Chapter 4

E-Business and E-Commerce

Vermont Teddy Bear Company

Source: Used with permission from Vermont Teddy Bear.

In 1980, John Sortino got the idea for making teddy bears. He was playing with his young son, Graham, and noticed that none of Graham's 38 stuffed animals was made in the United States. This inspired John to make a teddy bear for Graham—named Bearcho. John then went on to make others, falling in love with the idea of making them by hand. Bearcho was soon followed by Buffy, Bearazar, and Fuzzy Wuzzy, all made in his wife's sewing room. By 1983, John was selling his bears from a gift cart at an open-air market in Burlington, Vermont. The sale of his first bear took 4 days, and it took 1 year to sell 200 bears."The Vermont Teddy Bear Story," *Vermont Teddy Bear Company*, accessed March 24, 2012, www.vermontteddybear.com/Static/Our-Story.aspx; "Vermont Teddy Bear Company," *Score.org*, accessed March 24, 2012, www.score.org/success-stories/vermont-teddy-bear-company. Today, the Vermont Teddy Bear Company produces about 300,000 bears a year.

The Vermont Teddy Bear Company has tapped into America's long-standing love affair with teddy bears by creating a wide variety of customized teddy bears and shipping them to customers via the well-recognized Bear-Gram, "…a customized bear placed in a colorful box with an air hole and game printed on the inside, and enclosed with a personalized greeting and candy treat.""The Vermont Teddy Bear Story," *Vermont Teddy Bear Company*, accessed March 24, 2012, www.vermontteddybear.com/Static/Our-Story.aspx. The company has experienced many changes, including John's departure in 1995 to pursue other interests and the addition of Pajamagram and Calyx Flowers as additional unique brands, but the Vermont Teddy Bear Company remains a household name and a Vermont icon.

Jay Bruns, vice president of branding, talks about the importance of knowing how to present the product so the company can grow further. Right now, a Vermont Teddy Bear is a unique gift item that promises quality for life, but the dynamics of gifting have changed. Same day or overnight delivery is not special anymore, so a Vermont Teddy Bear must offer something more than convenience. It needs to be a "go-to" gift of choice rather than an

emergency or "last-minute" gift. This requires presenting the product as fresh and special.Telephone interview with Jay Bruns, vice president of branding, Vermont Teddy Bear Company, March 9, 2012. E-commerce is an integral part of Vermont Teddy Bear's marketing strategy, with online sales accounting for more than one-half of its total sales. The company saw the growth in online buying and launched its website in October 1996 in an effort to reach the online consumer base. Elisabeth Robert, the CEO at the time, saw the potential synergy between radio and the Internet and used the power of the company's radio advertising "…to direct customers to the company's website where they could actually see the bears they were ordering."Portland Helmich, "Not Your Average Bear," *Business People Vermont*, 2002, accessed March 24, 2012, www.vermontguides.com/2002/2-feb/teddybear.htm.

Victor Castro, director of e-commerce, describes the company's e-commerce strategy as direct marketing with a focus on easy ordering and the customer being able to interact with the brand. Convenience has become even more convenient, and the Vermont Teddy Bear Company makes things simple. As the consumer becomes more proficient online, it will be necessary to communicate properly what the Vermont Teddy Bear gift is all about (i.e., the experience of owning the bear). Castro says that the company has been very successful at that. However, the company's e-commerce strategy must evolve with changes in the online customer.Telephone interview with Victor Castro, director of e-commerce, Vermont Teddy Bear Company, March 9, 2012.

To learn more about the Bear-Gram, go to www.vermontteddybear.com/Static/Bear-Grams.aspx. To take the online factory tour, go to www.vermontteddybear.com/Static/tour-welcomestation.aspx.

Video Clip 4.1

PBS Curiosity Quest—Vermont Teddy Bear

(click to see video)

A tour of the Vermont Teddy Bear factory.

4.1 E-Business and E-Commerce: The Difference

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LEARNING OBJECTIVES

1. Define e-business and e-commerce and explain the difference between them.
2. Understand that there are several different types of e-commerce and that a business can be engaged in more than one type at the same time.
3. Explain what a business model is and why the model that is selected is so important.

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As stated in <u>Chapter 1 "Foundations for Small Business"</u>, e-business and e-commerce are terms that are often used interchangeably. But e-business and e-commerce are not the same. This section will elaborate on the differences between the two and some of the foundational knowledge that is critical to understanding and using e-commerce in particular.

E-Business

<u>Chapter 1 "Foundations for Small Business"</u> talked about e-business in terms of using the Internet and online technologies to create operational efficiencies, thereby increasing customer value.Kelly Wright, "E-Commerce vs. E-Business," *Poole College of Management*, November 27, 2002, accessed October 10, 2011, <u>scm.ncsu.edu/ scm-articles/article/e-commerce-vs.-e-business</u>. It is important that small businesses understand the nature of e-business and how it can facilitate operations as well as growth—if growth is desired. It has been said on other occasions, and it will continue to be said, that not all small businesses look for growth, choosing instead to happily remain small. For the small businesses that do want to grow, however, e-business can help them do it.

E-Business Components

E-business involves several major components:Terri C. Albert and William B. Sanders, *e-Business Marketing* (Upper Saddle River, NJ: Prentice-Hall, 2003), 2–4; and Efraim Turban et al., *Electronic Commerce: A Managerial Perspective* (Upper Saddle River, NJ: Pearson/Prentice Hall, 2008), 4. business intelligence (BI), customer relationship management (CRM), supply chain management (SCM), enterprise resource planning (ERP), e-commerce, conducting electronic transactions within the firm, collaboration, and online activities among businesses.

Figure 4.1   *Components of E-Business*

Business intelligence[1] is about the activities that a small business may undertake to collect, store, access, and analyze information about its market or competition to help with decision making. When conducted online, BI is efficient and quick, helping companies to identify noteworthy trends and make better decisions faster. BI has been described as "the crystal ball of the 21st century."Lena L. West, "Business Intelligence: The Crystal Ball of Champions," *Small Business Computing.com*, April 11, 2006, accessed October 10, 2011, www.smallbusinesscomputing.com/ biztools/article.php/3598131/Business -Intelligence-The-Crystal-Ball-of- Champions.htm.

As defined in Chapter 2 "Your Business Idea: The Quest for Value", **customer relationship management (CRM)**[2] refers to "…a customer service approach that focuses on building long-term and sustainable customer relationships that add value for the customer and the company."Efraim Turban et al., *Electronic Commerce: A Managerial Perspective* (Upper Saddle River, NJ: Pearson/Prentice Hall, 2008), 759. It is a company-wide strategy that brings together information from all data sources within an organization (and sometimes from external data sources) to give one holistic view of each customer in real time. The goal is to reduce costs and increase profitability while providing customer satisfaction."What Is CRM?,"

1. The activities that a small business may undertake to collect, store, access, and analyze information about its market or competition to help with decision making.

2. A service approach that hopes to build a long-term and sustainable relationship with customers that has value for both the customer and the company.

cestinationCRM.com, February 19, 2010, accessed October 10, 2011, www.destinationcrm.com/Articles/CRM-News/Daily-News/What-Is-CRM-46033.aspx. CRM applications are available for even the smallest businesses.

Every small business has a supply chain, the network of vendors that provide the raw components that are needed to make a product or deliver a service. The management of this network is known as **supply chain management (SCM)**[3]. SCM is about efficiently and effectively improving the way that a company finds those raw components and then delivers the product or the service to the customer.Thomas Wailgum and Ben Worthen, "Supply Chain Management Definition and Solutions," *CIO*, November 20, 2008, accessed October 10, 2011, www.cio.com/article/40940/Supply_Chain_Management_Definition_and_Solutions. SCM applications are now available for small businesses. More details about SCM are presented in Chapter 12 "People and Organization".

Enterprise resource planning (ERP), as mentioned in Chapter 1 "Foundations for Small Business", is about integrating all departments and functions across a company (sales, marketing, human resources, finance, accounting, production, engineering, etc.) into a single computer system that can serve the particular needs of each department. The objective is to provide information quickly and efficiently to those who need it. Small businesses have many vendor choices for ERP systems. There are more than thirty vendors in the field, and they are looking to small and midsize businesses as their primary growth market.Mary O. Foley, "ERP for Small Business: The Time is Ripe," *Inc.*, October 1, 2007, accessed October 10, 2011, technology.inc.com/2007/10/01/erp-for-small-business-the-time-is-ripe. More details about ERP are provided in Chapter 12 "People and Organization".

E-commerce, as defined in Chapter 1 "Foundations for Small Business", is the marketing, selling, and buying of goods and services online. It generates revenue, which e-business does not. E-commerce is typically associated with e-marketing, discussed in Chapter 8 "The Marketing Plan", but most of this chapter is dedicated to the operational, nonmarketing dimensions of e-commerce.

3. Efficiently and effectively improving the way that a company finds raw components and then delivers the product or the service to the customer.

4. A private network within a business that is used for information sharing, processing, and communication.

Conducting electronic transactions within a firm can occur through an **intranet**[4], e-mail, and instant messaging. An intranet is a private network within a business that is used for information sharing, processing, and communication. The goal is to "streamline the workplace and allow easy information exchange within an organization."Dachary Carey, "What Is Intranet Technology Used For?," *Life123*, accessed October 10, 2011, www.life123.com/technology/internet/intranet/what-is-intranet.shtml.

Collaboration can occur internally or externally, and it often involves business partners. The goal is to help teams or business partners communicate with each other more effectively and efficiently, manage projects and shared materials, save companies the costs of travel, and reduce travel-related productivity losses.Gerry Blackwell, "Altogether Now: Comparing Collaboration Software," *Small Business Computing.com*, January 28, 2008, accessed October 10, 2011, www.smallbusinesscomputing.com/buyersguide/article.php/ 10729_3724501_/Altogether-Now-Comparing-Collaboration-Software.htm. E-mail, instant messaging, newsgroups, bulletin boards, discussion boards, virtual team rooms, online meetings, and **wikis**[5] are common means of collaboration. A wiki is a web page that can be viewed and modified by anybody with a web browser and access to the Internet unless it is password protected."7 Things You Should Know about Wikis," *Educause Learning Initiative*, July 2005, accessed October 10, 2011, net.educause.edu/ir/library/pdf/ELI7004.pdf. The most well-known wiki is *Wikipedia*.

Online activities between businesses focus on information sharing and communication via e-mail, online meetings, instant messaging, and **extranets**[6]. An extranet is the part of an intranet that is made available to business partners, vendors, or others outside a company. It allows a business "to share documents, calendars, and project information with distributed employees, partners, and customers" and "it enables 24/7 private, secure access to collaborative tools with just an Internet connection.""Communicate Quickly and Efficiently Through Intranets, Extranets and Portals," *Gozapit Interactive*, 2009, accessed October 10, 2011, www.gozapit.com/intranet-extranet.htm. They make communication easier, eliminate redundant processes, reduce paperwork, increase productivity, provide immediate updates and information, and provide quick response times to problems and questions."Communicate Quickly and Efficiently Through Intranets, Extranets and Portals," *Gozapit Interactive*, 2009, accessed October 10, 2011, www.gozapit.com/ intranet-extranet.htm. The result is money and time saved for employees, the company, vendors, and your customers. Commercial transactions typically do not take place on extranets.

