

## **Instructor's Manual: Chapter 1**

### **The Revolution Is Just Beginning**

#### **Teaching Objectives**

- Define e-commerce and describe how it differs from e-business.
- Identify and describe the unique features of e-commerce technology and discuss their business significance.
- Recognize and describe Web 2.0 applications.
- Describe the major types of e-commerce.
- Discuss the origins and growth of e-commerce.
- Explain the evolution of e-commerce from its early years to today.
- Identify the factors that will define the future of e-commerce.
- Describe the major themes underlying the study of e-commerce.
- Identify the major academic disciplines contributing to e-commerce.

#### **Key Terms**

e-commerce, p. 10  
 e-business, p. 10  
 information asymmetry, p. 12  
 marketplace, p. 12  
 ubiquity, p. 12  
 marketpace, p. 13  
 reach, p. 14  
 universal standards, p. 14  
 richness, p. 14  
 interactivity, p. 15  
 information density, p. 15  
 personalization, p. 15  
 customization, p. 16  
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## Brief Chapter Outline

*Opening Case: Pinterest: A Picture Is Worth a Thousand Words*

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The Difference between E-commerce and E-business

Why Study E-commerce?

Eight Unique Features of E-commerce Technology

Web 2.0: Play My Version

Types of E-commerce

Growth of the Internet, Web, and Mobile Platform

*Insight on Technology: Will Apps Make the Web Irrelevant?*

Origins and Growth of E-commerce

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E-commerce 2001–2006: Consolidation

E-commerce 2007–Present: Reinvention

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Society: Taming the Juggernaut

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### Teaching Suggestions

One of the biggest challenges that instructors face in teaching a course on e-commerce is helping students make sense out of what is really a very complex phenomenon that involves considerations of markets, firms, consumer behavior, and technology, among others. E-commerce is continually evolving and has become a thriving marketplace not only for products but also for services and content, such as social networks, user-generated content (video, photos, and blogs), and of course, entertainment such as movies, TV, video, music, and games. E-commerce is as much a sociological phenomenon as it is a business and technological phenomenon. In addition to the new social aspect of e-commerce, two major new themes in the text are the full emergence of the mobile platform, and the increasing emphasis on local e-commerce. We weave social, mobile, and local topics throughout the text into all chapters, because they are increasingly impacting all aspects of e-commerce.

The opening case, *Pinterest: A Picture Is Worth a Thousand Words*, captures some of these changes in the foundations of e-commerce. Pinterest is at the forefront of a movement toward a more visual social media experience. It illustrates many of the trends that will be impacting e-commerce over the new few years, including the growing use of social media to sell goods (social e-commerce), for branding, and to drive traffic to company Web sites, as well as the growing importance of the mobile platform. You can also use the case as an introduction to some of the social, legal, and ethical issues facing e-commerce companies, including copyright and security issues. As you discuss the case with your students, you could also pose the following questions to them:

- Do you use Pinterest and if so, how often? What are your main interests? What has the experience been like? Have you used any other curation sites? If so, how do they compare to Pinterest?
- Have you purchased anything based on a pin or board on Pinterest or any other curation site?
- Why do you think Pinterest links drive more purchasing than Facebook links?

### Key Points

Students are very interested in knowing what the future holds for e-commerce.

E-commerce is the fastest growing retail, service, and entertainment channel. Although e-commerce revenues were relatively flat during the recession, growth resumed in 2010, and has continued since then, outpacing traditional retail by a factor of two or three.

There are thousands of job opportunities in e-commerce as traditional firms move onto

the Web. You should let students know that the e-commerce revolution is still in the beginning phases. They may have missed the early tumultuous years, but there are many powerful, commercial, and technological forces that will push e-commerce along in the next decades. To emphasize this, you can highlight the bullet points noted in Table 1.1.

Much of the first chapter is aimed at getting some basic definitions straight. The e-commerce field is filled with language that some students might find confusing. We distinguish between e-commerce and e-business to set the focus clearly on commercial transactions over the Internet. It's also important for students to understand the differences between the various types of e-commerce, such as B2C and B2B. A short preview of this topic is covered on pages 19 to 20. Figure 1.5 graphically illustrates the relative size of different types of e-commerce, to help drive home the point that while B2C, and social-mobile-local e-commerce may be the types students are most familiar with, or hear about the most, they are all dwarfed by B2B.

