B2B
 - Often occurs through an automated clearing house

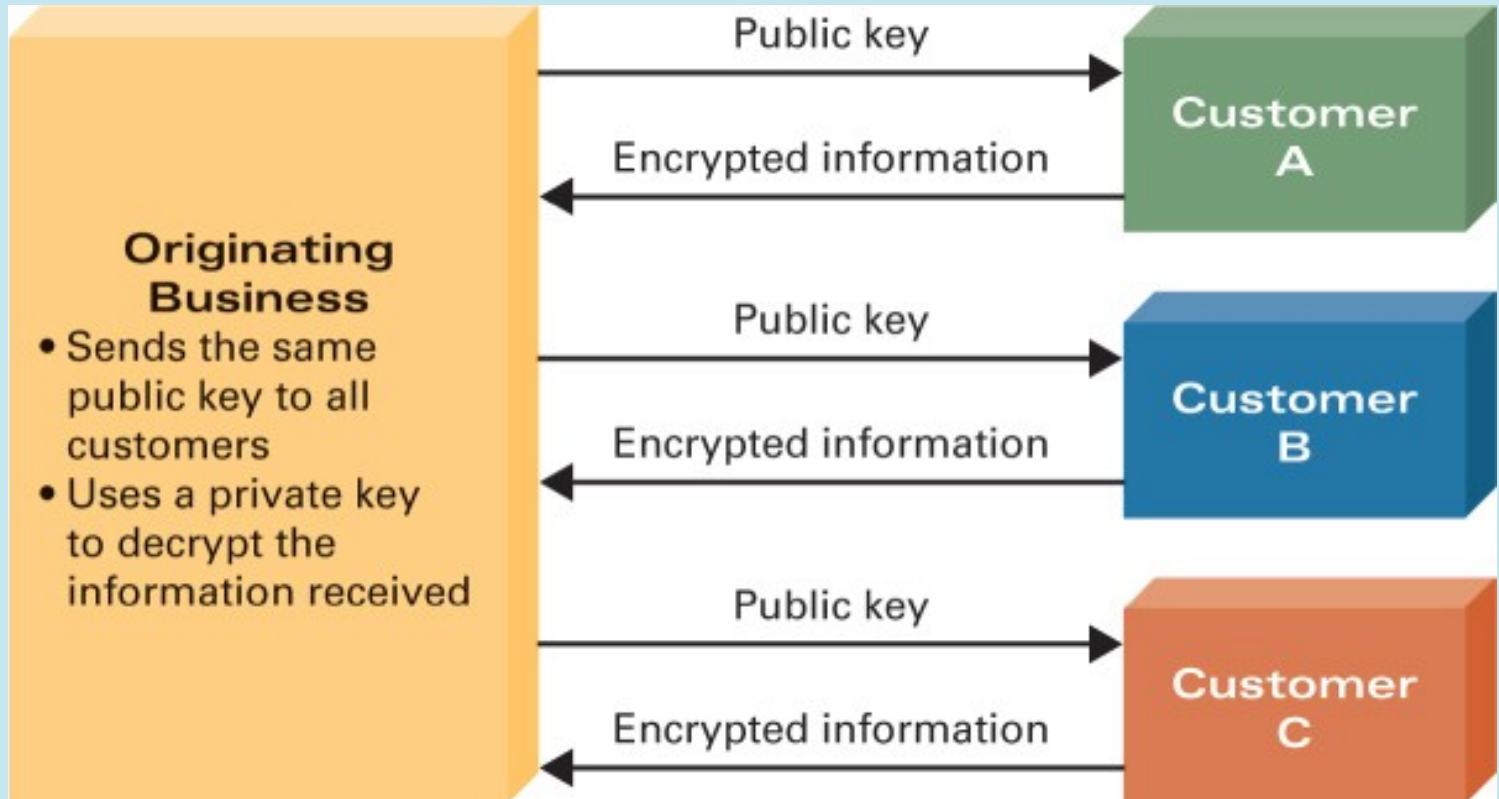
Security: The Pervading Concern

- Security is very important when moving money
- Some security measures...
 - Encryption
 - Secure Sockets Layers
 - Secure Electronic Transactions
 - Many, many others

Encryption

- **Encryption** – scrambles the contents of a file so that you can't read it without having the right decryption key
- Often through **public key encryption (PKE)** – uses two keys: a public key for everyone and private key for only the recipient of the encrypted information

