

# SOLUTIONS MANUAL



Fourth Edition

## E-BUSINESS AND E-COMMERCE MANAGEMENT

STRATEGY, IMPLEMENTATION AND PRACTICE

DAVE CHAFFEY

FT Prentice Hall  
Harlow, Essex, UK

# Instructor's Manual

## E-Business & E-Commerce Management

Fourth edition

Dave Chaffey

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# Introduction to e-business and e-commerce

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## Learning outcomes

After completing this chapter the reader should be able to:

- Define the meaning and scope of e-business and e-commerce and their different elements
- Summarize the main reasons for adoption of e-commerce and e-business and barriers that may restrict adoption
- Outline the ongoing business challenges of introducing e-business and e-commerce to an organization.

## Management issues

The issues for managers raised in this chapter include:

- How do we explain the scope and implications of e-business and e-commerce to staff?
- What is the full range of benefits of introducing e-business and what are the risks?
- How do we evaluate our current e-business capabilities?

## Chapter at a glance

### ***Main topics***

- The impact of the electronic communications on traditional businesses
- What is the difference between e-commerce and e-business?
- E-business opportunities
- How significant are e-commerce and e-business?
- E-business risks and barriers to business adoption
- Business adoption of digital technologies for e-commerce and e-business
- Management responses to e-commerce and e-business

### **Suggested teaching and learning approaches**

Please reference the slides prepared for each chapter when reading this section.

#### ***The opportunities of e-business innovation***

Start by generating interest in the innovation made possible by the web through familiar consumer facing examples in Figure 1.1 and Table 1.1. Ask students about other innovative businesses that have been launched online which aren't on the list.

#### ***The challenges of managing e-business innovation***

These can be discussed by asking students to read the 'Real-world E-Business experiences. The e-consultancy interview'. All of these interviews are available at [www.econsultancy.com](http://www.econsultancy.com), if you need to print or ask students to reference them from e-learning facility – use the search facility to find them. The main challenges this introduces are:

- The rate of innovation – techniques like social media and search engine marketing evolve daily
- Managing across multiple sites and with different partners
- Reviewing the return on investment of new initiatives
- Specialist skills to manage these facilities

Can also review transactional risks using a 'blank slide':

- Poor site availability or performance

- Products unavailable although advertised
- Poor experience or service – negative reviews

### ***Introducing the terms and defining the scope of e-business and e-commerce***

Use Activity 1.2 to highlight the range of terms introduced to describe the application of electronic communications to solve business problems.

Use Figures 1.2–1.4 to agree differences between e-commerce and e-business with students. This works well to highlight the misconception that e-business refers only to sell-side e-commerce. A show-of-hands for how many agree with Figure 1.3 a, b and c works well.

Use Activity 1.2 as a web-based activity to look at how the terms are used by a range of commentators.

It is also useful to ask different groups to identify the different types of sites defined in Activity 1.4:

Visit each of the sites below and then place them into one of the four categories of online presence according to their primary focus:

1. Transactional e-commerce site.
2. Services-oriented relationship-building web site.
3. Brand building site.
4. Portal or media site.

Of course, these aren't mutually exclusive – most sites will have elements of all of these.

### ***Digital marketing***

This section introduces some of the more recent Web 2.0 approaches. Students can be asked for definitions or examples of different approaches in Figure 1.7. They can be asked which are most important for consumers and site owners.

### ***Business or consumer models of e-commerce transactions***

Figure 1.8 is the classic categorization of sites by audiences with examples. The Betfair case study (Mini-case study 1.2) gives an example of the popularity of the peer-to-peer (or C2C) model.

### ***E-business opportunities***

Box 1.2 introduces the Reach-Richness-Affiliation model for success.



### ***Business adoption of digital technologies for e-commerce and e-business***

Tables 1.3 and 1.4 highlight the business benefits while Figure 1.10 highlights the actual adoption levels across Europe. Relative adoption of different services can be discussed.

Consumer adoption (listing drivers and barriers to adoption) should also be discussed, perhaps through taking an example such as grocery e-retail and relating this to students' adoption.

- Case study 1.2 highlights benefits for SME organizations.

### ***Barriers to e-business adoption***

- Figure 1.12 illustrates these barriers and Figure 1.13 shows how companies can evaluate their capabilities – how advanced they are on the adoption ladder.

### ***Drivers of consumer Internet adoption***

Consumer adoption (listing drivers and barriers to adoption) should also be discussed, perhaps through taking an example such as grocery e-retail and relating this to students' adoption.

Two tables are provided in the slide deck showing how drivers and barriers can be listed and then marketing approaches to overcome these are discussed.

### ***The running case studies – the B2B and B2C companies***

These have been removed to make space for the shorter 'real-world e-business experiences' at the start of each chapter which are for real companies.