Many students (and some of our colleagues) may ask, "Why study e-commerce?" when we generally do not have courses on other types of commerce, like sales over the television. Here's a good opportunity to show students just how different Internet technology is from previous technologies. Pages 12 to 16 cover this topic. We use a variation of Table 1.2 throughout the text in various contexts, so it's a good idea to familiarize students with it. Ask students if they think some dimension is missing from the table, or to compare these features with, say, television.

Pages 22 to 24 briefly discuss the growth of the Internet, Web, and mobile platform. This is a good time to introduce changes in client platforms, operating systems, and, particularly, mobile devices as technologies that are spurring access to the Internet. Figure 1.6 highlights the growing use of mobile devices to access the Internet. The top part of the graphic shows the increase in the number of people using mobile phones and tablets to do so, the middle part shows the percentage of the U.S. population using mobile phones and tablets, and the bottom part shows the total U.S. mobile connections – in 2012, an average of 1.15 per person.

The *Insight on Technology: Will Apps Make the Web Irrelevant* case looks at the rise in importance of apps as compared to the Web in the e-commerce landscape. Class discussion questions for this case might include:

- What are the advantages and disadvantages of apps, compared with Web sites, for mobile users?
- What are the benefits of apps for content owners and creators?
- Will apps eventually make the Web irrelevant? Why or why not?

An important distinction in Chapter 1 is the contrast between the early years of e-commerce and e-commerce today. We discuss e-commerce in the context of three stages: an early period of invention, a period of consolidation, and then today's e-commerce, which we refer to as a period of "reinvention." Figure 1.8 places these periods along a timeline, while Table 1.4 describes the key dimensions of each of these periods.

The discussion of the early years of e-commerce and its initial promise allows you to introduce some key terms such as *disintermediation*, *first movers* versus *fast followers*, *network effects*, and “*friction free*” commerce. These terms appear again and again in later chapters.

The case *Insight on Business: Start-up Boot Camp* provides an interesting look at Y Combinator, a start-up incubator. Students might be inspired by Teespring, a start-up mentioned in the case that was started in 2012 by two students at Brown University.

Class discussion questions for this case might include:

- Why do you think investors today are still interested in investing in start-ups?
- What are the benefits of investing in a company that is a graduate of a Y Combinator boot camp?
- Is an incubator the best solution for start-ups to find funding? Why or why not?

A major theme in the book is that e-commerce affects and is affected by many societal forces. On the one hand, the Internet and e-commerce are changing our conception of shopping and entertainment. It is also true that social attitudes and values, as well as new legislation, are shaping the Internet and e-commerce. Students are introduced to the technology of privacy invasion and privacy protection in *Insight on Society: Facebook and the Age of Privacy*. Here, students are introduced to some of the societal themes that recur throughout the book. Do consumers in a public marketplace have a legitimate expectation of privacy? Is there anything consumers can do to protect their privacy? Can the Web be designed to better protect privacy? You might point out to students that government and business surveillance of their online behavior is now commonplace. Although some students might say, “So what,” you might take this opportunity to ask students if there is any personal information that they would not like anyone to know. If this fails, ask them to close their eyes and think about something they have done that they would not want their parents to know about. Just about everyone has at least one of these memories. Other class discussion questions might include the following:

- Why are social network sites interested in collecting user information?
- What types of privacy invasion are described in the case? Which is the most privacy-invading, and why?
- Is e-commerce any different than traditional markets with respect to privacy? Don’t merchants always want to know their customers?
- How do you protect your privacy on the Web?

The concluding case study, *The Pirate Bay: Searching for a Safe Haven*, is a fascinating example of the creative destruction of the traditional recorded music industry, the interplay of technology, law, popular culture, and politics, and the role of intellectual property on the Internet. The case study is excellent for introducing the idea of intellectual property in the digital era. There will be little difficulty obtaining student participation when you pose the following question: “Should file-sharing networks (or those who encourage sharing of copyrighted files) be allowed to distribute copyrighted music on the Web without having to compensate copyright holders?” Many students believe music should be free online even if this means: (a) ignoring claims by artists and record companies that they own the music, and (b) violating the law that protects the

claims of copyright holders. On the other hand, paying for music has become acceptable again through the development of iTunes, subscription music services such as Spotify, smartphones, and cloud computing, where music is streamed, not downloaded. As cloud computing grows, downloading and “owning” music will be a thing of the past, as most music will be streamed to users connected to the Internet. It won’t be free, just convenient.