As integral as e-business may be to many small businesses, however, there will be small businesses that choose not to go the e-business route. Small businesses that are nonemployers and/or are very small operations that choose to stay that way—for example, local delis, gift shops, restaurants, dry cleaners, and ice cream shops can be and are successful without having to make a commitment to e-business. Therefore, a small business can choose to incorporate all, some, or none of the e-business components. Given the ways in which the Internet continues to transform small businesses, however, it would be virtually impossible for a small business to operate totally outside the realm of e-business.

5. A web page that can be viewed and modified by anybody with a web browser and access to the Internet unless it is password protected.

6. The part of an intranet that is made available to business partners, vendors, or others outside a company.

E-Commerce

The moment that an exchange of value occurs, e-business becomes e-commerce.Elias M Awad, *Electronic Commerce: From Vision to Fulfillment* (Upper Saddle River, NJ: Pearson Education, 2005), 4. E-commerce is the revenue generator for businesses that choose to use the Internet to sell their goods and services. Some small businesses rely on the Internet to grow and survive. As stated in <u>Chapter 1 "Foundations for Small Business"</u>, many small businesses also look to e-commerce for their own business needs, such as computers and office technology, capital equipment and supplies, office furnishings, inventory for online sale, or other business-related goods."E-commerce: Small Businesses Become Virtual Giants on the Internet," accessed October 10, 2011, <u>www.score.org/system/files/ become_a_virtual_giant.pdf</u>. This is not surprising considering the pervasiveness of the Internet for business transactions of all shapes and sizes.

Types of E-Commerce

Every Internet business is either **pure-play**[7] or **brick-and-click**[8]. A pure-play business, such as Amazon and Zappos, has an online presence only and uses the capabilities of the Internet to create a new business. Brick-and-click businesses, such as Barnes and Noble and Vermont Country Store, combine a physical presence with an online presence. These businesses use the Internet to supplement their existing businesses.Sandeep Krishnamurthy, *E-Commerce Management: Text and Cases* (Mason, OH: South-Western, 2003), 73.

There are several different types of e-commerce. A common classification system is with respect to the nature of transactions or the relationships among participants.Efraim Turban et al., *Electronic Commerce: A Managerial Perspective* (Upper Saddle River, NJ: Pearson/Prentice Hall, 2008), 8. There are seven major types of e-commerce:

7. A business that has an online presence only.

8. Businesses that combine a physical presence with an online presence.

9. Sales among other businesses or organizations.

10. Retail sales among businesses and individual consumers.

1. **Business-to-business (B2B)**[9] e-commerce, where businesses focus on selling to other businesses or organizations, is the largest form of e-commerce.Kenneth C. Laudon and Carol G. Traver, *E-commerce: Business, Technology, Society* (Upper Saddle River, NJ: Prentice Hall, 2007), 58; Turban et al., 2008, 8. Cisco, Staples, and Spiceworks (information technology [IT] and IT networks for the small- and medium-sized business) are all B2B companies.

2. **Business-to-consumer (B2C)**[10] is the earliest form of e-commerce, but it is second in size to B2B. It refers to retail sales between businesses and individual consumers. Consumers gather information; purchase physical goods, such as books and clothing; purchase information goods, such as electronic material or digitized content, such as

software; and, for information goods, receive products over an electronic network.Zorayda Ruth Andam, "e-Commerce and e-Business," *Asia and Pacific Training Centre for Information and Communication Technology for Development*, May 2003, accessed June 21, 2012, http://www.unapcict.org/ecohub/resources/e-commerce-and-e-business/at_download/attachment1.

3. **Consumer-to-consumer (C2C)**[11] e-commerce is where consumers sell products and personal services to each other with the help of an **online market maker**[12] to provide catalog, search engine, and transaction-clearing capabilities so that products can be easily displayed, discovered, and paid for. The most well-known C2C business is eBay, but there are many other online market makers as well. Craigslist is an extremely popular small e-commerce business for placing classified ads.

4. **Business-to-government (B2G)**[13] e-commerce can generally be defined as transactions with the government. The Internet is used for procurement, filing taxes, licensing procedures, business registrations, and other government-related operations. This is an insignificant segment of e-commerce in terms of volume, but it is growing.

5. **Consumer-to-business (C2B)**[14] e-commerce is between private individuals who use the Internet to sell products or services to organizations and individuals who seek sellers to bid on products or services.Efraim Turban et al., *Electronic Commerce: A Managerial Perspective* (Upper Saddle River, NJ: Pearson/Prentice Hall, 2008), 8.Elance is an example of C2B where a consumer posts a project with a set budget deadline and within hours companies and/or individuals review the consumer's requirements and bid on the project. The consumer reviews the bids and selects the company or individual that will complete the project. Elance empowers consumers around the world by providing the meeting ground and platform for such transactions."Ecommerce Definition and Types of Ecommerce," *DigitSmith*, accessed October 10, 2011, www.digitsmith.com/ecommerce-definition.html. Priceline.com is a well-known example of C2B e-commerce.

6. **Mobile commerce (m-commerce)**[15] refers to the purchase of goods and services through wireless technology, such as cell phones, and handheld devices, such as Blackberries and iPhones. Japan has the lead in m-commerce, but it is expected to grow rapidly in the United States over the next several years. eMarketer predicts mobile content revenues will grow to more than $3.53 billion in 2014, a compound annual growth rate of nearly 20 percent for the period 2009–2014, with the fastest growth coming from mobile music."Mobile Content Soars Thanks to Device and Network Advances," *eMarketer*, August 31, 2010,

11. Where consumers sell products and personal services to each other.

12. An online company that provides catalog, search engine, and transaction-clearing capabilities so that products can be easily displayed, discovered, and paid for.

13. Transactions with the government.

14. Private individuals who use the Internet to sell products or services to organizations and individuals who seek sellers to bid on products or services.

15. The purchase of goods and services through wireless technology, such as cell phones and handheld devices..

accessed October 10, 2011, www.emarketer.com/Articles/Print.aspx?1007899.

7. **Peer-to-peer (P2P)**[16] technology makes it possible for Internet users to share files and computer resources directly without having to go through a central web server. P2P began with Napster offering free music downloads via a file-sharing system.*Free Encyclopedia of Ecommerce,* "Peer-to-Peer Technology (P(2P)," accessed June 1, 2012, http://ecommerce.hostip.info/pages/840/Peer-Peer-Technology-P2P.html.Tamago launched the world's first P2P commerce system in 2005, which allowed people to sell every type of digital media directly from their computers to customers all over the world. People who publish videos, photos, music, e-books, and so forth can earn royalties, while buyers earn commissions for distributing media to others."Tamago Launches First Peer-to-Peer eCommerce System," *PR Leap*, October 15, 2006, accessed October 10, 2011, www.prleap.com/pr/51931.

Figure 4.2   *How P2P E-Commerce Works at Tamago.com*

Source: "Peer to Peer Profit," http://www.tamago.us *(accessed October 10, 2011).*

16. Internet users share files and computer resources directly without having to go through a central web server.

Although these types of e-commerce have been discussed individually, there are many instances in which one company engages in multiple types. Office Depot and Staples are brick-and-click businesses that engage in B2B, B2C, and perhaps B2G e-commerce. Carbonite and Gourmet Gift Baskets are both pure-play small businesses that engage in B2C and B2B e-commerce.

E-Commerce Business Models

The decision to engage in e-commerce is an important one. The advantages are clear: lower business costs; 24/7 accessibility anywhere; the potential for stronger customer service; the ability to introduce a niche product; the ability to reach global markets on a more equalized basis with larger firms, making mass customization possible; and greater customer loyalty. But the risks are there as well. Internet problems, website problems, security and privacy breaches, intellectual property theft, legal liability, product and/or service failure, customer deceit, and customer dissatisfaction are but a few of the risks. Therefore, the choice of an e-commerce business model must be made carefully. Each model will have different implications in terms of business planning and strategy.

An **e-commerce business model**[17] is the method that a business uses to generate revenue online. "The business model spells out how a company makes money by specifying where it is positioned in the value chain. Some models are quite simple. A company produces a good or service and sells it to customers. If all goes well, the revenues from sales exceed the cost of operation and the company realizes a profit. Other models can be more intricately woven."Michael Rappa, "Business Models on the Web," *DigitalEnterprise.org*, January 17, 2010, accessed October 10, 2011, digitalenterprise.org/models/models.html. Another way to look at a business model is that it "reflects management's hypothesis about what customers want, how they want it, and how the enterprise can organize to best meet those needs, get paid for doing so, and make a profit."David J. Teece, "Business Models, Business Strategy and Innovation," *Long Range Planning* 43, no. 2–3 (2010): 172–94. There are many models to choose from, and new models will continue to emerge as technology evolves and businesses look for new and creative ways to generate revenue. Some of the many e-commerce business models are as follows:For additional discussions of business models, see Michael Rappa, "Business Models on the Web," *DigitalEnterprise.org*, January 17, 2010, accessed October 10, 2011, digitalenterprise.org/models/models.html; and Robert D. Atkinson et al., "The Internet Economy 25 Years After .Com: Transforming Commerce & Life," *Information Technology & Innovation Foundation*, March 2010, accessed October 10, 2011, www.itif.org/files/2010-25-years.pdf.

17. The method that a business uses to generate revenue online.

18. Used by online retailers that operate only over the Internet.

- The **virtual merchant model**[18] is used by online retailers that operate over the Internet only. FreshDirect is a small business that offers fresh

food and brand-name groceries for home delivery in New York. Amazon is another example of a virtual merchant.

- The **brokerage model**[19] brings buyers and sellers together and facilitates transactions. Supply Chain Connect is a small business that helps "companies optimize their purchasing and sales purchasing and sales processes through the use of e-commerce across a broad range of products including chemicals, plastics, wire and cable, and manufactured goods.""About Supply Chain Connect," *Supply Chain Connect*, accessed October 10, 2011, www.supplychainconnect.com.
- The **incentive marketing model**[20] is a "customer loyalty program that provides incentives to customers such as redeemable points or coupons for making purchases from associated retailers."Michael Rappa, "Business Models on the Web," *DigitalEnterprise.org*, January 17, 2010, accessed October 10, 2011, digitalenterprise.org/models/ models.html. Cool Savings, a small business that uses this model, wants to be its customers' free resource for valuable coupons, discounts, and special offers from their favorite brands and stores.