### ***Management responses to e-business***

Activity 1.5 The McKinsey 7S model is used to prompt students to reflect on how much is changed by approaches to e-business – many of the elements of this 20-year-old model are still valid. It is a useful discussion point for change management that ties in with Chapter 10.

## Case studies

### Case study 1.1. A short history of Facebook

Note. Updates to this case study are provided at: <http://www.davechaffey.com/E-commerce-Internet-marketing-case-studies/facebook-case-study>

#### Questions

1. *As an investor in a social network such as Facebook, which financial and customer-related metrics would you use to assess and benchmark the current business success and future growth potential of the company?*

From comments in the case study, the main revenue model is ad-based advertising (CPC and CPM). Facebook has said it will not sell customer data and there is no indication of affiliate-related models.

Customer-related metrics are related to engagement which indicates capability to sell ad space – not simply users, but active returning users and the number of pages viewed per day. The proportion of ad inventory sold is also important.

A basic answer will provide

- Understanding of financial metrics. Revenue, Costs, Growth.
- Clear framework of different metrics types – efficiency vs effectiveness.
- Audience Engagement and satisfaction metrics such as those mentioned in the case.

A more competent answer will reference elements of profitability (e.g. ad revenue, alternative models, e.g. subscription (although clear data not sold) costs (e.g. R&D, Development) Operational costs of managing business (on a per active user basis).

2. *Complete a situation analysis for Facebook focusing on an assessment of the main business risks which could damage the future growth potential of the social network.*

Typical risks are:

- Ad revenue limited because of difficulty of engaging audience in ads.
- Major privacy problem as with Beacon.
- Intellectual Property Rights.
- Technical problems with scalability leading to performance problems and increased technical costs.
- New entrant or alternative company offers superior experience – what is the likelihood of this?

Students could be encouraged to create a SWOT analysis. The likely probability and impact of each risk should also be reviewed.

3. *For the main business risks to Facebook identified in Question 2, suggest approaches the company could use to minimize these risks.*
  - Ad Revenue – review different forms of advertising. Test with users and advertisers.
  - Privacy. Explain clearly at signup. Test changes to use of data with user-group of trusted users. Explain reason for future changes clearly.
  - Technical problems. Testing programme focusing on load testing.
  - New entrants – developing proposition to lock-in existing users, forming partnerships to approach new audiences.

### **Case study 1.2 North West Supplies extends its reach online**

North West Supplies are featured as a small business retail example:  
<http://www.northwestsupplies.co.uk/>.

#### **Question**

1. *Discuss the new opportunities and risks that need to be managed by North West Supplies with the increased importance of its online channel to market.*

#### **Opportunities referred to in case study:**

- Increase reach – nationally and internationally and reach new types of audiences through the search engines.
- Increase average order value – increase cross-selling.
- Sell products to existing customers – increase cross-selling.
- Increase range of stock sold.

#### **Risks:**

- High cost of advertising online and dependence on this – subject to changes in online advertising made by search engines.
- Managing demand.
- Managing fulfillment – quality of experience and service is important to repeat business.
- Fraud – the business needs to authenticate purchasers to make sure that they do pay for products.

### **Case study 1.3 eBay – the world's largest e-business**

Updates to the eBay case study are available at: <http://www.davechaffey.com/E-commerce-Internet-marketing-case-studies/eBay-case-study-e-commerce>

#### **Question**

*Assess how the characteristics of the digital media and the Internet together with strategic decisions taken by its management team have supported eBay's continued growth.*

Students should be guided as to whether they review the whole eBay business or the core business (The Marketplace).

It is best to divide this question into two parts.

1. *How the characteristics of digital media have supported eBay's growth.*

The particular characteristics of digital media compared to traditional media that are important to eBay are straightforward:

- Change from a one-to-many communication model to one-to-one or many-to-many communication model.
- The ability to create user-generated content listing products is also related to the one-to-one aspect. This is important as well.
- From Push to Pull – eBay offerings are often visible within search engines.
- From monologue to dialogue (a two-way information exchange for enquiries about products facilitated by e-mail).
- Ratings for sellers are important to generate trust (although there are methods of falsifying these).
- Community – the sense that users are part of a community and additionally are bypassing traditional retail channels will be important from some users.

See section starting on p443 for more details on these characteristics

2. *How strategic decisions have supported growth.*

As with other cases based on SEC filings that is, United States Securities And Exchange Commission submission, this case is useful for showing how growth is dependent not only on exploiting the right opportunities, but also is about managing risks successfully.

Students may structure strategic decisions in different ways according to the level of course they are following, but since the case is early on in the book, they could be advised to simply look for success factors. Alternatively, if they have completed Chapter 5 on Strategy and Chapter 8 on the Marketing mix (p448), then these provide alternative frameworks.