### **Case Study Questions**

1. *Why did TPB believe it was not violating copyright laws? What did the Swedish Court rule?*

TPB claims it is merely a search engine providing pointers to existing P2P networks that it does not itself control. It says that it cannot control what content users ultimately find on those P2P networks, and that it is no different from any other search engine, such as Google or Bing, which are not held responsible for the content found on sites listed in search results. From a broader standpoint, TPB’s founders also claim that copyright laws in general unjustly interfere with the free flow of information on the Internet, and that in any event, they were not violating Swedish copyright law, which they felt should be the only law that applied. And they further claimed they did not encourage, incite, or enable illegal downloading.

The First Swedish Court in Stockholm declared TPB’s four founders guilty of violating Swedish copyright law, and sentenced each to one year in prison and payment of \$3.5 million in restitution to the plaintiffs, all Swedish divisions of the major record firms (Warner Music, Sony, and EMI Group among them). The court found that the defendants had incited copyright infringement by providing a Web site with search functions, easy uploading and storage possibilities, and a tracker. The court also said that the four defendants had been aware of the fact that copyrighted material was shared with the help of their site and that the defendants were engaged in a commercial enterprise, the basis of which was encouraging visitors to violate the copyrights of owners. In fact, the primary purpose of TPB was to violate copyrights in order to make money for the owners (commercial intent).

2. *How has TPB managed to continue operating despite being found in violation of copyright laws?*

TPB has appealed the court judgment, has not paid any fine, and its founders, as yet, have not spent any time in jail. It has moved its servers into caves in Sweden and dispersed multiple copies of its program to other countries. Although it has been hounded by lawsuits, police raids, and confiscation of servers in various countries, as well as having its top-level domains shut down in Sweden and other countries, it has for the time being found a safe haven on the Caribbean island Saint Maarten.

3. *How has the music industry reacted to the problems created by pirates like TBP?*

The music industry has reacted by suing companies and individuals who it believes are involved in piracy, and encouraging strong government enforcement of copyright laws. In addition, the music industry has had to drastically change its business model and decisively move towards digital distribution platforms. They have made striking progress, and, for the first time, in 2011 sales of music in a purely digital format accounted for more revenue than sales of music in a physical format. To do so, the music industry employed a number of different business models and online delivery platforms, including Apple's iTunes pay-per-download model, subscription models, streaming models and now music in the cloud.

### End of Chapter Questions

1. *What is e-commerce? How does it differ from e-business? Where does it intersect with e-business?*

E-commerce, in the popular sense, can be defined as: The use of the Internet and the Web to conduct business transactions. A more technical definition would be: E-commerce involves digitally enabled commercial transactions between and among organizations and individuals. E-commerce differs from e-business in that no *commercial* transaction (an exchange of value across organizational or individual boundaries) takes place in e-business. E-business is the digital enablement of transactions and processes *within* a firm and therefore does not include any exchange in value. E-commerce and e-business intersect at the business firm boundary at the point where internal business systems link up with suppliers. For instance, e-business turns into e-commerce when an exchange of value occurs across firm boundaries.

2. *What is information asymmetry?*

Information asymmetry refers to any disparity in relevant market information among the parties involved in a transaction. It generally applies to information about price, cost, and hidden fees.

3. *What are some of the unique features of e-commerce technology?*

The unique features of e-commerce technology include:

- Ubiquity: It is available just about everywhere and at all times.
- Global reach: The potential market size is roughly equal to the size of the online population of the world.
- Universal standards: The technical standards of the Internet and therefore of conducting e-commerce are shared by all of the nations in the world.
- Richness: Information that is complex and content-rich can be delivered without sacrificing reach.
- Interactivity: E-commerce technologies allow two-way communication between the merchant and the consumer.
- Information density: The total amount and quality of information available to all market participants is vastly increased and is cheaper to deliver.

