

The Second Wave

- First Wave
 - Mid-1990s to 2000: rapid growth
 - “Dot-com boom” followed by “dot-com bust”
 - 2000 to 2003: overly gloomy news reports
- Second Wave
 - 2003: signs of new life
 - Sales growth
 - Profits
- Why?



Dot-Com Boom, Bust & Rebirth

- 1997 to 2000 irrational exuberance
 - 12,000 Internet-related businesses started
 - \$100 billion of investors’ money
 - 5,000+ companies went out of business or acquired
- 2000 to 2003
 - \$200 billion invested
 - Fueled online business activity growth rebirth
- Online B2C sales growth continued due to:
 - Increasing number of people with Internet access
- B2B sales online increasing steadily



E-Commerce Sales

Year	B2C Sales: Actual and Estimated \$ Billions	B2B Sales (including EDI): Actual and Estimated \$ Billions
2011	360	9500
2010	330	8600
2009	300	7500
2008	270	6500
2007	230	6000
2006	200	4800
2005	170	4100
2004	130	2900
2003	100	1900
2002	80	900
2001	70	730
2000	50	600
1999	25	500
1998	10	500
1997	5	490
1996	Less than 1	460

Adapted from reports by ClickZ Network (http://www.clickz.com/vistatats/ta_toolbox/); eMarketer (<http://www.emarketer.com/>); Forrester Research (<http://www.forrester.com/>); and the Statistical Abstract of the United States, 2008, Washington: U.S. Census Bureau.



1st & 2nd Wave Characteristics

- Regional scope
 - First wave: United States phenomenon
 - Second wave: international (Problems?)
- Start-up capital
 - First wave: easy to obtain
 - Second wave: companies using internal funds
- Internet technologies used
 - First wave: slow and inexpensive (especially B2C)
 - Second wave: broadband connections



1st & 2nd Wave Characteristics

- Internet technology integration
 - First wave: bar codes, scanners
 - Second wave: Radio Frequency Identification (RFID) devices, smart cards, biometric technologies
- Electronic mail (or e-mail) use
 - First wave: unstructured communication
 - Second wave: integral part of marketing, customer contact strategies



1st & 2nd Wave Characteristics

- Digital product sales
 - First wave: fraught with difficulties (music industry)
 - Second wave: fulfilling available technology promise
- Business online strategy
 - First wave: **first-mover advantage**
 - Second wave: fewer businesses rely on first-mover advantage



Third Wave

- Regional scope
 - Global (u-Business)
- Internet technologies used
 - Wireless
- Electronic mail (or e-mail) use
 - Obsolete
- Digital product sales
 - Pure e-commerce
- Business online strategy
 - Customer centric



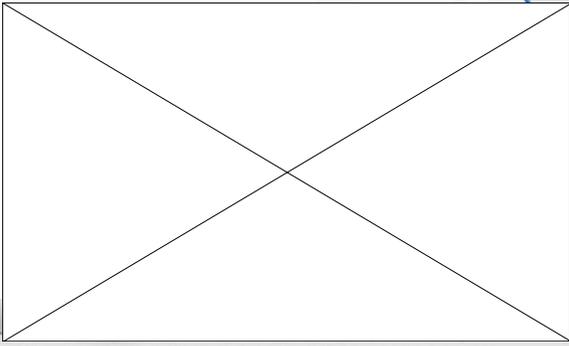
Social Networking

- Facebook
 - Over 835,000,000 users
 - Valued at 48 Billion U.S. dollars (\$100 B @ IPO)
 - IPO: \$38/share; High: \$45/share; current: \$19/share
- Twitter
 - Over 500,000,000 users
 - Valued at 8.7 Billion U.S. dollars
 - Dropped 2 billion after Facebook IPO
- MySpace
 - What is MySpace???