Because the business model will be at the center of the business plan, the model must be designed carefully. If a successful model is to be built, the model should effectively address the eight key elements listed in Table 4.1 "Key Elements of a Business Model". Although value proposition and the revenue model may be the most important and easily identifiable aspects of a company's business model, the other six elements are equally important.Kenneth C. Laudon and Carol G. Traver, *E-Commerce: Business, Technology, Society* (Upper Saddle River, NJ: Prentice Hall, 2007), 58; Efraim Turban et al., *Electronic Commerce: A Managerial Perspective* (Upper Saddle River, NJ: Pearson/Prentice Hall, 2008), 8.

Table 4.1 Key Elements of a Business Model

Components	Key Questions
Value proposition	Why should the customer buy from you?
Revenue model	How will you earn your money?
Market opportunity	What market space do you intend to serve, and what is its size?
Competitive environment	Who else occupies your intended market space?
Competitive advantage	What special advantages does your firm bring to the market space?

19. Brings buyers and sellers together and facilitates transactions.

20. A customer loyalty program that provides incentives such as redeemable points or coupons.

Components	Key Questions
Market strategy	How do you plan to promote your products or services to attract your target audience?
Organizational development	What types of organizational structures within the firm are necessary to carry out the business plan?
Management team	What kinds of experiences and background are important for the company's leaders to have?

Source: Kenneth C. Laudon and Carol G. Traver, *E-commerce: Business, Technology, Society* (Upper Saddle River, NJ: Prentice Hall, 2007), 59.

E-Commerce Trends

For businesses already engaged in e-commerce and for those that are thinking about it, being aware of the latest e-commerce trends is important because they could have a long-term influence on the future of a company's market. This influence, in turn, could mean life or death for your e-commerce operations. Several general e-commerce trends can be identified, and they are relevant to all e-commerce operations.

- E-commerce will continue to grab more market share.Heather Green, "US Ecommerce Growth to Pick Up in 2010, But Hit Mature Stride," *Bloomberg BusinessWeek*, February 2, 2009, accessed October 10, 2011, www.BusinessWeek.com/the_thread/blogspotting/archives/2009/02/us_ecommerce_gr.html.
- It is expected that, in some way, the web will influence 53 percent of all purchases made in 2014.Geoffrey A. Fowler, "E-Commerce Growth Slows, But Still Out-Paces Retail," *Wall Street Journal*, March 8, 2010, accessed October 10, 2011, blogs.wsj.com/digits/2010/03/08/e-commerce-growth-slows-but-still-out-paces-retail.
- The lines between online and offline commerce will become less defined. If somebody buys from a mobile device in your store, is that a web sale or a store sale? Retailers need to think of some new ways that they can take the web's influence into account.Geoffrey A. Fowler, "E-Commerce Growth Slows, But Still Out-Paces Retail," *Wall Street Journal*, March 8, 2010, accessed October 10, 2011, blogs.wsj.com/digits/2010/03/08/e-commerce-growth-slows-but-still-out-paces-retail.
- B2B e-commerce will continue to significantly outpace B2C e-commerce, representing more than 85 percent of all e-commerce.
- M-commerce is the fastest growing segment of visitors to e-commerce websites. If a business does not allow customers to both browse its

catalog and conduct transactions on a mobile device, customers will seek out other brands that offer such experience.Frank Gruber, "Exploring the Latest E-Commerce Industry Trends," *Tech Cocktail*, June 3, 2010, accessed October 10, 2011, <u>techcocktail.com/exploring-the-latest-e -commerce-industry-trends-2010-06</u>.

- Many businesses have increased their social marketing initiatives through a combination of Facebook pages, Twitter tweets, YouTube fan videos, and blogs. Any business that sells its products or services online without having a social strategy will suffer."Recap of Ecommerce Trends from the Internet Retailer 2010 Conference," *Tealeaf*, June 22, 2010, accessed October 10, 2011, <u>tealeaf.typepad.com/blog/2010/06/ recap-of-ecommerce-trends.html</u>.

The following e-commerce trends specifically apply to small businesses:

- The Internet will continue to create opportunities for small businesses. It is now possible to buy a wide range of specialized products and services that are not available elsewhere. The Internet has provided a lifeline for many small producers and has allowed entrepreneurs to enter retailing without having to invest heavily in physical outlets."E-Commerce Industry," *QFinance*, accessed October 10, 2011, <u>www.qfinance.com/sector-profiles/e-commerce</u>. Small businesses can easily enter the e-commerce arena as pure-play businesses. Take <u>Socrata</u>, an online service that makes it easy to share data—anything from crime statistics to football schedules. This small start-up business discovered that federal agencies were the site's biggest users. "It became clear that a really good place for our technology was helping government organizations share data in the interest of transparency."John Tozzi, "Gov 2.0: The Next Internet Boom," *Bloomberg BusinessWeek*, May 27, 2010, accessed October 10, 2011, <u>www.BusinessWeek.com/smallbiz/content/may2010/ sb20100526_721134.htm</u>.
- Broadband and wireless networks will be everywhere. Small businesses will need to factor in the effect of the broadband revolution on their businesses.Steve King et al., "INTUIT Future of Small Business Report: Technology Trends and Small Business," *Intuit*, June 2007, accessed October 10, 2011, <u>http-download.intuit.com/http.intuit/CMO/intuit/ futureofsmallbusiness/SR-1037B _intuit_tech_trends.pdf</u>. Consider the case of the small, ten-person shop in Seattle that engraves plaques and trophies. Today, 60 percent of its business is conducted online, with customers who live outside the Seattle area.Secretary of Commerce Gary Locke, "Remarks at Organization for Economic Cooperation and Development (OECD) Conference," December 9, 2009, accessed October

10, 2011, www.commerce.gov/news/secretary-speeches/2009/12/09/ remarks -organization-economic-cooperation-and-development-oecd-conference.html.

- The Internet will continue to be a platform that provides small businesses with a wide range of new tools, services, and capabilities. Small businesses will find new ways to use the Internet, contributing to the blurred distinctions between the physical and the virtual worlds.Steve King et al., "INTUIT Future of Small Business Report: Technology Trends and Small Business," *Intuit*, June 2007, accessed October 10, 2011, http-download.intuit.com/http.intuit/CMO/intuit/ futureofsmallbusiness/SR-1037B_intuit_tech_trends.pdf.

- Small business relationships will become increasingly virtual as online social networks expand.Steve King et al., "INTUIT Future of Small Business Report: Technology Trends and Small Business," *Intuit*, June 2007, accessed October 10, 2011, http-download.intuit.com/http.intuit/ CMO/intuit/futureofsmallbusiness/SR-1037B_intuit_tech_trends.pdf. Many small businesses are promoting their presence on Facebook and Twitter. Westbrook Lobster and Arisco Farms are both small businesses in Connecticut that have an online social presence. Naked Pizza in New Orleans has a presence on Twitter that has proven to be a boon to its business.Abbey Klaasen, "Twitter Proves Its Worth as a Killer App for Local Businesses," *Advertising Age*, May 18, 2009, accessed October 10, 2011, adage.com/article/digital/twitter-proves-worth-a-killer-app-local-businesses/136662.

Video Clip 4.2

Naked Pizza on Twitter

(click to see video)

Naked Pizza can now be followed on Twitter.

Is E-Commerce for All Small Businesses?

Despite the popularity and pervasiveness of e-commerce, not all small businesses may be interested in pursuing e-commerce as a part of their businesses. Many small businesses survive without an online presence. However, business analysts have agreed for a long time "that for any company larger than a local mom and pop store, e-commerce is now a business requirement."Beverly Kracher and Cynthia L. Corritore, "Is There a Special E-Commerce Ethics?," *Business Ethics Quarterly* 14, no. 1 (2004): 71–94.

KEY TAKEAWAYS

- E-business and e-commerce are not synonymous terms. E-commerce generates revenue. E-business does not.
- E-business and/or e-commerce may not be of interest to all small businesses. However, using technology well is proving to be one of the most prominent drivers of business success.
- E-business consists of several major components, one of which is e-commerce.
- Every Internet business is either pure-play (an Internet presence only) or brick-and-click (having both a physical and an online presence).
- The seven major types of e-commerce are B2B, B2C, C2C, B2G, C2B, m-commerce, and P2P.
- An e-commerce business model is the method that a business uses to generate revenue online. Some models are very simple; others are more complicated. New business models are being introduced all the time.
- E-commerce will continue to grab more market share, and the line between online and offline commerce will become less defined.

EXERCISES

1. In the Frank's All-American BarBeQue case in Chapter 2 "Your Business Idea: The Quest for Value", the son, Robert Rainsford, wants to bring his expertise to improving the operations of the business. What other elements of digital technology, e-business, and e-commerce could be used to improve operations?

2. Joan Watson is the owner of Joan's Gourmet Baskets, a small brick-and-mortar business that specializes in gourmet gift and picnic baskets. Joan has been keeping up with the fancy food and gourmet food trends (being a great fan of the Fancy Food Show that is held several times a year), and she thinks she should tap into this sector by creating an online business that will complement her physical business. This would make her baskets available to a wider market. She is proud of the quality of her products and the customer loyalty that she has earned through her hard work and hopes she will be able to be just as successful in the e-commerce environment.

   Joan knows that she needs more information before proceeding further. She has asked you to prepare a report that answers the following questions: How will her physical business compare to her online business; that is, where will things be the same, and where will they be different? What business model should she use? What are the special challenges and obstacles she will face as she moves from traditional commerce to e-commerce? What is Web 2.0 all about and does she need to be concerned about it? She expects that you will do additional gourmet foods research to support your ideas.

4.2 E-Commerce Operations

LEARNING OBJECTIVES

1. Explain the issues associated with whether a small business should buy or build its website.
2. Explain some of the legal issues that are relevant to e-commerce.
3. Discuss the need for an ethical website, particularly in terms of security, privacy, and trust.
4. Explain why order fulfillment is such an important part of successful e-commerce.

There are multiple parts to the creation of an e-commerce website: the infrastructure (the nuts and bolts building of the site), the e-marketing side (the design and creation of a web presence, which is discussed in Chapter 7 "Marketing Strategy"), and the operational side. The operational side is the focus of this section.

The Website: Buy or Build?

Unless a small business owner is technologically savvy or employs someone who is, building the company's website in-house from the ground up is not a particularly good idea. An effective website presence requires a good looking, professionally designed website. There are several approaches to having someone else build that website. Two are described here.

- **Full-service web developers**[21] provide design, programming, support, hosting, search engine optimization, and more. Any combination of the services can be selected. Having the developer perform all the services would be the most expensive alternative. **Hosting**[22] is the housing, serving, and maintaining of the files for one or more websites."What Is Hosting (Web Site Hosting, Web Hosting, and Webhosting)?," accessed October 21, 2011, searchsoa.techtarget.com/definition/hosting.**Search engine optimization**[23] refers to the strategies intended to position a website at the top of search engines such as Google, Yahoo!, and Bing.Efraim Turban et al., *Electronic Commerce: A Managerial Perspective* (Upper Saddle River, NJ: Pearson/Prentice Hall, 2008), 758.
- A much lower-priced option is to select one of the many companies online that can help you to design your website. Typically these sites

21. Provides website design, programming, support, hosting, search engine optimization, and more.

22. The housing, serving, and maintaining of the files for one or more websites.

23. The strategies intended to position a website at the top of web search engines.

provide a choice of website design templates that can be easily edited; design services that are available if none of the templates meet your needs; hosting; **domain name selection**[24] (your business address or name on the Internet, e.g., gone.2012books.lardbucket.org) and **domain name registration**[25] (registering your domain name with a domain name registrar and paying a fee that must be renewed annually);Christopher Heng, "How to Register Your Own Domain Name," *Thesitewizard.com*, 2010, accessed October 10, 2011, www.thesitewizard.com/archive/registerdomain.shtml. and **search engine placement**[26] (submitting your website to specific search engines of your choice). Intuit.com and Webs.com are two companies that offer these and other services. The lowest level of services are often free.