Strategic success factors students may mention include the following:

- Branding – a distinctive brand – the earlier brand name was perhaps less appropriate although more direct.
- First mover advantage – gaining a critical mass through the foresight of the owner.
- Security and fraud – realizing that this is important to its reputation eBay has developed 'Trust and Safety Programs' to manage this thereby investing in managing this and controlling PR related to this.
- Partnerships and acquisitions, which fit relate well to the service, that is, PayPal and Skype.
- Communication of customer value proposition – the case describes how eBay explains this.
- Revenue model – the market has judged that this gives a good balance for sellers, purchasers and eBay. Setting fees at the right level has enabled eBay to scale for some time.
- Process Efficiency – the case describes how eBay measures and then seeks to improve the key areas of Acquisition, Activation and Activity.
- Growth strategies – these are covered in Chapter 4 and include market development (geographic) and product development (new categories for consumers and businesses).
- Technology scalability – not referred to in the article, but eBay has been successful in deploying technology that has supported the company's rapid growth.

## **Additional case study**



### ***Encouraging SME adoption of sell-side e-commerce***

This case explores the usage of the Internet by small and medium Enterprises (SMEs) of less than 250 employees. This case can be used for taking a retrospective look at the problems of encouraging SMEs to use online services.

The Internet has given small companies the same reach to global marketplaces as larger rivals, which have invested millions in building an international presence.

Eighteen months ago, Cooksons Tools, a builders' merchant in Cheshire, north-west England, was contemplating joining the ranks of small companies that have given in to the muscle of the Do-It-Yourself (DIY) multiples, and shutting up shop for good.

'We were battling hard just to hold our own, rather than being able to grow the business', says Stuart Armstrong, managing director. 'To stay in business, we had to change the way we operated'.

The company then decided to try selling via the Internet, and since then it has gone from serving customers in a seven-mile radius of its depot in Stockport, to serving customers worldwide. Cooksons.com has even sold Korean tools back to customers in Korea.

Turnover from the traditional business, established more than 40 years ago, now stands at £1million a year. The web site, which went live in March 1999, rapidly attracted orders worth £1600 a day. Turnover doubled every 2½ months in the first year of operation.

Cooksons managed to do this without cannibalizing its existing business – less than 1 per cent of orders on the web site come from existing customers.

Mr Armstrong says that the margin on Internet sales is lower, but because sales volume is higher and the costs of selling are lower, the company can afford to sell goods 15 per cent cheaper.

Such is the power of the Internet to deliver world markets to parochial businesses. And the evidence is that small companies do recognize that electronic channels can vastly extend their range.

Research carried out by the market research organization MORI shows that more than 50 per cent of SMEs would like to sell more online, and are looking for a simple way to do it.

However, SMEs are lagging behind larger competitors in their use of the Internet, according to a survey of 2,500 SMEs across Europe by IDC, the IT research organization.

Overall, 66 per cent SMEs had access to the Internet, compared to 76 per cent of larger companies. Of the 66 per cent, far fewer were using the Internet to generate sales, with 30 per cent of retailers and wholesalers, but only 17 per cent of manufacturers and 9.2 per cent of business services SMEs, were selling via the net.

Only 6.6 per cent of the SMEs surveyed had web sites that could carry out online transactions.

The research, carried out on behalf of the network equipment company Cisco Systems, identified a number of 'fast tracker' SMEs that, like Cooksons, have used the Internet to transform their business. Examples include Sarl Noraude, a French mail order clothing company with 30 employees, which has rapidly expanded sales of made-to-measure shirts with a web site that allows customers to input measurements, select the style and fabric and purchase made-to-measure shirts online.

Another is Paper One, a Swedish producer of fine papers, which has gone from start-up to £3.8 million turnover in 2 years by enabling customers to order via the web site at any time, 365 days a year.

These examples show how the Internet has changed the rules that have governed business for centuries, according to Robert Lloyd, vice-president of Enterprise and Small-Medium lines of business at Cisco.

He says: 'A four-fold increase in turnover, for example, can now be accommodated through technology in a matter of days, if not hours, instead of having to wait weeks or months to recruit and train staff, increase production, and so on'.

And it is not just existing small companies that have seized the opportunity to compete outside their traditional range.

Large, established multinationals are probably more discomfited by the rise of a brand new breed of SMEs, the dotcoms. These companies may be small in terms of physical assets, but they are becoming the giants of the Internet, expanding their customer bases rapidly, and taking significant market share from traditional businesses.

The early focus of e-commerce development in SMEs has been in using the Internet to target new retail customers, but now a range of business-to-business e-commerce services is developing. The MORI research was commissioned by Mondus.com, a recently established electronic marketplace dedicated to the needs of SMEs.

Rouzbeh Pirouz, founder and chief executive, says: 'We set up this business because research shows that to date services have been oriented to bigger businesses and the benefits of e-procurement have passed over SMEs'.