*As of July 2011

Social Media



Social Media

- We don't have a choice on whether we **DO** social media, the question is **how well do we do it.**
- Facebook reached 200 million users in less than a year
- 50% of mobile Internet traffic in the UK is for Facebook.
 - Imagine what this means for bad customer experiences
- Some universities stopped distributing email accounts
- Trust
 - 90% of customers trust peer recommendations (Viral Marketing)
 - Only 14% trust advertisements



Pure versus Partial EC

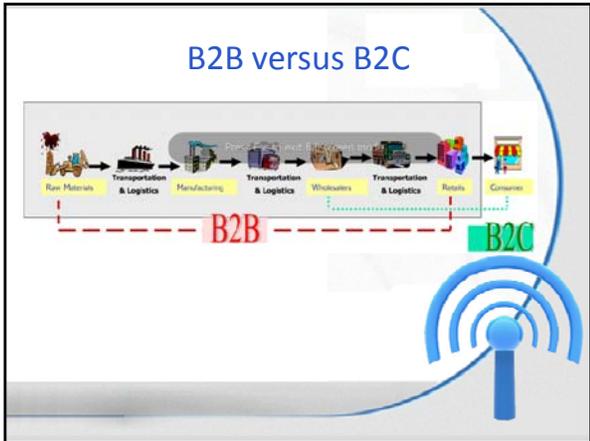
- **Pure** versus **Partial** Electronic Commerce depends on the degree of digitization involved.
 - Brick-and-mortar organizations
 - Virtual organizations
 - Click-and-mortar organizations



Categories of E-Commerce

- Business-to-Consumer: Consumer shopping on the web (Amazon.com)
 - Electronic Funds Transfer
- Business-to-Business: Transactions conducted between businesses on the web
 - Electronic Data Interchange
- Consumer-to-Consumer: Consumers freely trading and selling to each other (eBay)





Business Models

- Set of processes combined to achieve company goals
 - Yield Profit
- Electronic commerce first wave
 - Investors sought out appealing business models
 - Expectations of rapid sales growth, market dominance
 - Michael Porter argued business models did not exist
 - Key to success: copy successful model
 - Neither easy nor wise
- Instead of copying model, examine business elements
 - Streamline, enhance, replace with Internet technology driven processes

E-Commerce Business Models

Online direct marketing **DELL**

Electronic tendering system → **e-Tendering.com**

Name-your-own-price **NEGOTIATOR**

Find-the-best-price **Hotwire.com**

E-Commerce Business Models

Affiliate marketing

Note the Sony logo at the top of this Web page



www.howstuffworks.com

Revenue Model

- Specific collection of business processes
 - Identify customers
 - Market to those customers
 - Generate sales
- Helpful for classifying revenue-generating activities
 - Communication and analysis purposes



Business Processes

- Companies think in business process terms
 - Purchasing raw materials or goods for resale
 - Converting materials and labor into finished goods
 - Managing transportation and logistics
 - Hiring and training employees
 - Managing business finances
- Identify processes benefiting from e-commerce technology
- Uses of Internet technologies
 - Improve existing business processes, identify new business opportunities, adapt to change



Role of Merchandising

- Merchandising
 - Combination of store design, layout, product display knowledge
- Salespeople skills
 - Identify customer needs
 - Find products or services meeting needs
- Merchandising and personal selling
 - Difficult to practice remotely
- Web site success
 - Transfer merchandising skills to the Web
 - Easier for some products than others

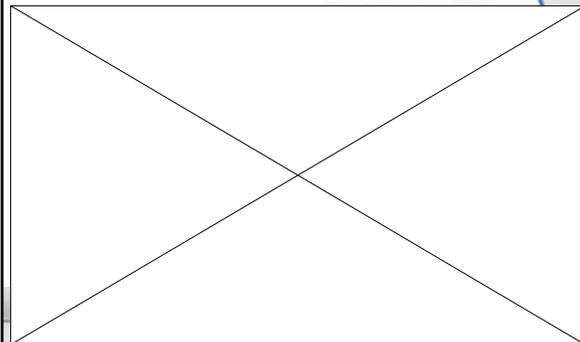


Suitable Products

- What products are suitable for e-commerce?
- What products are less suitable for e-commerce?



Suitable Products



Suitable Products

Well Suited to Electronic Commerce	Suited to a Combination of Electronic and Traditional Commerce Strategies	Well Suited to Traditional Commerce
Sale/purchase of books and CDs	Sale/purchase of automobiles	Sale/purchase of impulse items for immediate use
Sale/purchase of goods that have strong brand reputations	Online banking	Low-value transactions (total sale/purchase under \$10)
Online delivery of software	Roommate-matching services	Sale/purchase of used, unbranded goods
Sale/purchase of travel services	Sale/purchase of residential real estate	
Online shipment tracking	Sale/purchase of high-value jewelry and antiques	
Sale/purchase of treatment and insurance products		

FIGURE 1-5 Business process suitability to type of commerce

Electronic Commerce

- What are the advantages?
- What are the disadvantages?