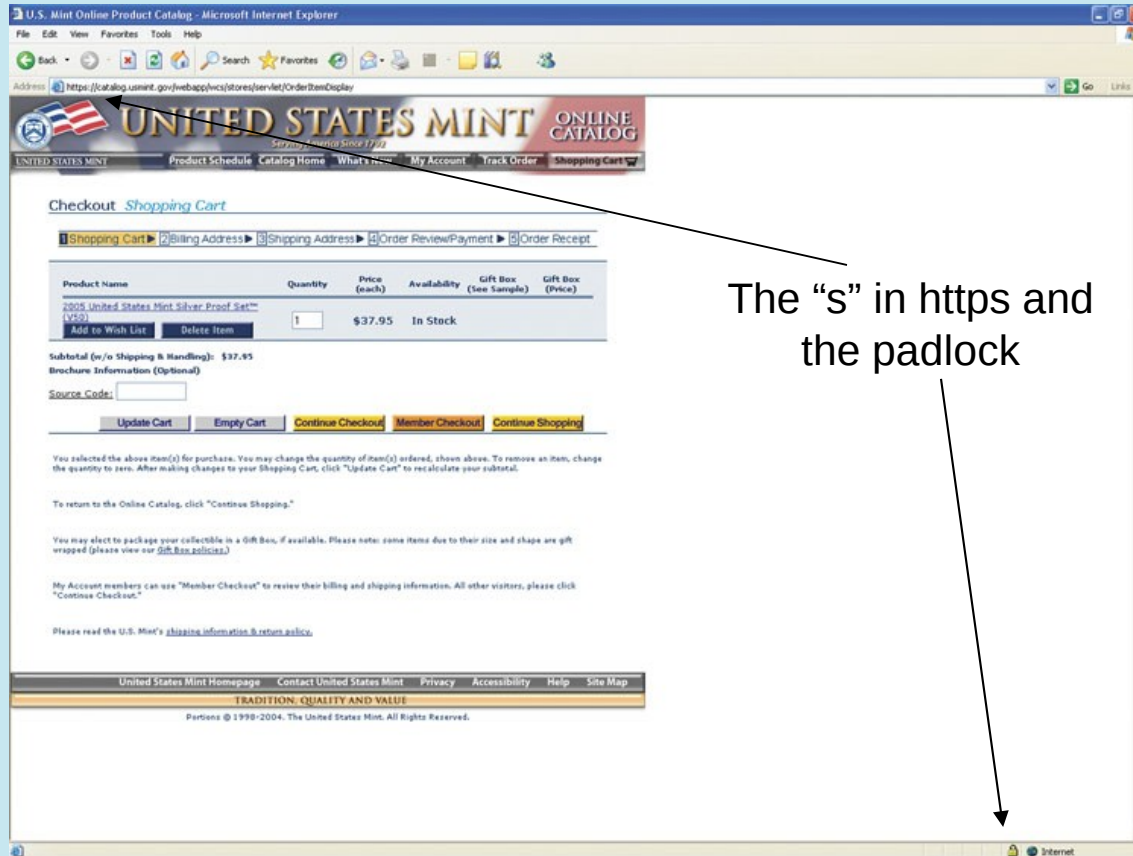
Public Key Encryption



Secure Sockets Layers

- ***Secure Sockets Layer (SSL)...***
 - Creates a secure connection between a Web client and server
 - Encrypts the information
 - Sends the information over the Internet
- Denoted by lock icon on browser or https:// (notice the “s”)

Secure Sockets Layers



Secure Electronic Transactions

- ***Secure Electronic Transaction (SET)*** – transmission method that ensures transactions are legitimate as well as secure
 - Helps verify use of a credit card, for example, by sending the transaction to the credit issuer as well as the seller/supplier

To Summarize

- B2C
 - Credit cards, financial cybermediaries, electronic checks, EBPP, smart cards, and digital wallets
 - Pay for individual purchases, usually in small amounts
 - Each payment must be validated

To Summarize

- B2B
 - Use EDI to facilitate ordering process
 - VANS can provide for EDI and financial EDI
 - Use financial EDI for payment of purchases

To Summarize

- B2C and B2B – security...
 - Overriding concern
 - Encryption, SSLs, SET, and others

E-BUSINESS TRENDS

- “E” is certainly changing many things
- Many trends in every part of your life
- Three important ones
 1. Youth
 2. M-commerce
 3. The Long Tail

E-Business Trend - Youth

- **Screenager** – person who spends a lot of time in front of a screen – TV, iPod, computer, cell phone
- **Digital native** – person ushered into this world alongside the digital revolution
- Most young people are screenagers and digital natives
- They readily embrace technology and therefore are most suited to running a business in the “e” world