Mondus allows SMEs to get multiple quotes for goods and services via the Internet, rather than having to ring round or write to suppliers.

'SMEs get access to suppliers outside their immediate geography. From June, we will have a global database of suppliers'.

The site, which includes foreign language translation and credit checking services, began operating eight months ago. After six months there were 50,000 SMEs on the system, 90 per cent of them buyers. 'We have gone from two quotes per order posted on the system to five quotes per order', says Mr Pirouz. 'It is unlikely that companies would gather more than that using traditional methods'.

There is no charge for signing up to the site but Mondus takes a small percentage on each deal concluded.

Another example of an e-commerce site dedicated to SMEs is B2B.com, set up by Barclays Bank. As well as providing online banking, this site is a portal for a range of products and services used by SMEs and provides secure purchase-to-payment procurement.

Chris Lendrum, chief executive of Barclays corporate banking, says the site will cover all essential services, 'From the purchase of stationery and raw materials through to the administration of human resources'.

This site is targeted at companies with a turnover between £5 million and £250 million. However, Barclays has 450,000 SME customers with a lower turnover, which are serviced by its retail banking operations. It has set up a 40:60 joint venture company with the Internet provider Freeserve to provide e-commerce services for these customers.

The point is that the Internet makes it cheaper to market and sell to SMEs, spurring the development of e-services dedicated to this sector. A good example of this is the way in which Application Service Providers, which deliver and maintain software applications via the web, are targeting SMEs.

Western Europe has 16 million companies that are classified as SMEs. While they already represent a significant chunk of the economy, the Internet is giving them the ability to punch beyond their weight.

'Nowhere has the effect of the Internet been felt so much as in its ability to give SMEs the strength to compete and beat multinational companies', says Mr Lloyd.

*Source:* Internet enables SMEs to punch above their weight, by Nuala Moran, May 3rd 2000, FT Information Technology supplement (www.ft.com/ftit) © Financial Times

### **Questions**

1. *Explain how Cooksons Tools used the Internet to support their business.*

The Internet has enabled the company to increase sales by the acquisition of new customers from international markets.

2. *What are the differences in business model used for Internet sales?*

The company sells at a lower price on the Internet, resulting in a smaller margin. It is able to do this since the cost of sales is lower and it results in greater sales volume.

3. *Visit the Cooksons Tools web site and assess the range of services it offers in relation to Table 1.3.*

The facilities are standard for an online retailer or e-tailer, but the online customer support and internal support facilities are more limited. This may be so because it is relatively costly to set these up and traditional phone support methods are preferred.

4. *What is Mondus? How does it facilitate trade amongst SMEs?*

Mondus is an example of a new intermediary (no longer active) that was created as a marketplace to bring together buyers and sellers. It is an online marketplace that failed because its business model was not-sustainable.

### **Introduction to how to use Questions for Debate in classes**

The text below shows how the debate can be introduced for students. This example is taken from an approach we developed at the University of Derby. Students were assessed on their presentations and contribution.

Two debates each week will take place during normal tutorial sessions. Each debate will be argued between two groups of two or three students.

For each debate, the format will be as follows:

- (a) an initial vote will be taken amongst the non-presenting members of the tutorial group for an initial benchmark
- (b) the team presenting the case FOR the statement will make a 10-minute presentation supporting the topic statement
- (c) each team in the opening part of their presentation should take care to define terms used in the topic in question



- (d) the team presenting the case AGAINST the statement will then make an appropriate 10-minute presentation
- (e) the teams presenting each side of the case question the other in turn for 5 minutes each
- (f) questions and discussions involving the whole tutorial group will follow for 10 minutes
- (g) FOR followed by AGAINST, each to make a short summary of their key points and observations
- (h) final vote to take place FOR and AGAINST the statement – this will reflect the success of the various arguments presented
- (i) remember tutors do not play a role here and students must take ownership of classroom management etc.

### **Assessment**

Assessment will be made by the tutor of each presenter's performance. Criteria will include the following:

- strength of argument
- use of current Information System (IS) industry examples
- use of academic references
- quality of presentation (visual and verbal)
- response to questions and counter arguments
- accuracy of observations and conclusions
- discretionary mark for involvement in other debates

The voting will not influence the marks awarded unless it is clearly the result of a poorly presented case. A 'difficult' case well presented and defended will not be penalized even if no-one agrees with it!