Advantages of EC

- Increase sales and decrease costs
- Create virtual communities
- Increase purchasing opportunities for buyers
- Increase speed and accuracy of information exchange
- Gives buyers a wide range of choices
- Available 24/7
- Instant access to detailed information
- Digital product (music, software, video, images) can be delivered instantly
- Can fill out forms or pay taxes (TurboTax) through the Internet

Disadvantages of EC

- Cannot physical inspect products being purchased
 - High price items are of concern
- Not suited for all types of products and business models
 - online groceries
- Hard to calculate return on investments
- Cultural and legal problems
- Consumers resistant to change



Disadvantages

- Disadvantages will decrease/disappear when:
 - E-commerce matures
 - Becomes more available to and accepted by general population
 - Critical masses of buyers become equipped, willing to buy through Internet
 - Online grocery industry example



Economic Forces and EC

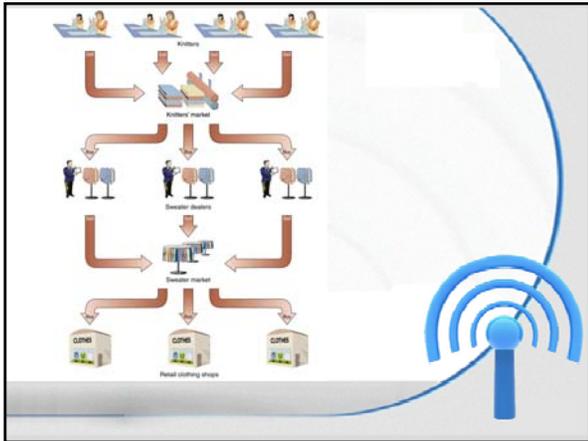
- Economics
 - Study how people allocate scarce resources
 - Through commerce and government actions
- Commerce organizations participate in markets
 - Potential sellers come into contact with buyers
 - Medium of exchange available (currency or barter)
- Organization hierarchy (flat or many levels)
 - Bottom level includes largest number of employees
- Transaction costs
 - Motivation for moving to hierarchically structured firms



Transaction Costs

- Total of all costs that a buyer and seller incur as they gather information and negotiate a purchase-sale transaction
 - Cost of product (to develop, ship, etc)
 - Employee costs
 - In E-commerce:
 - Product cost
 - Website cost (Create & Maintain)
 - Hosting cost
 - Transaction cost (Credit Card charges)





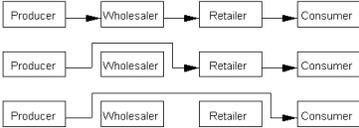
Using EC to Reduce Transaction Costs

- Remove layers of the supply chain
 - Sell directly to the customer
- Viral Marketing
 - Advertising through word of mouth
 - Difficult to achieve but affective when successful
- Telecommuting
 - Employees working from home
 - Customers shopping from home
- Digitization
 - Eliminate physical materials cost (for some products)



Disintermediation

- Intermediaries or middlemen provide information and/or provide value-added services
- When the function(s) of these intermediaries can be automated or eliminated, this process is called **disintermediation**



Network Structures

- Strategic Alliances
 - Coordinate strategies, resources, skill sets
 - Form long-term, stable relationships with other companies and individuals
- Strategic Partners
 - Come together for specific project or activity
 - Form many intercompany teams
- Network organizations
 - Well suited to technology industries
 - Information intensive



Network Effects

- Activities yield less value as consumption amount increases (**Law of Diminishing Returns**)
- Network Externalities (E-Commerce Networks)
 - The more people that belong to a network, the more valuable it is
 - E-Commerce
 - Email
 - Social Networking
 - Etc.



Identifying EC Opportunities

- Focus on specific business processes
 - What processes can benefit from Internet technology
- Break down the business into a series of value added activities
- Commerce: Conducted by firms of all sizes
- Value Chain:
 - **Primary Activities:** Business activities that relate to the production and distribution of the firm's products and services
 - **Support Activities:** Do not add value directly to a firm's products and services, but support the primary activities

Porter's Value Chain Model





- Industry value chain
 - Wooden Chair
- How can EC improve the value chain?