Video Clip 4.3

Domain Name Dollar Store

(click to see video)

A humorous look at getting a URL for your website at a rock bottom price.

The ultimate cost for a website will be a function of its size, complexity, and the level of design. No two projects will cost the same. Part of the process of building a website, however, should be conducting some research and talking with website designers. The Internet offers a variety of sources on how to determine how much a website should cost. WebpageFX.com offers a historical perspective on website costs, a cost calculator to find out how much a web project would cost, and examples of specific web design and website development projects with cost figures."How Much Should a Web Site Cost?," 2010, accessed October 10, 2011, www.webpagefx.com/How-much-should-web-site-cost.html.

Consider the following two scenarios:

24. A company's business address or name on the Internet.

25. Registering your domain name with a domain name registrar and paying a fee that has to be renewed annually.

26. Submitting your website to specific search engines of your choice.

- "A small business needs a website for their business so they have a presence on the Internet. The site is simple—about 5 pages with information about the business, the services they provide, and a form that can be submitted and the information received via email. The budget isn't available for creating a graphic 'look,' and existing images will be used. A smaller, less experienced designer may take on a project like this for a few hundred dollars. A medium sized firm might quote $3000 to $4000 depending on variables. A larger firm would probably

not take a project this small.""How Much Does a Website Cost?," *Planetlink.com*, accessed October 10, 2011, www.planetlink.com/articles/how_much_does_website_cost.html.

- "A mail order company wants to get into online sales. They currently have no website. They have a narrow mix of about 200 products with a broad target market; it's also time to update their image. Depending on a wide range of variables, a project like this could start at about $7000 and go into six figures.""How Much Does a Website Cost?," *Planetlink.com*, accessed October 10, 2011, www.planetlink.com/articles/how_much_does_website_cost.html.

There is no easy answer to the question of how much a website will cost. "A simple answer is that it will cost whatever a business is willing to spend—anywhere from free to millions of dollars.""How Much Does a Website Cost?," *Planetlink.com*, accessed October 10, 2011, www.planetlink.com/articles/how_much_does_website_cost.html. A better way to address cost is to answer the following questions:"How Much Does a Website Cost?," *Planetlink.com*, accessed October 10, 2011, www.planetlink.com/articles/how_much_does_website_cost.html.

- What are your needs, goals, and expectations?
- What are the needs and expectations of your visitors, customers, and clients?
- Is your business already established with its unique brand or identity?
- What is required in terms of the skills, experiences, and level of design?
- Do you want to hire a high-profile design shop, a medium-sized design studio, a small company, or a student?
- What can you afford to budget for your project?

Legal

There is nothing easy about the law. It is complex under the best of circumstances, but it is necessary to protect the rights and privileges of people and businesses. Companies that choose to engage in e-commerce must be aware of the legal environment because "a lack of awareness…can lead to missteps as well as missed opportunities…."Kathleen Mykytn and Peter P. Mykytn, "The Importance of the Law for E-Commerce Strategies," *Information Systems Management* 22, no. 2 (2005): 50–56. A summary of important legal issues for e-commerce is in Table 4.2 "Important Legal Issues for E-Commerce". However, the focus here is on three areas: electronic transactions, intellectual property, and jurisdiction.

Table 4.2 Important Legal Issues for E-Commerce

Issue	Description
Jurisdiction	The ability to sue in other states or countries.
Electronic transactions	All transactions that take place online.
Liability	The use of multiple networks and trading partners makes documenting responsibility difficult. How can liability for errors, malfunctions, or fraudulent use of data be determined?
Identity fraud	The Identity, Theft, and Assumption Deterrence Act of 1998 makes identity fraud a federal felony carrying a three- to twenty-five-year prison sentence.
Defamation	Is the Internet service provider liable for material published on the Internet because of services it provides or supports? (Usually not.) Who else is liable for defamation? What if the publisher is in another country?
Intellectual property law	Protects creations of the human mind.
Digital signatures	Digital signatures are recognized as legal in the United States and some but not all other countries.
Regulation of consumer	The United States allows the compilation and sale of customer databases. The European Union does not.
Time and place	An electronic document signed in Japan on January 5 may have the date January 4 in Los Angeles. Which date is considered legal if a dispute arises?
Electronic contracts	If all the elements to establish a contract are present, an electronic contract is valid and enforceable.
Taxation	Taxation of sales transactions by states is on hold in the United States and some but not all other countries. Expect this issue to be revived because the potential for increased revenue to the states is significant.

Source: Efraim Turban et al., *Electronic Commerce: A Managerial Perspective* (Upper Saddle River, NJ: Pearson/Prentice Hall, 2008), 795.

Electronic transactions[27] are the many kinds of transactions that take place online, including contractual dealings, buying and selling of goods and services, information exchange, financial transactions (credit card payments; payor services, such as PayPal; and money transfers), and communications. When developing a website, the small business owner must ensure that all online business transactions will be secure, particularly those involving money. This discussion must take place with whomever is developing your website.

27. All transactions that take place online.

Intellectual property[28] is "a creation of the mind, such as inventions, literary and artistic works, and symbols, names, images, and designs, used in commerce."Efraim Turban et al., *Electronic Commerce: A Managerial Perspective* (Upper Saddle River, NJ: Pearson/Prentice Hall, 2008), 774. Music, photos, videos, digital news, and artwork are forms of intellectual property that can be transmitted over the Internet. All small business owners need to be concerned about the theft of intellectual property. They are afforded multiple protections, which are summarized in Table 4.3 "Intellectual Property Protections".

Table 4.3 Intellectual Property Protections

Law	Protection Provided by the Law
Intellectual property law	Protects creations of the human mind
Patent law	Protects inventions and discoveries
Copyright law	Protects original works of authorship, such as music and literary works and computer programs
Trademark law	Protects brand names and other symbols that indicate source of goods and services
Trade secret law	Protects confidential business information
Law of licensing	Enables owners of patents, trademarks, copyrights, and trade secrets to share them with others on a mutually agreed-on basis
Law of unfair competition dealing with counterfeiting and piracy	Protects against those who try to take a free ride on the efforts and achievements of creative people

Source: Efraim Turban et al., *Electronic Commerce: A Managerial Perspective* (Upper Saddle River, NJ: Pearson/Prentice Hall, 2008), 779.

It is important to protect intellectual property because businesses will not realize the full benefits of their inventions and would be inclined to focus less on research and development. Additionally, without intellectual property protections, "exporters face unfair competition abroad, non-exporters face counterfeit imports at home, and all businesses face legal, health and safety risks from the threat of counterfeit goods entering their supply chains.""Why Protect Intellectual Property?," *StopFakes.gov*, accessed June 1, 2012, http://origin.www.stopfakes.gov/learn-about-ip/ip/why-should-i-protect-my-ip. Unfortunately, US small businesses are at a disadvantage because"Why Protect Intellectual Property?," *StopFakes.gov*,

28. A creation of the mind—such as inventions; literary and artistic works; and symbols, names, images, and designs used in commerce.

accessed June 1, 2012, http://origin.www.stopfakes.gov/learn-about-ip/ip/why-should-i-protect-my-ip.

- They may lack the knowledge, expertise, or resources necessary to prevent the theft of their ideas and products.
- Many small businesses do not have personnel and operators overseas, so they do not have the necessary eyes and ears needed to be vigilant. The theft of their ideas and products often goes undetected.
- Small businesses generally do not have the kinds of access and resources that are likely available to larger companies (e.g., specialized legal counsel).

Because of the complexities of intellectual property protections, this area requires the services of an attorney, preferably one experienced and knowledgeable in cyberlaw.

Jurisdiction[29] refers to the right and power that a court has to interpret and apply the law in a particular geographic location.Peter LaSorsa, "Selling Products Online: What Legal Jurisdiction," *Practical eCommerce*, November 5, 2008, accessed October 10, 2011, www.practicalecommerce.com/articles/860-Selling-Products-Online-What-Legal -Jurisdiction-Applies-. "A court must have jurisdiction over the litigants and the claims before it entertains a lawsuit. In the context of Internet commerce, this issue erupts when a dispute arises between businesses from different states [or countries]."Elias M. Awad, *Electronic Commerce: From Vision to Fulfillment* (Upper Saddle River, NJ: Prentice-Hall, 2005), 387. Many small businesses will be selling products online in other states and in other countries, so it is important to understand the jurisdictions that might be applicable to any online transaction. "In many cases, laws from the customer's state are the ones that will apply in the event a problem arises. This is equally true regarding the laws of other countries."Peter LaSorsa, "Selling Products Online: What Legal Jurisdiction," *Practical eCommerce*, November 5, 2008, accessed October 10, 2011, www.practicalecommerce.com/articles/860-Selling-Products-Online-What-Legal -Jurisdiction-Applies-. From the perspective of any business, but particularly a small business, it would be much easier from both a time and a money perspective to have an issue litigated in the home state of a business. Although there are no guarantees, these steps can be taken to increase the chances of a dispute being settled in the home state of a business:Peter LaSorsa, "Selling Products Online: What Legal Jurisdiction," *Practical eCommerce*, November 5, 2008, accessed October 10, 2011, www.practicalecommerce.com/articles/860-Selling-Products-Online-What-Legal -Jurisdiction-Applies-.

29. The right and power that a court has to interpret and apply the law in a particular geographic location.

1. If using a contract with another party, make sure the contract says that any dispute must be filed in your home state and that both parties to the contract agree to jurisdiction in that state.
2. When a customer is purchasing an item on the website of a business, one of the terms and conditions of the transaction should be that the customer agree to jurisdiction in the home state of that business. This can be done with a check box next to the statement. Make the customer check it off before completing the purchase.
3. A less effective way is to include a disclaimer on the website that any transaction will convey jurisdiction to the home state of a business, and any dispute must be heard by a court of competent jurisdiction in the home state of the business.

