

UNIT 1

What is Electronic Commerce?

Electronic Commerce (e-commerce) is the exchange of information or transactions using any form of electronic communication. It can also be referred to as an electronic transaction.

E-Commerce is both commercial and non-commercial

In most countries, an electronic transaction can only be referred to as an e-commerce transaction if it has commercial value.

Section 6.b and 6.k of IMPLEMENTING RULES AND REGULATIONS OF THE ELECTRONIC COMMERCE ACT

“Commercial Activities” shall be given a wide interpretation so as to cover matters arising from all relationships of a commercial nature, whether contractual or not. The term shall likewise refer to acts, events, transactions, or dealings occurring between or among parties including, but not limited to, factoring, investments, leasing, consulting, insurance, and all other services, as well as the manufacture, processing, purchase, sale, supply, distribution or transacting in any manner, of tangible and intangible property of all kinds such as commodities, goods, merchandise, financial and banking products, patents, participations, shares of stock, software, books, works of art and other intellectual property.

“Non-Commercial Activities” are those not falling under commercial activities.

With this definition, e-commerce or electronic transaction is not limited to the Internet alone. Electronic transactions such as discussing business over the telephone, sending a fax, withdrawing money from an ATM machine, sending a text message confirming purchase or payment through cellular phone, paying for groceries using a credit card, ordering a birth certificate over the Internet, among others, are different examples of e-commerce.

Looking at it from a bigger picture, the principle is that whatever is applicable and authorized in the real world will also be treated the same in the electronic world, governed by existing laws. The E-Commerce Law empowers all existing laws by recognizing its electronic counterpart.

People who are reluctant with e-commerce often reason that they have no interest in using it. But actually, we've been practically doing e-commerce since the emergence of computers and telecommunication technologies. It even became more prevalent as fax machines entered our lives; retail shops implemented point of sales (POS) systems and bar coding; automated teller machines (ATM) in bank system; wireless telecommunications (mobile phone and text messaging). All of this forms of e-commerce system where human intervention is becoming less and less.

Types of E-Commerce Transactions

In a snapshot, there are five basic types of doing e-commerce in the Philippines.

Business to Consumer

When you go to the supermarket, purchase your groceries and pay them over the counter, that type of service is what we would refer to as Business-to-Consumer (B2C). So when you buy books, food, groceries, CD, software, hardware from your favorite shopping web sites, game credits for your favorite online game, applying for a loan online (and getting approved online), that is B2C, e-commerce between businesses and consumers.

With the pervasive use of mobile phone, the automated reloading of your prepaid phone card is also e-commerce and a B2C transaction.

With the emergence of the Internet commercially, as it started in the Philippines in 1994, e-commerce took a new manifestation and businessmen can now sell their good through ones website and close sales transaction

either online or through e-mail. Websites

like [PinoyDelikasi.com](#), [Load.com.ph](#), [RegaloService.com](#), [Lazada](#), [OkayOkay.com](#), [Lenddo.com.ph](#), [Shopinas](#), [Island Rose](#), [Heartland Malls](#), [Chikka.com](#), [Cashsense](#), [Metro Dealare](#) just some sites that sell goods and services online.

Business to Business

The supermarket on the other hand, will need to purchase the goods, to be put on the grocery shelves, from its suppliers. The business transaction that takes place on this end is what we would refer to as Business-to-Business (B2B). So when supermarkets, bookstores, computer stores, restaurants, music outlets, purchase their goods from their suppliers either via fax, EDI, email, and other means (including paper), that is B2B, e-commerce between businesses.

The same applies to prepaid phone card reload dealers who purchase prepaid credits to be loaded in their mobile phone sales unit.

Another example will be an entrepreneur asking a courier (like [Xend](#)) to pick-up items from his home or business addresses and be shipped to its recipient.