### **Questions for debate**

#### **Debate 1.1 How new is the e-business concept?**

**'E-business is just a new label – there is no distinction between the role of e-business and traditional Information systems management.'**

Summary of arguments for are as follows:

- The tools are the same – hardware, software and communications technology are not new – witness use of EDI (Chapter 3)

- IS strategies have always looked at portfolio of applications across the business and links with third parties and how they can be utilized for competitive advantage (Chapter 4)
- Control of e-business usually resides with the IT department
- Only the largest companies tend to have specific responsibilities and departments for e-business – typically part of IS function

Summary of arguments against are as follows:

- The emphasis is different – away from technology to how information can support business
- The expenditure on e-business has exceeded traditional IS expenditure
- New organizational structures and new processes have been introduced (see Chapter 4)
- E-business is seen as a board-level issue with board-level responsibility

**Debate 1.2 Limited SME adoption of e-business** 'Adoption of e-business by established SMEs is generally less than that in larger businesses. This is principally a consequence of the negative attitude of managing directors and CEOs to the business benefits of information and communication technology.'

Summary of arguments for are as follows:

- Refer to the International Benchmarking study data in Chapters 4 and 6 which shows that SME adoption is lower than larger businesses.
- Look at the arguments presented in benchmarking data in Chapter 1 – many of these arguments show that the benefits on investment are not clear.

Summary of arguments against are as follows:

- More a matter of resources – would like to invest, but there are other priorities; not enough time.
- Depends on the type and age of business and market – technology startups and innovators are active adopters.
- Many customers of SMEs are themselves SMEs and adoption rates for these groups are lower (Chapter 3).

## Exercises

### Essay and discussion questions

1. *Discuss the following question with reference to how an organization should react to the Internet. 'Is the Internet a typhoon force, a ten times force, or is it a bit of wind? Or is it a force that fundamentally alters our business?' (Andy Grove, Chairman of Intel)*

Suggested approach:

This statement is useful in that it indicates the impact of the Internet will vary according to the type of business that an organization is in. Students should look at a range of industries from those where the impact is high, for example, media and information services to low, for example, retailer. The ES test in Chapter 8 (p435) can be used for consumer industries. Examples can be taken from those that have reacted, for example, easyJet or General Electric in comparison to those that have not. The analogy may also be apt since the Internet phenomenon may be transitory. This can also be considered.

2. *Suggest how an organization can evaluate the impact of the Internet on its business. Is it a passing fad or does it have a significant impact?*

Suggested approach:

This is covered by the situation analysis in Chapters 5 (p269) and 8 (p420).

Situation analysis should concentrate on the micro-environment (Figure 2.1) including demand for online services from customers. Services should be considered across the buying cycle from pre-purchase (supplier and product selection), purchase and post-purchase support. Demand levels can be assessed by reviewing figures of percentage of customers with access and those who are prepared to use it for information gathering and purchase. Competitor activity can also be benchmarked. Macro-environment SLEPT factors should also be reviewed, but they are not the main thrust of the question.

Assessment of whether the impact is transitory or permanent can be done through developing projections of the online revenue and promotion contribution (Chapter 8, p430).

3. *'Similar benefits and barriers exist for the adoption of sell-side e-commerce for both B2B and B2C organizations'. Discuss.*

Suggested approach:

More research is available for B2C, so it is best to start with benefits and barriers for this and then look at similarities for B2B. Main benefits can be checked using the 6Cs:

- Cost reduction – less use of physical resources and staff.
- New Capability – for example, to sell into an overseas market.
- Improved communication – internal and external.
- Control – better visibility/information for managers of trading relationships.

- Customer service – more detailed information, faster response can be provided 24 hours, and 7 days a week.
- Competitive advantage – any of the above factors may provide this, but it is likely to be short-lived.

A case study approach using a particular company for example, Cisco, easyJet to highlight these factors would be an improvement. Barriers include: lack of recognition of need, cost of access, security and privacy. Consumer opinion surveys such as those published by Which? ([www.which.net](http://www.which.net)) can be used to support these.

Differences between B2B and B2C can be compared by reviewing the level of use of e-commerce for a sector that is common for each, for example, office stationery. Generally B2B usage is greater because companies can make greater savings through economy of scale and the risk is perceived as lower since it is not the purchaser's own money that is at risk.

4. *'In most countries the Internet will never be used by more than 50 per cent of the population, so its impact on businesses will be limited'. Discuss.*

Suggested approach:

This question has two assertions that should be dealt with separately. Firstly, it is the level of access. Data in Chapter 4 (Figure 4.2, p201) shows that only in developed countries will the level of access be high, for example, The International Telecommunications Union (ITU) (<http://www.itu.int/ti/industryoverview/index.htm>). In most countries for the foreseeable future it appears that access levels will be less than 50 per cent in terms of PC access. Further into the future, access through digital TV via satellite may increase this figure.

However, the access figure is now approaching 50 per cent in some developed countries although PC access saturation is approaching.

Second, 'impact to businesses will be limited'. This assertion follows on from the first for B2C, but for B2B impact will be greater since businesses may have access even when individuals do not.