All these steps should also be considered when selling to other countries. However, the laws in other countries will undoubtedly introduce complications into protecting the US-based business. Take the example of Yahoo! and the sale of Nazi memorabilia on one of its auction websites. A French court ruled that such sales breached French law against the display of Nazi items. Yahoo! took steps to remove and ban all such hate paraphernalia from its auction sites, but it continued to fight jurisdiction of the French ruling in American courts.Kathleen Mykytn and Peter Mykytn, "The Importance of the Law For E-Commerce Strategies," *Information Systems Management* 22, no. 2 (2005): 50–56. It would be very easy for a small business to inadvertently find itself in a similar situation. That is why a business needs to be careful when selling outside its home country. Be familiar with foreign laws. This is not an easy task because the minute a business website goes live, the business goes global. The laws of the world suddenly become relevant.

Ethical Issues

It is known that "ethical factors do play a significant role in e-consumers' purchasing decisions."Avshalom M. Adam, Avshalom Aderet, and Arik Sadeh, "Do Ethics Matter to E-Consumers?," *Journal of Internet Commerce* 6, no. 2 (2007): 19–34. Therefore, ethical factors should be of major concern in e-commerce and, accordingly, in the information and protections offered by an e-commerce website.

It has been observed that the "Internet represents a new environment for unethical behavior," and "ethical transgressions are more likely to happen in e-transactions as compared to face-to-face transactions."Sergio Roman, "The Ethics of Online Retailing: A Scale Development and Validation from the Consumer's Perspective," *Journal of Business Ethics*, 72 (2007): 131–48. To a large extent, this is due to the absence of physical and interpersonal cues that are present in traditional retailing or business settings. The implication is that e-commerce operations should focus more specifically and explicitly on the ethics messages that are being conveyed by

the website. Thus the focus of this ethics discussion is on three major components of e-commerce ethics: security, privacy, and trust.

Security and Privacy

Website security[30] (the protection of a company, its suppliers, its customers, and its employees from criminal activity) is a critical consideration for any small business engaged in e-commerce. The Internet is a global playground for criminals. It is less risky to steal online because "the potential for anonymity on the Internet cloaks many criminals in legitimate-looking identities, allowing them to place fraudulent orders with online merchants, steal information by intercepting e-mail,…shut down e-commerce sites by using software viruses,"Kenneth C. Laudon and Carol G. Traver, *E-commerce: Business, Technology, Society* (Upper Saddle River, NJ: Prentice Hall, 2007), 248. and steal financial information and money. This new type of crime is referred to as cybercrime, and it is a serious threat to e-commerce.

Cybercrime[31] refers to any criminal activity that is done using computers and the Internet,"Cybercrime," *TechTerms.com*, accessed October 10, 2011, www.techterms.com/definition/cybercrime. and it includes a wide range of offenses. Downloading illegal music, stealing from online bank accounts, stealing credit card numbers and personal information, stealing identities, posting confidential business information on the Internet, and creating and distributing viruses on other computers are only some of the thousands of crimes that are considered cybercrimes."Cybercrime," *TechTerms.com*, accessed October 10, 2011, www.techterms.com/definition/cybercrime. Cybercrimes can take place anytime and anyplace. It has cost American companies a median loss of $3.8 million a year, and data protection and information technology (IT) practitioners from 45 US organizations from various sectors reported that, across their companies, 50 successful attacks were experienced over a four-week period.Alejandro Martinez-Cabrera, "Cybercrime Costs Firms $3.8 Million Yearly," *Computer Crime Research Center*, August 3, 2010, accessed October 10, 2011, www.crime-research.org/news/03.08.2010/3807.

Video Clip 4.4

The New Face of Cybercrime

(click to see video)

Cybercrime today.

30. The protection of a company, its suppliers, its customers, and its employees from criminal activity.

31. Any criminal activity that is done using computers and the Internet.

Video Clip 4.5

The State of Cybercrime

(click to see video)

Do not be fooled. Cybercrime is on the rise.

Video Clip 4.6

Cybercrime Trailer

(click to see video)

New cybercrime threats.

Cybercrime is more profitable than the illegal drug trade (more than $100 billion globally per year). Every three seconds an identity is stolen, and without security, an unprotected PC can become infected within four minutes of connecting to the Internet."What Is Cybercrime?," *Symantec*, accessed October 10, 2011, us.norton.com/cybercrime/definition.jsp; and "Cyber Crime 'More Profitable Than Drugs'," *9News*, June 9, 2009, accessed October 10, 2011, news.smh.com.au/breaking-news-national/cyber-crime-more-profitable-than-drugs-20090609-c1qm.html. A Microsoft security intelligence report maintains that cybercrime is fast maturing as a profession, with cybercriminals becoming more sophisticated and packaging online threats that can be sold to others.Rudolph Muller, "Cybercrime Getting More Sophisticated," *Mybroadband*, June 24, 2010, accessed October 10, 2011, mybroadband.co.za/news/internet/13279-Cybercrime-getting-more-sophisticated.html.

> ## Examples of Cybercrimes"Computer Crime & Intellectual Property Section," US Department of Justice, accessed October 10, 2011, <u>www.cybercrime.gov</u>.
>
> The <u>Computer Crime & Intellectual Property Section of the US Department of Justice</u> keeps a running list of press releases related to cybercrimes. Here are three examples.
>
> 1. A Miami man pled guilty to one count of conspiracy to traffic in and possess unauthorized credit card numbers with intent to defraud, and one count of trafficking in unauthorized credit card numbers.
> 2. A Rhode Island man pleaded guilty to Internet sales of unregistered, unlabeled pesticides for cats and dogs while infringing on the trademark of two well-known national brand names, "Frontline" and "Frontline Plus." The man made more than 3,500 sales through eBay.
> 3. A Canadian man was sentenced to 33 years in prison for selling counterfeit cancer drugs using the Internet.

Cybercrime hurts the bottom line of any business, but small and medium-sized businesses are the new cybercrime target. "Hackers and computer criminals...are taking a new aim—directly at small and midsize businesses...Smaller businesses offer a much more attractive target than larger enterprises that have steeled themselves with years of security spending and compliance efforts."Tim Wilson, "Small Business: The New Black in Cybercrime Targets," *Dark Reading*, March 19, 2009, accessed October 10, 2011, <u>www.darkreading.com/security/perimeter-security/215901301/small-business-the-new-black-in-cybercrime -targets.html</u>. Small businesses are potentially very lucrative targets for several reasons:

- Nearly one fifth of small businesses do not use antivirus software.
- Two thirds of small businesses do not have a security plan in place.
- Sixty percent of small businesses do not use encryption on their wireless links.
- Only about 60 percent of mom-and-pop shops have met the credit card industry's data security standards for protecting credit card data. Compliance at the smallest businesses is even worse.
- Two thirds of small and medium-sized businesses believe that large companies are the main target for cybercrime,...yet 85 percent of the

fraud seen in business occurs in small and medium-sized businesses.Tim Wilson, "Small Business: The New Black in Cybercrime Targets," *Dark Reading*, March 19, 2009, accessed October 10, 2011, www.darkreading.com/security/perimeter-security/215901301/small-business-the-new-black-in-cybercrime -targets.html.

The cybercriminal is looking to steal and disrupt. Securing a website should be a top priority for any company—small, medium, or large—that uses the Internet to conduct its business.

Video Clip 4.7

How SSL Security Works on E-Commerce Websites

(click to see video)

How Amazon.com grew so fast by incorporating SSL security.

Given the state of cybercrime, assuring the security and the **privacy**[32] of e-consumers (the protection of the personal information of customers on the Internet) are necessary to build and maintain confidence in the e-market, particularly because the risk of privacy invasion and security flaws is significant.Avshalom M. Adam, Avshalom Aderet, and Arik Sadeh, "Do Ethics Matter to E-Consumers?," *Journal of Internet Commerce* 6, no.2 (2007): 19–34. Further, such assurances have been found to have a significant impact on the willingness to purchase.Naresh K. Malhotra, Sung S. Kim, and James Agarwal, "Internet Users' Information Privacy Concerns (IUIPC): The Construct, the Scale and a Causal Model," *Information Systems Research* 15, no. 4 (2004): 289–304, as cited in Avshalom M. Adam, Avshalom Aderet, and Arik Sadeh, "Do Ethics Matter to E-Consumers?," *Journal of Internet Commerce* 6, no.2 (2007): 19–34.

E-customers voice their privacy concerns in different ways. Here are some examples:Sergio Roman, "The Ethics of Online Retailing: A Scale Development and Validation from the Consumer's Perspective," *Journal of Business Ethics*, 72 (2007): 131–48.

- "I don't like websites that ask you for personal information that is not necessary for the purchase to be made."
- "All privacy notices contain the same information, and besides, how do I know that the website actually follows the privacy policy."

32. The protection of personal information of customers on the Internet.

- "I'm not comfortable at all with the idea of the online retailer having my personal information and selling it to other companies for marketing purposes."

The scope of failure in protecting customers' personal information can be potentially devastating because of the global reach of the Internet; the effect can easily reach millions of people.Beverly Kracher and Cynthia L. Corritore, "Is There a Special E-Commerce Ethics?," *Business Ethics Quarterly* 14, no. 1 (2004): 71–94. Heartland is a payment processor responsible for handling about 100 million credit card transactions every month. They disclosed in June 2009 that thieves had used malicious software in its network in 2008 to steal an unknown number of credit card numbers.Eric Larkin, "Massive Theft of Credit Card Numbers Reported," *PCWorld*, January 20, 2009, accessed October 10, 2011, www.pcworld.com/article/158003/massive_theft_of_credit_card_numbers_reported.html.

Fortunately, the theft of credit card and other personal information originating from websites accounted for only about 11 percent of the identity theft or fraud that affected 11 million Americans in 2009."Javelin Study Finds Identity Fraud Reached New High in 2008, but Consumers Are Fighting Back," *Javelin Strategy and Research*, February 10, 2010, accessed October 10, 2011, www.javelinstrategy.com/news/831/92/Javelin-Study-Finds-Identity-Fraud-Reached-New-High-but-Consumers-are-Fighting-Back/d,pressRoomDetail. This is why the act of providing credit card information on a website for a purchase is still considered by some people to be so risky that they refuse to conduct any Internet transactions. This has obvious implications for any small company that hopes to do business online.

Fortunately, there is a very straightforward way to provide the security and privacy that online customers seek: the use of **Secure Sockets Layer (SSL)**[33], a security protocol that is used by web browsers and web servers to help users protect their data during transfer."FAQ: SSL Basics," *VeriSign Authentication Services*, 2011, accessed October 10, 2011, www.verisign.com/ssl/ssl-information-center/ssl-basics. Companies like VeriSign offer SSL protection certificates, and the placement of its icon on a website can offer security and privacy assurances to online customers. The inclusion of SSL protection should be discussed with your website designer.

Trust

Trust is about believing—believing that someone will do what they say and that they will not intentionally do something to hurt you. Trust is an important part of all business relationships. Without trust, all e-commerce would come to a halt. "Trust is central to establishing successful e-commerce ventures and to ensure the continued success of this business paradigm into the future."Albert J. Marcella,

33. A security protocol that is used by web browsers and web servers to help users protect their data during transfer.

Establishing Trust in Virtual Markets (Altamonte Springs, FL: The Institute of Internal Auditors, 1999), as cited in Beverly Kracher and Corritore, "Is There A Special E-Commerce Ethics?," *Business Ethics Quarterly* 14, no. 1 (2004): 71–94. Trust will improve competitiveness, reduce the costs of doing business, build loyalty, and increase the effectiveness of websites. In short, trust can be an important source of competitive advantage. Trust is essential.