Government to Business

Government agencies are also using e-commerce to process transactions from private businesses. This is prevalent with government offices like the Bureau of Customs, Bureau of Internal Revenue, business name registration with [Department of Trade and Industry](#) and [Securities and Exchange Commission](#), among others. This type of transaction is referred to as Government to Business (G2B) or Business to Government (B2G).

Government to Consumer

Some government agencies are now processing e-commerce transactions directly from the consumer such as for [passport processing](#), [birth / marriage / death / no marriage certificates request](#), among others.

Consumer to Consumer

Forums, blogs, social networking, and classified websites has provided opportunities for consumers to conduct business transactions with each other directly.

Popular sites in this regard includes [Facebook](#), [Sulit.com.ph](#), [AyosDito.ph](#), [eBay](#), [OLX](#), [Tipic PC](#), [PinoyExchange](#), among others.

E-Services

Some of the e-commerce transactions happening online today can also come in the form of e-services such as micro-sourcing, online training, community membership, and the likes. This can happen between consumers or businesses directly.

Popular ones will include [oDesk](#), [eLance](#), [199Jobs](#), [Freelancer.com](#), [E-Learning Edge](#), among others.

E-commerce is not only for big companies. The small to medium sized companies should consider e-commerce more and has a much higher need for it. With the advent of greater global trade (GATT, ASEAN, APEC initiatives), it is imperative that small to medium sized companies automate their business to compete with foreign brands, as international and intra-regional trade will increase exponentially. Manual processes in the supply chain that are slow, redundant, unreliable, inefficient can be replaced with more efficient ones.

Entrepreneurs who sell goods and services to a global audience, can utilize the Internet as a medium. With less human intervention, Internet-based businesses are open 24 hours a day, 7 days a week that can accommodate any customer irregardless of their time zones. But of course, an Internet-based business is not just about building websites and expect profits to just come, the infrastructure to complete the sales cycle must be all covered from B2B to B2C. It is similar to building a physical branch or office but accessible to a global audience.

Learn more about e-commerce at the [DigitalFilipino E-Commerce Boot Camp](#) (where you can learn about e-commerce for free).

Drivers Of E-Commerce

Following are the main drivers for successful ecommerce platforms:

1. Big First Step for customers:

Generally Buying these products is first time experience for Indian customer. Its a big first step one has to take when he/she buys such product online. Also if the vertical startup is new, it needs further more effort. The company should take measures to shorten the gap to make that first step easier to take for the first time customers. For Example: *Lenskart* - *Lenskart* uses testimonials of customers, domain expert and shows recent purchases to win customers for the new never-bought-online products. Website's 'excellent' ratings from *trustedcompany.com* are highlighted too.

2. Providing compelling User Experience:

Another important point to note is that lenses, sunglasses, bags, jewels and watches are kind of products about which often the customers are not pre-decided about exactly which one to buy, unlike books and electronics. Therefore vertical players can appear more compelling by providing customized user experience (for a particular product category) customers make a satisfying purchase. The need for providing compelling user experience is also aggravated due to the fact that unlike horizontal players that offer wide range of products for which customers can revisit, vertical players have to pull them back by winning their trust and casting a unique, compelling impression.

3. Variety:

Customers might be inclined to buy through these specialized websites, they might think that other than specialization these websites would have more variety- which is more important particularly for products like apparels, jewelry (as customer is less pre-decided about the exact product to buy.)

4. All under one roof (Vertical Integration):

Many categories being sold online have low margin structures. To combat this, entrepreneurs can vertically integrate their business, by bringing design, manufacturing, branding and distribution under one roof. *Vancl*, which is in the fashion e-tail business in China, has shown tremendous success through vertical integration. In India, *Zovi* - selling clothes, shoes and related accessories, and *PrettySecrets* – a lingerie shopping website, are some examples of companies, which have adopted this approach. This model has its own challenges, of having to own design and creating a brand from scratch. This approach is usually wise to adopt only if the founding team has domain expertise in the sector.

E Commerce Advantages:-

E-Commerce Advantages for Customers

- **Convenience.** Every product is at the tip of your fingers on the internet, literally. Type in the product you are looking for into your favorite search engine and every option will appear in a well organized list in a matter of seconds.