SWOT Analysis

- Evaluating Business Unit Opportunities
 - Strengths
 - Weaknesses
 - Opportunities
 - Threats
- Consider all issues systematically
- Take advantage of strengths
 - Build on strengths
 - Avoid threats
 - Compensate for weaknesses



SWOT Analysis

<p>Strengths</p> <ul style="list-style-type: none"> • What does the company do well? • Is the company strong in its market? • Does the company have a strong sense of purpose and the culture to support that purpose? 	<p>Weaknesses</p> <ul style="list-style-type: none"> • What does the company do poorly? • What problems could be avoided? • Does the company have serious financial liabilities?
<p>Opportunities</p> <ul style="list-style-type: none"> • Are industry trends moving upward? • Do new markets exist for the company's products/services? • Are there new technologies that the company can exploit? 	<p>Threats</p> <ul style="list-style-type: none"> • What are competitors doing well? • What obstacles does the company face? • Are there troubling changes in the company's business environment (technologies, laws, and regulations)?



Dell Computers

<p>Strengths</p> <ul style="list-style-type: none"> • Sell directly to consumers • Keep costs below competitors' costs 	<p>Weaknesses</p> <ul style="list-style-type: none"> • No strong relationships with computer retailers
<p>Opportunities</p> <ul style="list-style-type: none"> • Consumer desire for one-stop shopping • Consumers know what they want to buy • Internet could be a powerful marketing tool 	<p>Threats</p> <ul style="list-style-type: none"> • Competitors have stronger brand names • Competitors have strong relationships with computer retailers



International Nature of EC

- Internet connects computers worldwide
- When companies use Web to improve business process:
 - They automatically operate in global environment
- Key international commerce issues
 - Trust and culture
 - Language
 - Infrastructure



Trust & Risk

- Important to establish trusting relationships with customers
 - Rely on established brand names
 - What if you don't have a brand name?
- Difficult for online businesses
 - Anonymity exists in Web presence
- Business must overcome distrust in Web "strangers"
- Customers must manage risk
 - How can you ease their feeling of risk?



Anonymity on the Internet



"On the Internet, nobody knows you're a dog."
© The New Yorker Collection 1993 Peter Steiner from cartoonbank.com. All rights reserved.



Language Issues

- Business must adapt to local cultures
 - “Think globally, act locally”
 - Provide local language versions of Web site
 - Customers more likely to buy from sites translated into own language
 - 50 percent of Internet content in English
 - Half of current Internet users do not read English
- Languages may require multiple translations
 - Separate dialects
 - Mandarin versus Cantonese
 - Seoul dialect versus Daegu dialect



Language Issues (cont.)

- Large site translation may be prohibitive or difficult to do
 - Decided by corporate department responsible for page content
- Mandatory translation into all supported languages
 - Home page
 - All first-level links to home page
- Highly recommended pages to translate
 - Marketing, product information, establishing brand
- Use translation services and software
 - Human translation: key marketing messages
 - Software: routine transaction processing functions
- Don't rely on free translation software used by customers
 - [Babelfish Example](#)



Cultural Issues

- Combination of language and customs
- Varies across national boundaries, regions within nations
- Personal property concept
 - Valued in North America and Europe (Not Asia)
- Differences between the US & Korea (Europe?)
 - Individualism versus collectivism
 - Forms of speak
 - In Korea – Standard, Formal, Honorific
 - In America – Standard, Casual
 - Emoticons: ^^ versus :)



Cultural Issues (cont.)

- Subtle language and cultural standard errors
 - General Motors' Chevrolet Nova automobile
 - Hand signal for "OK": obscene gesture in Brazil
 - How do you ask someone to come to you in Korea?
- Online business apprehension
 - Japanese shoppers unwillingness to pay by credit
- Nike
 - Created special Web pages to attract customers outside United States
 - Nike Football site appeals to soccer fans throughout world
- Facebook versus Cyworld: Which is better?



Government

- Government control and censorship varies from country to country
- In China, Google had problems causing them to leave the market
- Internet Censorship
 - Restricts electronic commerce
 - Reduces online participant interest levels



Summary

- E-Commerce versus E-Business
- Dot com bust & Second Wave
- Categories of e-commerce
- Suitable Products
- Identify opportunities
 - SWOT Analysis
- Next Time
 - Read Chapter 2
 - Homework #2