In the physical world, trust is much easier to develop. Physical cues from spaces and buildings, face-to-face voice and body language, and salesperson effectiveness can translate easily into trust relationships. In the online world, however, trust develops as a result of the complex interaction of multiple factors that have design implications for the website. Here are some examples of trust:Avshalom Adam, Avshalom Aderet, and Arik Sadeh, "Do Ethics Matter to E-Consumers?," *Journal of Internet Commerce* 6, no. 2 (2007): 19–34; Andrea Everard and Dennis F. Galletta, "How Presentation Flaws Affect Perceived Site Quality, Trust, and Intention to Purchase from an Online Store," *Journal of Management Information Systems* 22, no. 3 (2005–6): 55–95; William Hampton-Sosa and Marios Koufaris, "The Effect of Web Site Perceptions on Initial Trust in the Owner Company," *International Journal of Electronic Commerce* 10, no. 1 (2005): 55–81; Beverly Kracher and Cynthia L. Corritore, "Is There a Special E-Commerce Ethics?," *Business Ethics Quarterly* 14, no. 1 (2004): 71–94; and Sergio Roman, "The Ethics of Online Retailing: A Scale Development and Validation from the Consumers' Perspective," *Journal of Business Ethics* 72 (2007): 131–48.

- The customer observes the seller to be honest, fair, responsible, and benevolent.
- The customer expects that the company behind the website will not engage in opportunistic behavior.
- The customer is confident about the site's security and privacy protection (security and privacy having been shown to be an important determinant of a customer's willingness to buy online).
- The customer perceives the company's website as appealing (linked to layout, typography, font size, and color choices)—the belief being that an appealing website reflects a company has the capabilities and resources to fulfill its promises.
- The customer experiences a site that is easy to use (i.e., easy to navigate, easy to search, easy to gather information) and has relevant content, interactivity, site consistency, and site reliability.
- The customer perceives presentation flaws (e.g., poor style, incompleteness, language errors, conflicting colors, delay, and confusing terminology) as indicators of a low-quality, untrustworthy website.

Another element of trust is **order fulfillment**[34]. Order fulfillment is all about meeting expectations, and some argue that this is the most important element of trust.Terry Newholm et al., "Multi-Story Trust and Online Retailer Strategies," *International Review of Retail, Distribution and Consumer Research*, 14, no. 4 (2004): 437–56. Delays in the delivery of a product, the delivery of the wrong product, and the hassles of returning merchandise are stresses that can contribute to a less-than-satisfactory Internet buying experience. Such experiences contribute to a lack of trust. In contrast, satisfied consumers express themselves this way:Sergio Roman, "The Ethics of Online Retailing: A Scale Development and Validation from the Consumers' Perspective," *Journal of Business Ethics* 72 (2007): 131–48.

- "Products at this site are a bit pricey, but it is worth purchasing from this site since you get what you order and within the promised delivery time."
- "I keep purchasing from this site because they always have the items I want in stock."

Buying some products online, such as clothing, furniture, and toys, does not offer buyers the opportunity to touch and feel the product before buying. As a result, order fulfillment becomes even more important to customer satisfaction.

Linked closely to order fulfillment is **product reliability**[35]. Product reliability refers to "the accurate display and description of a product so that what customers receive is what they thought they ordered."Sergio Roman, "The Ethics of Online Retailing: A Scale Development and Validation from the Consumers' Perspective," *Journal of Business Ethics* 72 (2007): 131–48. Online retailers should provide a complete and realistic description of the product and its benefits—with high-quality pictures and perhaps even demonstration videos if possible, appropriate, and affordable—along with product availability and likely ship dates. Customers should be notified by e-mail of order acceptance, and the anticipated delivery date with phone and e-mail contacts for any needed assistance.

34. Meeting customer expectations with respect to processing the order and delivering of the product.

35. The accurate display and description of a product so that what customers receive is what they thought they ordered.

> ### Video Link 4.1
>
> Inflatable Fruitcake
>
> Inflatable fruitcake with demonstration.
>
> www.inflatablefruitcake.com/

What all this says is that website owners must proceed carefully to create their online presence in a way that will inspire trust. "If consumers trust online merchants and have confidence in the reliability and integrity of merchants, they will likely feel more at ease making purchases and disclosing sensitive information online. Therefore, the success of online merchants and the future of e-commerce may depend heavily on online trust."Ye Diana Wang and Henry H. Emurian, "Trust in E-Commerce: Consideration of Interface Design Factors," *Journal of Electronic Commerce in Organizations* 3, no. 4 (2005): 42–60.

Payment Options

Nowhere are security, privacy, and trust more necessary than at the point of payment. Without this transaction, there is no e-commerce, so it is imperative that small businesses selling online take the necessary steps to reduce customer concerns about shopping online. A recent survey found that retailers operating online may have lost more than $44 billion dollars over a one-year period as a result of transaction problems on their websites; in addition, 27 percent of online shoppers would turn to an offline or online competitor if they encountered an online transaction issue."Tealeaf Survey Reveals That Online Retailers Potentially Lost More Than $44 Billion Due to Transaction Problems on Their Sites," *Tealeaf*, September 27, 2010, accessed October 10, 2011, www.tealeaf.com/news/news-releases/2010/Tealeaf-Survey -Reveals-Online-Retailers-Potentially-Lost.php. More specifically, online shoppers who encountered a transaction problem would react as follows:"Tealeaf Survey Reveals That Online Retailers Potentially Lost More Than $44 Billion Due to Transaction Problems on Their Sites," *Tealeaf*, September 27, 2010, accessed October 10, 2011, www.tealeaf.com/news/news-releases/2010/ Tealeaf-Survey -Reveals-Online-Retailers-Potentially-Lost.php.

- Sixty-six percent would contact customer service, including

- Fifty-three percent calling customer service; and
- Thirty-six percent e-mailing or logging a web complaint with customer service.

- Thirty-two percent would abandon the transaction entirely, including

- Twenty-seven percent turning to an online or offline competitor.

To make matters even worse, the potential for lost revenue when customers have a negative online shopping experience is amplified by the rising use of social media like Facebook and Twitter; the voicing of displeasure on social networks can significantly damage a company's reputation."Tealeaf Survey Reveals That Online Retailers Potentially Lost More Than $44 Billion Due to Transaction Problems on Their Sites," *Tealeaf*, September 27, 2010, accessed October 10, 2011, www.tealeaf.com/news/news-releases/2010/Tealeaf-Survey -Reveals-Online-Retailers-Potentially-Lost.php. The message is clear. Online transactions must run smoothly.

But there is another important issue: the number of payment options that are offered to the customer. Research shows that the more payment options customers have, the more likely they will complete their purchase.Delilah Obie, "Choosing a Vendor to Process Your Online Transactions," *SCORE*, accessed October 10, 2011, www.score.org/resources/online-transactions-vendor; "How to Increase Sales with Online Payment Options," March 22, 2010, accessed October 10, 2011, www.openforum.com/idea-hub/topics/money/article/how-to -increase-sales-with-online-payment-options-thursday-bram; "More Payment Options Can Mean More Business," *MivaCentral*, 2009, accessed October 10, 2011, mivacentral.com/articles/payment.mv; T. Brandon, "Multiple Payment Processing Options Increase Sales," *eZine Articles*, October 21, 2007, accessed October 10, 2011, ezinearticles.com/?Multiple-Payment-Processing-Options-Increase-Sales&id=793303; and Efraim Turban et al., *Electronic Commerce: A Managerial Perspective* (Upper Saddle River, NJ: Pearson/Prentice Hall, 2008).

- Merchants offering multiple payment methods have lower cart abandonment rates.
- If you can afford it and maintain your profit margin, offering multiple payment options is a means to increase your sales by increasing customer confidence and convenience.
- North American online businesses with four or more options for payment see an average **sales conversion rate**[36] of 72 percent. The sales conversion rate is the percentage of site visitors that make a purchase.

36. The percentage of site visitors who make a purchase.

- Each new payment option added at the point of checkout results in a sales increase of 5–20 percent.

Customers shopping online expect convenience and a variety of payment options. Credit cards are by far the most popular means for making an online payment, with one survey indicating that 70 percent of online consumers used this payment method."Online Retail Payments Forecast 2010–2014: Alternative Payments Growth Strong but Credit Card Projected for Comeback," *Javelin Strategy and Research*, February 2010, accessed October 10, 2011, www.javelinstrategy.com/research/ Brochure-171. Any small business that does not have its website set up to accept credit cards will lose 60–80 percent of its potential orders. Further, offering a credit card option will increase the number of orders, and those orders will be substantially larger because credit cards enable impulse buying, reassure customers of your legitimacy, and simplify your billing.Delilah Obie, "Choosing a Vendor to Process Your Online Transactions," *SCORE*, accessed October 10, 2011, www.score.org/resources/online-transactions-vendor.

Consistent with credit cards being the online payment method of choice, it has been reported that 99 percent of online businesses offer a general purpose credit card, which include Visa, MasterCard, American Express, and Discover."More Payment Options Can Mean More Business," *MivaCentral*, 2009, accessed October 10, 2011, mivacentral.com/articles/payment.mv. However, debit cards are growing in popularity ahead of other payment alternatives.

Table 4.4 Payment Options Consumers Used to Make Online Purchases in 2009

Payment Option	% Used
Major credit card usable anywhere	70
Major debit card usable anywhere	55
Online payment service, such as PayPal or Google Checkout	51
Gift card good only at a specific merchant	41
Store-branded credit card good only at the merchant that issued the card	27
Prepaid card or payroll card usable anywhere	17
Online credit service such as BillMeLater	17
Store-branded debit card good only at merchant that issued the card	16

The implications of this for small business are that credit cards should be the first payment method that should be set up for online sales. Additional payment

methods should be added as quickly as the budget allows because it is clear that more payment options translate into a greater likelihood of purchase. However, the choice of alternative payment methods should be in keeping with the growth strategy of the business. It may be that offering one method of payment provides a satisfactory level of sales, thereby eliminating the need for additional methods for sales growth.

KEY TAKEAWAYS

- It is important to protect intellectual property.
- Ethics influence consumer purchases.
- Small businesses are the new target for cybercrime. As a result, small businesses must pay attention to their website security because it will protect the business and influence customer trust.

EXERCISES

1. Find three small business websites. Analyze each website in terms of its trustworthiness. Discuss why you would or would not trust each site. Be specific.
2. Discuss whether you think an unintelligible privacy policy is ethical. Be specific in your arguments.

4.3 E-Commerce Technology

> **LEARNING OBJECTIVES**
>
> 1. Explain what an e-commerce platform is.
> 2. Discuss the importance of a CRM solution to a small business.
> 3. Explain m-commerce and why small businesses should consider incorporating it into their e-commerce strategy.
> 4. Explain the significance of Web 2.0 to a small business.