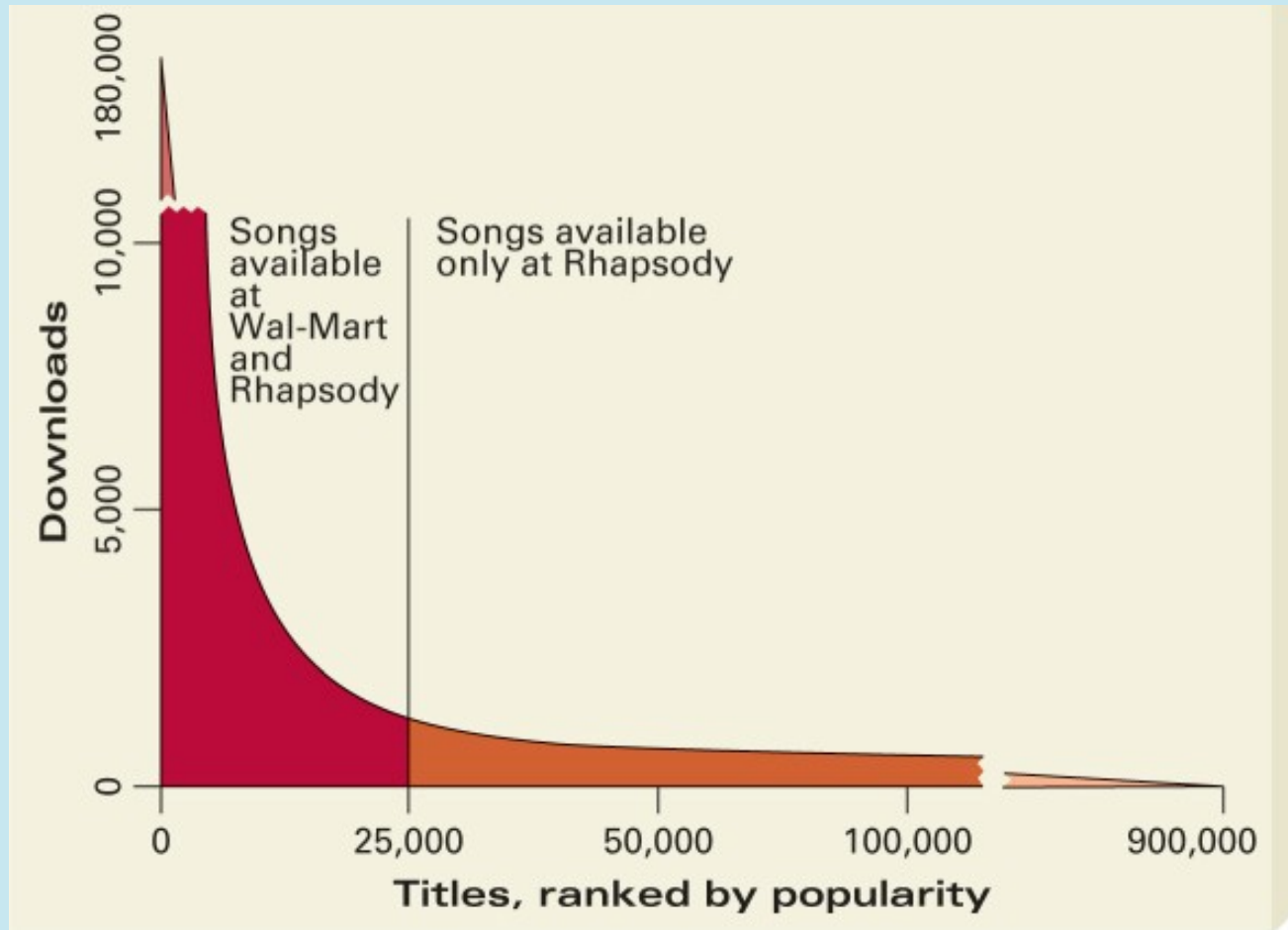
E-Business Trend – M-Commerce

- **Mobile computing** – your ability to use technology to wirelessly connect to and use centrally located information and/or application software
- **M-commerce** – e-commerce conducted over a wireless device
 - Subset of mobile computing
- Mobility is key for the next generation of e-commerce that will rely on
 1. Knowing where we are
 2. Our ability to do anything from anywhere

E-Business Trend – Long Tail

- ***Long Tail*** – first offered by Chris Anderson; explains e-commerce profitability in terms of a sales curve
- Brick-and-mortar businesses carry limited inventory, inventory that is popular
- E-businesses can carry huge amounts of “niche” inventory that may only sell a couple of times a year

E-Business Trend – Long Tail



E-Business Trend – Long Tail