5. *'Confusion over the meaning of the terms e-commerce and e-business will limit the adoption of e-business in many businesses'. Discuss.*

Suggested approach:

Confusion centres over the distinction between e-commerce and e-business implied by different interpretations of Figure 1.2. The implication is that if e-business and e-commerce are interpreted as referring to 'selling over the Internet' then opportunities may be missed for:

- Supporting the whole buying process online including pre-sales and post-sales.
- Using the Internet for procurement (buy-side e-commerce).
- Using web-enabled technologies to *support internal process efficiencies*.

6. *Analyse Figure 1.4, commenting on (this refers to the third edition – it is an error):*
- the overall percentage of sales for e-commerce predicted for 2004 across all markets;
  - the variation in percentage of sales for e-commerce predicted for 2004 in different markets;
  - the growth rates indicated over the four years of predictions;
  - the implications for the developing world.

This question is intended to prompt students to assess the value of analyst forecasts.

Suggested approach:

1. *Use a source such as Cyberatlas ([www.cyberatlas.com](http://www.cyberatlas.com)) to update on actual levels in current year relative to forecast.*
2. *Summarize the discrepancies.*
3. *Suggest reasons for discrepancies including errors in the analyst forecast and changes to adoption and the economy.*

### **Examination questions**

1. *Explain the relationship between the concepts of e-commerce and e-business.*

E-commerce is generally understood to be a sub-set of e-business. E-commerce refers to financial and non-financial transactions between organizations. These transactions are often considered in the context of a supplier organization distributing and selling its product to consumers. E-business includes transactions from a buy-side and sell-side e-commerce perspective and also the use of communications technology to improve internal process efficiencies.

2. *Distinguish between buy-side and sell-side e-commerce and give an example of the application of each.*

Buy-side e-commerce refers to electronic transactions concerned with the purchase and inbound logistics of goods such as a supermarket coordinating purchases from its suppliers. Sell-side e-commerce concerns transactions related to the sale and distribution of goods such as a supermarket selling direct to its customers.

3. *Summarize three reasons why a company may wish to introduce e-commerce.*
- Cost reduction in purchasing or selling through less human involvement and lower resource costs.
  - Increased efficiency enabling faster cycle times for purchasing or sale of goods.
  - Capability to sell to overseas markets or previously untargeted markets.

4. *Describe three of the main barriers to adoption of e-commerce by consumers and suggest how a company could counter these.*

- Security fears – fraudulent use of credit cards.
- Privacy fears – personal data held by companies or criminals.
- Cost of access devices and online costs.
- Lack of perceived need.

Education and reassurance via the web site and offline communications can counter these.

5. *Outline the internal changes a company may need to make when introducing e-business.*

Refer 7S's for a framework:

- Strategy – new strategic responses are required.
  - Structure – new structures and responsibilities may be required.
  - Systems – new information systems and new processes will be required.
  - Style – less likely to change, but some organizational styles are more responsive to change.
  - Staff – new responsibilities.
  - Skills – new skills.
6. *Summarize the differences between adoption of Internet access for consumers and businesses and give reasons for these differences.*

Business adoption is higher since there is a greater potential for cost savings through comparing suppliers and buying online and the risks may be perceived as lower.

7. *Name three risks to a company that introduces buy-side e-commerce.*

- Payback period may be long due to cost of implementation.
- Maverick purchasing (Chapter 7).
- Some purchasing staff may need to be redeployed or made redundant.
- Security risks of outside organizations accessing company data.

8. *Name three risks to a company that introduces sell-side e-commerce.*

- Payback period may be long due to cost of implementation
- High cost of sales due to fraudulent use of credit cards.
- Security risks of outside organizations accessing company data.

## Activity answers

### Activity 1.1 Innovative e-businesses

1. *Think about the innovation that you have witnessed during the time you have used the Internet and World Wide Web. What would you say are the main sites used in your country that have been created which have changed the way we spend our time or buy online. In Table 1.1 are the sites that we believe have had the biggest influence on online business models in the US and Europe, with more emphasis on the most recent ones.*

Answer : Not applicable – depends on student opinion and country.

2. *We talk about these businesses being 'successful', but what is success for a new e-business?*

For established businesses, success is stable or growing profitability, but startups will rarely be able to achieve this. What becomes important are:

- Unique visitors – number of individuals per month.
- Engagement or stickiness – page views per visitor (useful for advertising) and percentage of active or returning visitors (essential for a social network such as Facebook).
- Monetization – is it possible gain revenue, for example, Ad Revenue from visitors.
- Growth.
- Publicity – this will help fuel the other success measures given above.

3. *What do these sites have in common that you think has made them successful?*

- All these sites are American, so the funding and publicity they can achieve is significant.
- You will notice that many of these sites (other than Joost, Last.fm and Skype which were founded in Europe) were originally developed in the United States, with the majority now used around the world. But in each country, similar types of businesses have evolved, for example, the search engines Baidu in China and Yandex in Russia.
- Meet a fundamental consumer need.
- Clear revenue model.
- Memorable branding and experience.
- Initially they had a straightforward proposition – offering one service.
- Generally they were first-movers.
- Notable that many have taken several years before becoming widely known and used.