As discussed in <u>Chapter 1 "Foundations for Small Business"</u>, digital technology has put small business on a more equal footing with its larger competitors. Although it is certainly true that a commitment to technology is not for every small business, it is also true that technology is transforming small business in important ways: (1) businesses are easier to find online than ever before; (2) communicating with customers is shifting to e-mail marketing and social media; (3) e-mail and mobile phones are improving productivity; (4) collaboration among employees who are working in multiple venues is easier; (5) outsourcing is easier; and (6) more companies are shifting their attention to how they can sell products and services online. Using technology well is proving to be one of the most prominent drivers of business success.Ross Dawson, "Six Ways Technology Is Transforming Small Business," *Ross Dawson Blog*, November 18, 2009, accessed October 10, 2011, <u>rossdawsonblog.com/weblog/archives/2009/11/six_ways_techno.html</u>.

Technology specifically related to e-commerce is a large umbrella. E-commerce platforms, customer relationship management (CRM), going mobile, and Web 2.0 will be discussed in this section.

E-Commerce Platforms

An **e-commerce platform**[37] is the software that makes it possible for a business to sell online. In general, the core e-commerce platform should support basic requirements such as custom styling, **search engine optimization**, credit card processing, promotions, catalog management, analytics, product browsing, checkout, and order management. Additionally, e-commerce platforms should provide self-service content management systems (CMS), support multiple languages, and support multiple stores."Ecommerce Integration," *Treehouse Logic*, May 20, 2010, accessed October 10, 2011, <u>blog.treehouselogic.com/2010/05/20/ecommerce-integration</u>. These requirements may vary slightly depending on which

37. The software that makes it possible for a business to sell online.

type of e-commerce is being conducted. **Analytics**[38] refer to the tools that can track the different ways people use your website and then make sense of the data.Justin Whitney, "What Is Web Analytics?," *AllBusiness.com*, 2010, accessed October 10, 2011, www.allbusiness.com/marketing-advertising/marketing-advertising/11382028 -1.html. Analytics will be discussed in further detail in Chapter 8 "The Marketing Plan".

The **all-in-one e-commerce platform solution**[39] has become more popular with online merchants. This solution provides everything: the core e-commerce platform plus hosting, accounting, analytics, and marketing tools such as e-mail management. Because all the tools are integrated, they work together.James Macguire, "Starting Your Own E-Business, Pt 2: Choosing a Platform," *ecommerce-guide.com*, September 26, 2005, accessed October 10, 2011, www.ecommerce-guide.com/solutions/building/article.php/3551461. It has also been reported that e-commerce platforms are now enabling online retailers to better reach consumers through mobile devices and social media sites."E-commerce Platforms Offer Retailers New Social and Mobile Features, *Internet Retailer*, April 22, 2010, accessed October 10, 2011, www.internetretailer.com/ECTR/article.asp?id=34549. This is great news for the small business that wants to tap into these growing markets.

The list of e-commerce software providers is always growing, but there are many products that are tailored specifically for small to medium-sized businesses. Some of the names that come up frequently for small business are BigCommerce, Magento, Affinity Internet, ProStores (for the smaller merchant), and Miva Merchant. However, this list is not exhaustive, and new products enter the marketplace all the time.

Customer Relationship Management

Customer relationship management, as mentioned in Chapter 2 "Your Business Idea: The Quest for Value", refers to "a customer service approach that focuses on building long-term and sustainable customer relationships that add value for the customer and the company."Efraim Turban et al., *Electronic Commerce: A Managerial Perspective* (Upper Saddle River, NJ: Pearson/Prentice Hall, 2008), 75. Some small businesses may wonder whether they really need the added complexity of a small business CRM solution. The answer will depend to a large extent on the size of the business and its growth objectives. However, it has been observed that there is no small business out there that, "sometimes in spite of themselves, didn't benefit from implementing a...CRM or its watered down equivalent—a simpler Contact Management software solution."Perry Norgarb, "Does Your Small Business Even Need a CRM Software Solution?," *SmallBizCRM*, accessed October 10, 2011, www.smallbizcrm.com/does-your -small-business-need-a-software-solution.html. Recent studies have revealed that CRM applications account for the following:Peter

38. The tools that can track the different ways people use a website and then make sense of the data.

39. The core e-commerce platform plus hosting, accounting, analytics, and marketing tools such as e-mail management.

Norgarb, "So Where Do You Start? How Do You Start?," 2010, www.smallbizcrm.com.

- Revenue increases of up to 41 percent per salesperson
- Decreased sales cycles of over 24 percent
- Lead conversion rate improvements of over 300 percent
- Customer retention improvements of 27 percent
- Decreased sales and marketing costs of 23 percent
- Improved profit margins of over 2 percent

It has also been noted that companies can boost their profits by almost 100 percent by retaining just 5 percent of their customers.Peter Norgarb, "So Where Do You Start? How Do You Start?," 2010, www.smallbizcrm.com. What does this mean for the small business that chooses to go with a CRM solution? As long as the solution is well implemented and actually used, there should be an immediate payoff and productivity improvement throughout the company. Additionally, choosing to engage in e-commerce makes the selection of a CRM solution even more important because the quality of customer relationships is so important to online success.

Although there was a time when CRM solutions were not feasible for small business, they are available today for even the smallest businesses. These CRM solutions are priced and designed with the small business in mind.

Going Mobile

As defined earlier in this chapter, **mobile e-commerce (m-commerce)** refers to the purchase of goods and services through wireless technology, such as cell phones and handheld devices. It consists of two primary components: "...the ability to use a wireless phone or other mobile device to conduct financial transactions and exchange payments over the Internet...and the ability to deliver information that can facilitate a transaction—from making it easy for your business to be 'found' via a mobile Web browser to creating mobile marketing campaigns such as text promotions and loyalty programs."Laurie McCabe, "Mobile Commerce: Coming to Ecommerce Sites Near You," *ecommerce-guide.com*, September 14, 2010, accessed October 10, 2011, www.ecommerce-guide.com/news/trends/article.php/3903526/ Mobile-Commerce -Coming-to-Ecommerce-Sites-Near-You.htm. It is predicted that in 2015 m-commerce revenues will make up 8.5 percent of all US e-commerce revenue and 20 percent of global e-commerce revenue. In the United States, that will represent only one half of 1 percent of all retail revenues.Ian Mansfield, "US Mobile Ecommerce Revenues Set to Rise to $23.8bn in 2015, *Cellular-News*, April 14, 2010, accessed October 10, 2011, www.cellular-news.com/story/42841.php. However, even though m-commerce is lagging behind other mobile uses, wireless

devices and m-commerce are expected to create another revolution in e-commerce. The most important thing that online retailers can do is to "…take action soon because the mobile environment is adapting much more quickly than the web."Brendan Gibbons, "To Tap Mobile Buyers, First Determine Their Needs," *Practical eCommerce*, March 16, 2010, accessed October 10, 2011, www.practicalecommerce.com/articles/1732-To-Tap-Mobile-Buyers-First-Determine -Their-Needs.

Small businesses need to sort out the hype from what's real. What's real are the facts and the trends. Jim Jansen, "Online Product Research: 58% of Americans Have Researched a Product or Service Online," September 29, 2010, accessed October 10, 2011, http://pewinternet.org/Reports/2010/Online-Product-Research.aspx; "Majority of Online Retailers Plan to Have Mobile Ecommerce Websites by 2011," *Deluxe for Business*, August 20, 2010, accessed October 10, 2011, http://deluxesmallbizblog.com/web-design/search-marketing/majority-of-online-retailers-plan-to-have-mobile-ecommerce-websites-by-2011; Laurie McCabe, "Mobile Commerce: Coming to Ecommerce Sites Near You," *ecommerce-guide.com*, September 14, 2010, accessed October 10, 2011, www.ecommerce-guide.com/news/trends/article.php/3903526/Mobile-Commerce -Coming-to-Ecommerce-Sites-Near-You.htm; Ian Mansfield, "Mobile Internet Devices Expected to Surpass One Billion by 2013," *Cellular-News*, December 9, 2009, accessed October 10, 2011, www.cellular-news.com/story/40997.php; John Lawson, "75% of Online Retailers Are Ramping Up Mobile Strategies," *ColderICE*, accessed June 1, 2012, http://colderice.com/75-of-online-retailers-are-ramping-up-mobile-strategies/; Aaron Smith, "Mobile Access 2010," *Pew Internet & American Life Project*, July 7, 2010, accessed October 10, 2011, www.pewinternet.org/Reports/2010/Mobile-Access-2010.aspx; and Ian Mansfield, "US Mobile Ecommerce Revenues Set to Rise to $23.8bn in 2015, *Cellular-News*, April 14, 2010, accessed October 10, 2011, www.cellular-news.com/story/42841.php.

1. From the second quarter 2009 through the second quarter 2010, Amazon's customers around the world used mobile devices to buy more than $1 billion in products. This is a trend that any small business with an e-commerce website should watch closely.
2. Mobile devices connected to the Internet are reshaping the way people are going about their personal and professional lives.
3. One of the fastest growth areas in e-commerce will be using mobile devices to make online purchases.
4. Close to 80 percent of organizations plan to have mobile websites by the end of 2011. Online retailers without an m-commerce strategy will be in the minority.
5. Handheld devices are increasingly being used to research products, compare prices, and buy online while shopping.

6. A central driver to m-commerce growth is **smartphone** ownership and the corresponding mobile Internet use.

7. Nearly 58 percent of Americans have researched a product or a service online.

8. Among cell phone owners, 11 percent purchased a product or a service using their phones.

Video Clip 4.8

Mobile E-Commerce Capabilities

<u>(click to see video)</u>

Gene Alvarez, Gartner Group, discusses m-commerce.

Major retailers have been able to easily offer remote access to customers who want to make purchases using mobile devices (e.g., Target and Nordstrom). Software is now available for small businesses to offer some of the same bells and whistles, giving their online customers the ability to shop via smartphones.Stuart J. Johnston, "Small Business Ecommerce Trends: Shop by Smartphone," *Small Business Computing.com*, September 7, 2010, accessed October 10, 2011, <u>www.smallbusinesscomputing.com/news/article.php/3902136/Small-Business-Ecommerce-Trends-Shop-by-Smartphone.html</u>.

Mobile e-commerce may not be for all small businesses, but a small business owner who is already in e-commerce or has plans to do so should give it consideration. Multichannel shoppers tend to purchase more, so small companies need to think of ways to "effectively engage customers by delivering consistent, rich experiences across all channels, including mobile, to maintain and fuel double-digit ecommerce industry growth rates.""Majority of Online Retailers Plan to Have Mobile Ecommerce Websites by 2011," *Deluxe for Business*, August 20, 2010, accessed October 10, 2011, <u>deluxesmallbizblog.com/web-design/search-marketing/majority-of-online-retailers-plan-to-have-mobile-ecommerce-websites-by-2011</u>. Online customers are ready and increasingly interested in using mobile devices to make purchases.