- **Time saving.** With e-commerce there is no driving in circles while looking and digging in hopes of finding what you need. Stores online offer their full line as well as use warehouses instead of store fronts—products are easy to locate and can be delivered to your door in just days.
- **Options, options, options!** Without driving from store to store the consumer can easily compare and contrast products. See who offers the best pricing and have more options to choose from. While a physical store has limited space, the same store on the internet will have full stock.
- **Easy to compare.** Side by side comparisons are readily available and easy to do. When products are placed online, they come with all the specifics, and they *want* you to compare them with others, know they have the best options and come back for more!
- **Easy to find reviews.** Because the competition is high, companies online want you to look at other consumer reviews. Good and bad reviews are on every site, not only can you see if the product is liked, you can also see the reasons behind the thumbs up or down.
- **Coupons and deals.** With every online business wanting you, more and more coupons and deals can't be avoided, which are totally great for customers. With major sites that act as department store, you may find items up to 80% off! Take advantage of the competition and find the best price available.

E-Commerce Advantages for Businesses

- **Increasing customer base.** The customer base is every business's main concern, online or off. When online, a business doesn't have to worry about getting the best property in town, people from around the world have access to their products and can come back at anytime.
- **Rise in sales.** By not managing a storefront, any business will have more sales online with a higher profit margin. They can redistribute money to make the consumer shopping experience faster and more efficient. While being available to international markets, more products will sell.
- **24/7, 365 days.** If it's snowing and the roads are closed, or it's too hot and humid to even step outside in the summer, or a holiday that every store in town closes, your online business is open for consumers 24/7 every day of the year. The doors never close and profits will keep rising.
- **Expand business reach.** A great tool on the internet is...translation! A business online does not have to make a site for every language. With the right marketing, every consumer around the globe can find the business site, products and information without leaving home.
- **Recurring payments made easy.** With a little research, every business can set up recurring payments. Find the provider that best suits your needs and billing will be done in a consistent manner; payments will be received in the same way.
- **Instant transactions.** With e-commerce there is no more waiting for the check to clear, or a 30-day wait for certain other types of payment. Transactions are cleared immediately or at most two to three days for the money to clear through the banking system.

Limitations of Disadvantages of E-Commerce

Though e-commerce offers many advantages to customers, business, society and nation, there are still some areas of concern that need to be addressed. The following are some of the limitations or disadvantages of e-commerce.

1. Security

The biggest drawback of e-commerce is the issue of security. People fear to provide personal and financial information, even though several improvements have been made in relation to data encryption. Certain websites do not have capabilities to conduct authentic transactions. Fear of providing credit card information and risk of identity limit the growth of e-commerce.

2. Lack of privacy

Many websites do not have high encryption for secure online transaction or to protect online identity. Some websites illegally collect statistics on consumers without their permission. Lack of privacy discourages people to use internet for conducting commercial transactions,

3. Tax issue

Sales tax is another bigger issue when the buyer and seller are situated in different locations. Computation of sales tax poses problems when the buyer and seller are in different states. Another factor is that physical stores will lose business if web purchases are free from tax.

4. Fear

People fear to operate in a paperless and faceless electronic world. Some of the business organizations do not have physical existence, People do not know with whom they are conducting commercial transactions. This aspect makes people to opt physical stores for purchases.

5. Product suitability

People have to rely on electronic images to purchase products. Sometimes, when the products are delivered, the product may not match with electronic images. Finally, it may not suit the needs of the buyers. The lack of 'touch and feel' prevent people from online shopping.

6. Cultural obstacles

E-commerce attracts customers from all over the world. Habits and culture of the people differ from nation to nation. They also pose linguistic problems. Thus, differences in culture create obstacles to both the business and the consumers.