## **Activity 1.2 What's in a term – what do we call this 'e-thing' Web?**

### **Question**

One simple, but revealing, method of assessing how commonly these terms are used, is to use the Google syntax which returns the number of pages which contain a particular phrase in their body or title.

Type into Google the following phrases in double quotes or use intitle: 'phrase' for these phrases and note the number of pages (at the top right of the results page):

Phrase

- (i) 'E-business'
- (ii) 'E-commerce'
- (iii) 'Internet marketing'
- (iv) 'E-marketing'
- (v) 'Digital marketing'

At the time of writing, the following table shows that of the marketing-related terms, 'Internet marketing' is the most popular but this may change, as it is a misleading term, which omits other electronic communication techniques. Companies that promote their services online will often use keywords on the page, which reflect the words that are being searched for.

In the United Kingdom, specialist e-marketing agencies and the new media publications tend to refer to digital marketing and their usage of the term will eventually have an influence.

<b>Phrase</b>	<b>Pages containing phrase</b>	<b>Pages containing title</b>
'Digital marketing'	2,640,000	119,000
'E-marketing'	7,750,000	360,000
'Internet marketing'	40,100,000	2,590,000
'E-business'	32,000,000	909,000
'E-commerce'	93,600,000	5,090,000

Figures collected in December 2008 using Google syntax 'phrase' and intitle and then reviewing the numbers top right in the top right of the Google Search results page.



Additional terms for comparison:

Phrase	Pages containing phrase	Pages containing title
SEO	263,000,000	13,800,000
PPC	49,500,000	3,260,000
'E-mail marketing'	14,800,000	582,000
'Viral marketing'	4,650,000	173,000
'Social media'	147,000	949,000

### **Activity 1.3 Understanding e-commerce and e-business**

1. *Identify the different components of e-business described in this speech and assess their relative impact on the organization.*

The article identifies selling to customers using the Internet ('e-Sell') and purchasing from its suppliers using the Internet and reverse auctions ('e-Buy'). The Internet is also used for managing internal process ('e-Make').

Although now dated, in 2001, online sales of \$20 billion are estimated on a turnover of \$130 billion (15.4 per cent). \$12 billion in online auctions is also significant, given that other purchases will also be made online that are not auction-related.

2. *Where do other 'e' terms such as e-CRM, e-marketing, e-logistics, e-procurement, e-tail and e-government fit within this description?*

You will have noted that the terms tend to describe a range of business activities within an organization. They typically refer to business processes that form part of the value chain from inbound logistics and purchasing (e-procurement) to outbound logistics (e-fulfilment) and managing the customer relationship through e-marketing and e-CRM. E-government is discussed later in the chapter, essentially it is online provision of government services. It also refers to government departments adopting e-business.

For a fuller definition of the main terms see the section *E-commerce defined*.

### **Activity 1.4 Understanding e-commerce and e-business**

#### **Question**

*Visit each of the sites below and then place them into one of the four categories of online presence according to their primary focus:*

1. *Transactional e-commerce site.*
2. *Services-oriented relationship-building web site.*
3. *Brand-building site.*
4. *Portal or media site.*

*You should also indicate their secondary focus in terms of these four site types.*

**1. Transactional e-commerce site.**

Bank, for example, HSBC ([www.hsbc.com](http://www.hsbc.com)), secondary purpose is relationship-building or brand-building.

Travel company, Thomas Cook ([www.thomascook.com](http://www.thomascook.com)), secondary purpose as for HSBC online retailer such as Amazon ([www.amazon.com](http://www.amazon.com)). Secondary objectives are to be a portal?

**2. Services-oriented relationship-building web site.**

Management consultants such as PricewaterhouseCooper ([www.pwcglobal.com](http://www.pwcglobal.com)) and Accenture ([www.accenture.com](http://www.accenture.com)). Secondary aim – brand-building

A end-product manufacturer such as Vauxhall ([www.vauxhall.co.uk](http://www.vauxhall.co.uk)). Secondary objectives are building brand and referring leads or transactions to offline sources.

**3. Brand-building site.**

Lingerie manufacturer, for example, Gossard ([www.gossard.com](http://www.gossard.com)). Secondary objectives are linking to transactional sites.

Beverage manufacturers, for example, Tango ([www.tango.com](http://www.tango.com)), Guinness ([www.guinness.com](http://www.guinness.com)). Secondary objectives are supporting relationship-building.

**4. Portal or media site.**

- Business site: Silicon ([www.silicon.com](http://www.silicon.com)) (secondary transactional site for subscriptions)
- Consumer site Yahoo! ([www.yahoo.com](http://www.yahoo.com)). Yahoo! is more than a search engine – it is an online portal. Secondary objectives are encouraging transactions.