Web 2.0

40. Websites that are more interactive, engaging, and interesting than available with Web 1.0.

There is no agreement about an exact definition of **Web 2.0**[40] but, in general, it refers to websites that are more interactive, engaging, and interesting than before. A Web 2.0 site is one where visitors can engage with you, your business, and your site by doing things like the following:Steve Strauss, "Maximizing Your Web

Presence Is Key to Building Your Small Business," *USA Today*, April 11, 2010, accessed October 10, 2011, www.usatoday.com/money/smallbusiness/columnist/strauss/2010-04-11-building-web-presence_N.htm.

- Posting comments on your blog or your articles or chatting in a forum
- Retweeting your content, sharing it on Facebook, or Digging it
- Watching a video, listening to a podcast, or participating in a webinar
- Taking a quiz or responding to a poll

Web 2.0 is about having a conversation with your customers. This is very different from **Web 1.0**[41], where websites were static and all you could do was read. Web 2.0 sites are collaborative and interactive. The small business that creates a site that engages and interacts with people, that makes people want to stick around, will be giving people more of a chance to create a connection with the business.Steve Strauss, "Maximizing Your Web Presence Is Key to Building Your Small Business," *USA Today*, April 11, 2010, accessed October 10, 2011, www.usatoday.com/money/smallbusiness/columnist/strauss/2010-04-11-building-web-presence_N.htm. These closer ties will increase customer awareness and consideration of the company's products and services, improve customer satisfaction, increase the chances of loyalty, increase the chances for sales, and add to the bottom line. There will also be significant benefits realized between the small business and its suppliers and partners: lowering the costs of communication and doing business.

A much smaller percentage of small businesses have adopted elements of Web 2.0 as compared to large enterprises and midsize companies.Heather Claney, "Small Businesses Apparently Slow to Adopt Web 2.0 Philosophies," *IT Knowledge Exchange*, June 29, 2008, accessed October 10, 2011, itknowledgeexchange.techtarget.com/channel-marker/small-businesses-apparently -slow-to-adopt-web-20-philosophies. However, many small businesses are using Web 2.0 in a variety of positive ways.Anita Campbell, "Real Life Examples of Business Owners Using Social Media," *Small Business Trends*, July 3, 2008, accessed October 10, 2011, smallbiztrends.com/2008/07/real-life-examples-of-business-owners-using-social-media.html.

- One business owner operated a Facebook group, attracted interest in the business, and developed loyalty through the group.
- Another business routinely put press releases online and attested to their value at getting the company's website found in search engines.
- The owner of a product company reported good results with videos that were loaded on YouTube and on the company's website. The video attracted people to the site and also engaged existing visitors on the site.

41. All websites were static, and all you could do was read.

- A small real-estate company has a Facebook page, a blog, and a property value calculator that allows homeowners to calculate an approximation of their home's value without having to speak with a realtor. The information is then sent via e-mail.

As Web 2.0 keeps evolving, the value and opportunities it will bring to small businesses will continue to grow. "The increased flow of two-way information between business and customer, the increase in information distribution through blogs and wikis, and the increased participation of customers in product improvement and even design will continue. By adopting Web 2.0 technologies and tools, small businesses can improve market share, profit, and reputation, now and in the future."Sang-Heui Lee, David DeWester, and So Ra Park, "Web 2.0 and Opportunities for Small Businesses," *Service Business* 2, no. 4 (2008): 335–45.

Video Clip 4.9

Web 2.0

[(click to see video)](click to see video)

Evolution of website technology to Web 2.0.

KEY TAKEAWAYS
• E-commerce platforms make it possible for businesses to sell online. The all-in-one platform solution has become more popular with online merchants. There are many platforms that are tailored specifically for small and medium-sized businesses. • Small businesses should think about CRM. CRM solutions are now available for even the smallest of businesses. • Even though m-commerce is lagging behind other mobile uses, wireless devices and m-commerce are expected to create another revolution in e-commerce. • Web 2.0 is important. It is about having a conversation with your customers. Small businesses need to learn about it and strongly consider incorporating it into their e-commerce strategies. • Web 2.0 keeps evolving, so the value and opportunities it will bring to small businesses will continue to grow.

EXERCISES

1. Select three small business websites. Identify the features that are examples of Web 2.0.
2. Find three CRM solutions (software products) online that are geared to small businesses. Compare the features. If you owned a small business, which one would you choose? Why?

4.4 The Three Threads

Customer Value Implications

E-business in general and e-commerce in particular can both contribute to increased customer value. In the case of e-business, moving operations to digital technology can improve productivity, reduce or eliminate duplicative processes, streamline supply chain management and enterprise resource planning, improve customer and vendor relationships, improve business intelligence, increase and improve internal collaboration while doing the same with external business partners. In all instances, the customer, the vendor, and the business partner should realize increased value from doing business with the company in terms of greater efficiency, speed of information flows and transactions, and overall satisfaction.

In the case of e-commerce, customer value is provided via convenience, a greater selection of products, the ability to easily compare prices and services, 24/7 availability, privacy protection, multiple payment options, and reliable order fulfillment processes. Web 2.0, in particular, presents "consumers with a whole array of options in searching for value products and services and finding exactly what they need and want with minimum efforts, in line with the current customer desire for personalization, individual approach and empowerment."Efthymios Constantinides and Stefan J. Fountain, "Web 2.0: Conceptual Foundations and Marketing Issues," *Journal of Direct, Data and Digital Marketing Practice* 9, no. 3 (2008): 231–44.

Cash-Flow Implications

The cash flow of a small business should benefit from all the sources of value just mentioned because they should result in lower operating costs, improved customer

relationships, and higher sales. In particular, cash flow should increase as a result of the following:

- Prepaid purchases by business-to-business (B2B) customers. This may apply to other e-commerce customers as well.
- Multiple payment options. The greater the number of options, the higher the number of sales and the higher the average order size.
- Lower costs of sales as a result of the reduced need for telephone, travel expenses, and live salespeople.
- Eliminating many steps in business processes and cutting out the middlemen.Tamir Dotan, "How Can eBusiness Improve Customer Satisfaction? Case Studies in the Financial Service Industry," *University of Amsterdam*, accessed October 10, 2011, www.tamirdotan.com/e-business%20Article.html.
- Saving money on employees and salaries because of **customer outsourcing**[42] (i.e., anything that the customer does individually, things like searching for product or service information, entering his or her billing information, and signing up for an e-mail confirmation. These are things that customer service representatives do not have to do.Dave Roos, "Advantages of E-commerce," *How Stuff Works*, 2010, accessed October 10, 2011, communication.howstuffworks.com/advantages-e-commerce.htm.
- Increased sales as a result of selling niche products. "It turns out that most small businesses (and start-ups) have relatively niche-y products...The Internet disproportionately favors small businesses since it enables them to position their niche goods to people *shopping for* that particular niche good."Brian Halligan, "Four Ways the Internet Is Transforming Small Business," *HubSpot Blog*, October 2, 2006, accessed October 10, 2011, blog.hubspot.com/blog/tabid/6307/bid/50/Four-Ways-the-Internet-Is-Transforming-Small-Business.aspx.

This is not an exhaustive list. However, it is illustrative of the many ways in which e-business and e-commerce can impact the cash flow of a small business in a favorable way.

Digital Technology and E-Environment Implications

Although not all small businesses may choose to go the route of digital technology and the e-environment (e-business and e-commerce), it has been advised on many fronts that small businesses seriously consider creative ways in which to incorporate them all into their operations. Digital technology is difficult to avoid, whether it be computers, **smartphones**, or iPads (see the story of Lloyd's

42. Anything that the customer does individually, such as searching for product or service information, entering billing information, and signing up for an e-mail confirmation.

Construction in <u>Chapter 1 "Foundations for Small Business"</u>). Even on a small scale, digital technology can help improve business processes and keep costs down.

The importance of e-business and e-commerce to small business has been the focus of this chapter. Realistically, neither can be avoided by small businesses that want to grow. E-commerce in particular has opened up the world to small business. Websites have "created a flattening effect in the sense that small businesses and large businesses [are] suddenly on a level playing field…The web [allows] small companies to have the same reach as a large firm. A small company's web site [can] be viewed a million times just as easily as a large firm's web site, and that information [is] available worldwide, 24 hours a day. Small businesses [can] now have some of the same abilities as large companies to reach customers with rich content of information about their products nationally or internationally."Sang-Heui Lee, David DeWester, and So Ra Park, "Web 2.0 and Opportunities for Small Businesses," *Service Business* 2, no. 4 (2008): 335–45. The small business that wants to grow will ignore e-business and e-commerce at its peril.

> ### KEY TAKEAWAYS
>
> - E-business and e-commerce both contribute to increased customer value.
> - The cash flow of a small business should benefit from the customer value offered by e-business and e-commerce.
> - Even though some small businesses may choose not to go the route of digital technology, e-business, or e-commerce, it has been suggested that small businesses seriously consider creative ways in which to incorporate them into all operations.

EXERCISES

1. Select three small businesses that engage in e-commerce. Interview the owners and ask them to describe (1) how e-commerce has added customer value and (2) the positive and negative impacts on cash flow.
2. Locate at least one small business that is a nonemployer (i.e., consists of only the owner). Interview the owner about the role that digital technology plays in the business and what his or her plans are, if any, to increase its incorporation. Find out if the business has a website. If it does, are there plans to engage in e-commerce? If the business does not have a website, find out why not and whether there are any plans to create one.

Disaster Watch

I've Been Hacked!

Not discouraged by the bad economy, Marnie McCormick opened "The Country Store" in the local shopping center. McCormick had done her homework. She originally leased the store front for a temporary stint, selling a line of unique handcrafted products and locally made foods while asking people what sort of products they wished were available in the area. In this way, she was able to build the kind of store that was needed, using the existing demand to decide what kinds of products she would offer.

McCormick had a myriad of concerns at start-up—inventory, suppliers, marketing, outfitting the store, and administrative systems. What she did not know was that someone had hacked into her computer system. From somewhere unknown, the hard drive of her computer in the store had been hacked. The hackers had downloaded a key-logging program (a virus that makes it possible for the hacker to record all your keystrokes, gaining access to passwords and other sensitive information). The hackers were able to see everything that she typed into the computer: e-mails, communications with vendors and customers, passwords—everything. The hackers only had to wait until she logged into her online bank account before they had all the information they needed for the payoff. She soon discovered that someone had been in her bank account, transferring money at will. The hackers had changed the password. The system crashed immediately.

As soon as she had opened the doors to her new store, McCormick had to close them. What should she do to get her store up and running again? How can she prevent this from happening in the future?Jake Lynch, "Hackers Set Sights on Small Businesses, Households," *Issaquah Reporter*, August 19, 2010, accessed October 10, 2011, www.pnwlocalnews.com/east_king/iss/news/101077494.html.