7. High Labour cost

Highly talented and technically qualified workforce are required to develop and manage the websites of the organization. Since internet provides a lot of job opportunities, business organizations have to incur a lot of expenses to retain a talented pool of employees,

8. Legal issues

The cyber laws that govern the e-commerce transactions are not very clear and vary from country to country. These legal issues prevent people from entering into electronic contracts.

9. Technical limitations

Some protocol is not standardized around the world. Certain software used by vendor to show electronic images may not be a common one. It may not be possible to browse through a particular page due to lack of standardized software. Insufficient telecommunication bandwidth may also pose technical problems.

9. Huge technological cost

It is difficult to merge [electronic business with traditional business](#). Technological infrastructure may be expensive and huge cost has to be incurred to keep pace with ever changing technology. It is necessary to allocate more funds for technological advancement to remain competitive in the electronic world.

Scope of e-commerce:

Parts of e-commerce

Basically e-commerce means commercial transactions on the net. Depending on the type of commercial transaction e-commerce is classified into different parts –

Electronic Markets:• It is mainly about searching for a particular product or service. Airline Reservation system is the biggest example of this type.

Electronic Data Interchange (EDI):• EDI is exchange of all the commercial documents between different commercial organizations. It is widely used by the retailers and vehicle assemblers when trading with their suppliers.

Internet Commerce:• It is generally used for once off trading transactions. It is used for advertising goods and services. It is used both for B2B and B2C transactions. Figure 1.1: Three Categories of E-commerce Electronic Markets EDI Internet Commerce

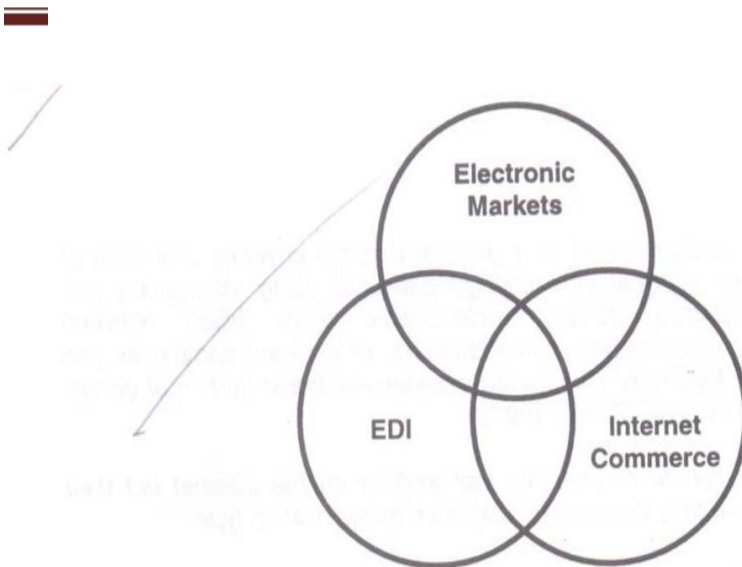


Fig. 1.1 The three categories of e-Commerce.

Electronic Commerce and the trade cycle:

It can be applied to all, or to different phases of the trade cycle

The trade cycle varies depending on

The nature of the organizations

Frequency of trade between the partners to the exchange

The nature of goods and services being exchanged

Trade cycle support

Finding goods and services (referred to as a search & negotiation)

Placing the order, taking delivery & making payment (execution and settlement)

After sales activities such as warranty, services etc.

The three generic trade cycles can be identified:

Regular, repeat transactions (repeat trade cycle)

Irregular transactions, where execution & settlement are separated (credit transactions)

Irregular transactions where execution & settlement are combined (cash transactions)