**Activity 1.5 Applying the 7S framework to e-business initiatives**

*Take an organization you are familiar with and consider organizational changes that may be required for each of the 7 Ss. Which factors do you feel are ignored by the 7 Ss?*

- Structure – how will the e-business change be managed? Is a separate division required or can the change be matrix-managed (Chapter 10)?
- Systems – do new operating procedures or business processes need to be introduced? Can existing IS be used to implement change or will new systems be required?
- Style – is the current, possibly conservative, style of the company consistent with the way the company wants to project its image? Will decisions be made fast enough? Will risks be taken to trial new business models and new technology?
- Staff – is the appropriate mix of staff available?

- Skills – are the correct skills available internally? What training is required? Do we need to outsource some services?
- Superordinate goals – this refers to the higher goals of the company that may be encapsulated in the mission statement. In modern parlance, do the senior managers ‘get’ the significance of the Internet and will they act?

A possible criticism of the 7S model is that it is internally focused. How well the company forms and leverages partnerships with suppliers and customers is now seen as a key element of strategy. Related to this is how well the company responds to the industry restructuring that has occurred as part of e-commerce. Can it take advantage of disintermediation and reintermediation within the industry (Chapter 2)?

## Exercises

### ***Self-assessment questions***

1. *Distinguish between e-commerce and e-business.*

This can best be explained by referring to different elements shown in Figure 1.1 that is,

- sell-side e-commerce
- buy-side e-commerce
- internal use of electronic communications to support business processes.

E-business is generally understood to include all three elements. E-commerce is commonly used to refer to either the first one or first two of these elements, but less commonly the third. E-business is broader in scope than e-commerce.

2. *Explain what is meant by buy-side and sell-side e-commerce.*

Again refer to Figure 1.1. Buy-side e-commerce is using communications technology to support the upstream supply chain from procurement to inbound logistics. Sell-side refers to selling and distributing products and services from an organization to its customers.

3. *Describe the different services that can be offered to customers via a web presence.*

This is covered in more detail in Chapter 5 where stage models are referred to (p270):

- outline information services on company and products;
- detailed information services on products, for example, technical infosheets;
- transactional e-commerce – purchases can be made online;
- transactional customer service – questions can be asked and answers supplied online.

4. *Summarize the consumer and business adoption levels in your country. What seem to be the main barriers to adoption?*

Clickz ([www.clickz.com/stats](http://www.clickz.com/stats)) is a good source of country information. For business, the main barriers are highlighted by the DTI (2000) survey:

- lack of imperative;
- security risks.

For consumers, the Which report highlights fears about security and privacy as well as the lack of a perceived need.

5. *Outline the reasons why a business may wish to adopt e-commerce.*

The 6Cs are a good framework here:

- Cost reduction – less use of physical resources and staff.
- New Capability – for example, to sell into an overseas market.
- Improved communication – internal and external.
- Control – better visibility/information for managers of trading relationships.
- Customer service – more detailed information, faster response can be provided 24 hours, and 7 days a week.
- Competitive advantage – any of the above
- factors may provide this, but it is likely to be short-lived.

6. *What are the main differences between business-to-business and business-to-consumer e-commerce?*

Please refer to the table below for a summary of the differences. Note that this table was originally included in earlier editions of the book.

**Table Differences in characteristics of B2C and B2B trading**

Characteristic	B2C	B2B
Proportion of adopters with access	Low to medium	High to very high
Complexity of buying decisions	Relatively simple – individual and influencers	More complex – buying process involves users, specifiers, buyers, etc.
Channel	Relatively simple – direct or from retailer	More complex, direct or via wholesaler, agent or distributor

Purchasing characteristics	Low value, high volume or high value, low volume. May be high involvement	Similar volume/value. May be high Involvement. Repeat orders (rebuys) more common
Product characteristic	Often standardized items	Standardized items or bespoke for Sale

7. *Summarize the impact of the introduction of e-business on different aspects of an organization.*

The McKinsey 7S model is a useful framework for looking at the different aspects of a business that may be affected by the move to e-business.

- Strategy – new strategic responses are required.
- Structure – new structures and responsibilities may be required.
- Systems – new information systems and new processes will be required.
- Style – less likely to change, but some organizational styles are more responsive to change.
- Staff – new responsibilities.
- Skills – new skills.
- Superordinate goals – higher level aims may be updated depending on the business.

8. *What is the relevance of intermediary sites such as Kelkoo ([www.kelkoo.com](http://www.kelkoo.com)) to the B2C company?*

Companies must think about whether they are represented on such intermediaries. If they are not, they may lose potential business. They also need to consider the positioning of their products relative to competitors who also use the intermediary.

Note that Mondus wound down operations in 2002. Another example is Clearly Business, a joint venture between Barclays and Freeserve.