- Personalization/Customization: E-commerce technologies enable merchants to target their marketing messages to a person's name, interests, and past purchases. They allow a merchant to change the product or service to suit the purchasing behavior and preferences of a consumer.
- Social technology: User content generation and social network technologies

4. *What is a marketspace?*

A marketspace is a marketplace that is extended beyond traditional boundaries because it is removed from the restrictions of geography and time. The ubiquity of e-commerce technologies liberates the market from these limitations.

5. *What are three benefits of universal standards?*

- Reduced search costs for consumers
- Becomes simpler, faster, with more accurate price discovery
- Lower market entry costs for merchants

6. *Compare online and traditional transactions in terms of richness.*

Traditional transactions can provide more richness in terms of face-to-face service including visual and aural cues. However, traditional transactions are limited in terms of how many people can be reached at a single time. Online transactions, which can be global in reach, can provide content that is both complex and rich, overcoming the traditional trade-off between reach and richness.

7. *Name three of the business consequences that can result from growth in information density.*

Growth in information density can result in:

- Greater price transparency: Consumers can easily find out the variety of prices in a market.
- Greater cost transparency: Consumers can discover the actual costs merchants pay for products.
- Greater opportunities for marketers to practice price discrimination: Because marketers are able to gather much more information about their customers, they can segment the market into groups based on willingness to pay different prices for the same or nearly the same goods.

8. *What is Web 2.0? Give examples of Web 2.0 sites and explain why you included them in your list.*

Web 2.0 is a set of applications and technologies that allows users to create, edit, and distribute content; share preferences, bookmarks, and online personas; participate in virtual lives; and build online communities. In other words, Web 2.0 is the set of new, advanced applications that have evolved along with the Web's ability to support



larger audiences and more involved content. Students may list Facebook, Pinterest, Twitter, YouTube, Instagram, Wikipedia, StumbleUpon, Tumblr, and WordPress, among others, as example sites.

9. *Give examples of B2C, B2B, C2C, and social, mobile, and local e-commerce besides those listed in the chapter materials.*

The answers to this question will vary. Possible examples include:

- B2C: E-tailers:  
Bluefly.com  
Uncommongoods.com
- B2C: Service Providers:  
Expedia  
Travelocity
- B2C: Portals:  
Yahoo  
MSN
- B2C: Content Providers:  
WSJonline.com  
Consumerreports.com
- B2B:  
Grainger.com  
Ariba.com
- C2C:  
Craigslist.com  
Etsy.com
- Social e-commerce:  
Facebook Gifts  
Treater
- Mobile e-commerce  
Mobile retail Web sites and apps  
Mobile banking Web sites and apps  
Mobile travel services Web sites and apps  
Mobile advertising  
Mobile content  
Mobile payment services
- Local e-commerce  
LivingSocial  
Google Offers  
Amazon Local

10. *How are the Internet and the Web similar to or different from other technologies that have changed commerce in the past?*

The Internet and the Web are similar to other technologies that have changed commerce in the past in that each new technological innovation spawns explosive

growth characterized by thousands of start-up companies. Many of these fail in the period of retrenchment and consolidation that follows. As with other technological revolutions, eventually it is the large, already established firms who have the resources to exploit the new technology. The growth of the Internet, when compared to other electronic technologies such as radio and television, has been much more rapid: The Internet and Web achieved a 53% share of U.S households in only 10 years. In comparison, it took 38 years for radio and 17 years for television to achieve a 30% share.

*11. Describe the three different stages in the evolution of e-commerce.*

The three stages in the evolution of e-commerce are innovation, consolidation, and reinvention. Invention took place from 1995–2000 and was characterized by excitement and idealistic visions of markets in which quality information was equally available to both buyers and merchants. E-commerce did not fulfill these visions during its early years, however. After 2000, e-commerce entered its second stage of development—consolidation. In this stage, more traditional firms began to use the Web to enhance their existing businesses. Less emphasis was placed on creating new brands. In 2006, though, e-commerce entered its current stage—reinvention—as social networking and Web 2.0 applications reinvigorated e-commerce and encouraged the development of new business models.