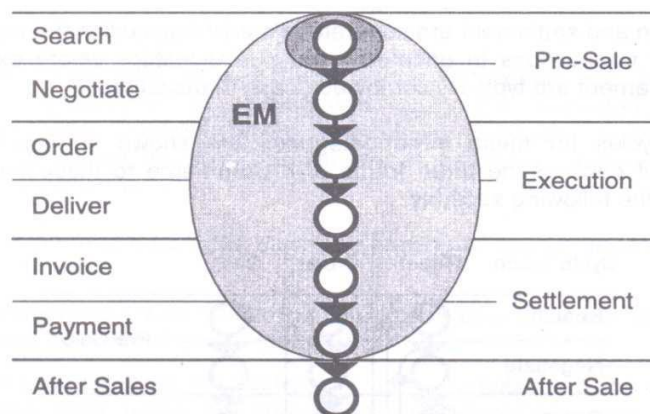
Electronic Markets:

It increases the efficiency of the market

It reduces the search cost for the buyer & makes it more likely that buyer will continue the search until the best buy is found

It exist in commodity, financial markets & they are also used in airline booking system

It is irregular transaction trade



cycle. **Fig. 1.3** Electronic Markets and Trade Cycle.

Electronic Data Interchange:

Applications are sending test results from the pathology laboratory to the hospital or dispatching exam results from exam boards to school

It is used trade exchanges

Users are vehicle assemblers, ordering components for the supermarkets

It is used for regular repeat transactions

It takes quite lot of work to set up systems

It is part of schemes for just-in-manufacture and quick response supply

Mature use of EDI allows for a change in the nature of the product or service
 Mass Customization is such an example

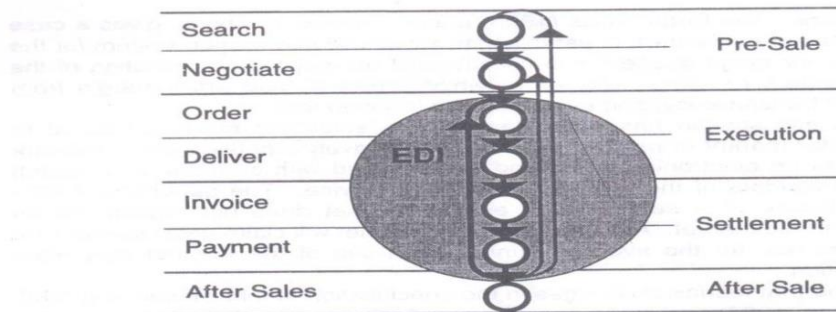


Fig. 1.4 EDI and the Trade Cycle.

Internet Commerce:

The first stage

Advertising appropriate goods and services

Internet sites offer only information & any further steps down the trade cycle are conducted on the telephone

The Second stage

An increasing no. of sites offer facilities to execute & settle the transaction

Delivery may be electronic or by home delivery depending on the goods and services

The final stage

After-sales service

On-line support & On-Line services

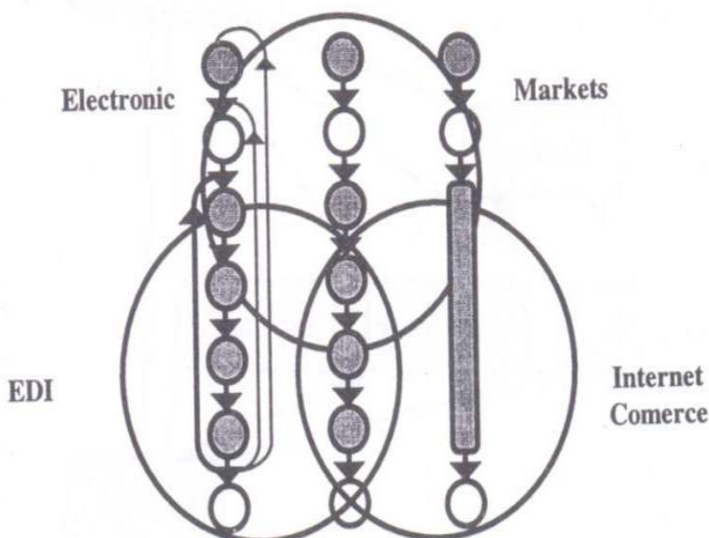


Fig. 1.6 e-Commerce Technologies and Generic Trade Cycles.