*12. Define disintermediation and explain the benefits to Internet users of such a phenomenon. How does disintermediation impact friction-free commerce?*

Disintermediation means the removal of the market middlemen—the distributors, wholesalers, and other intermediaries—between producers and consumers. The predicted benefits to Internet users include the decline of prices for products and services as manufacturers and content originators develop a direct relationship with their customers, and the elimination of payments to these middlemen. Disintermediation of markets would create intense competition. This, along with lowered transaction costs, would eliminate product brands, eventually resulting in the elimination of unfair competitive advantages and extraordinary returns on capital—the vision of friction-free commerce.

*13. What are some of the major advantages and disadvantages of being a first mover?*

The major advantages of being a first mover are the ability to build a brand name early on and establish a large customer base before followers enter the market, and the ability to build switching costs into the technology or services offered so that customers will find it discomfiting to change to a late entering competitor. The major disadvantage is that historically, many first movers have not succeeded and are instead replaced by the fast follower, larger firms with the financial, marketing, legal, and production assets necessary to develop mature markets. Generally, only a handful of first mover firms become successful long-term businesses as the start-up costs and time it takes to build a profitable business are often underestimated.

*14. Discuss the ways in which the early years of e-commerce can be considered both a success and a failure.*

The early years of e-commerce can be considered a success because of the technological success that occurred as Web-enabled transactions grew from thousands to billions. The digital infrastructure proved to be a solid foundation on which to build a viable marketing channel. From a business perspective, the early years of e-commerce were a mixed success with just a tiny percentage of dot.com companies surviving. However, the survivors have benefited from the continued growth in B2C revenues. The early years of e-commerce can also be considered a success in that the transfer of information has been a huge accomplishment as consumers learned to use the Web to procure information about products they wanted to purchase (Internet-influenced commerce).

*15. What are five of the major differences between the early years of e-commerce and today's e-commerce?*

The major differences between the early years of e-commerce (the Invention stage), the period between 2001 and 2006 (the Consolidation stage), and today's e-commerce (the Reinvention stage) are as follows:

- During the Invention stage, e-commerce was primarily technology-driven. During the Consolidation stage, it was primarily business-driven. Today's e-commerce, although still business-driven, is also audience, customer, and community-driven.
- During the Invention stage, firms placed an emphasis on revenue growth, quickly achieving high market visibility/market share. During the Consolidation stage, the emphasis was on building profitable firms. Today, audience and social network growth are being emphasized.
- Start-ups during the Invention stage were financed by venture capitalists, while those in the Consolidation stage were primarily financed by traditional methods. Today, startups are once again being financed by venture capitalists, albeit with smaller investments. In addition, many large online firms are now entering the market, and acquiring early stage firms via buy-outs.
- During the Invention phase, e-commerce was, for the most part, ungoverned. In the Consolidation stage, there was a rise in the amount of regulation and governmental controls by governments worldwide. Today, there is extensive government regulation and surveillance.
- The Invention stage of e-commerce was characterized by the young entrepreneurial spirit. During the Consolidation stage, e-commerce was primarily dominated by the retail giants. Today, large purely Web-based firms are playing a major role.
- The Invention phase was characterized by an emphasis on deconstructing traditional distribution channels and disintermediating existing channels. During the Consolidation stage, intermediaries strengthened. Today, there is a

proliferation of small online intermediaries that are renting the business processes of larger firms.

- “Perfect markets” in which direct market relationships with consumers, the decline of intermediaries, and lower transaction costs resulted in intense competition and the elimination of brands, are being replaced by imperfect markets. Imperfect markets are characterized by a strengthening of brand name importance, increasing information asymmetries, price discrimination, and network effects.
- The early years of e-commerce saw an infusion of pure online businesses that thought they could achieve unassailable first mover advantages. During the Consolidation period, successful firms used a mixed “bricks-and-clicks” strategy, combining traditional sales channels such as physical stores and printed catalogs with online efforts. Today, there is a return of pure online strategies in new markets, as well as continuing extension of the “bricks and clicks” strategy in traditional retail markets.
- The early years of e-commerce were dominated by the first movers. In the Consolidation stage, e-commerce was dominated by the well-endowed and experienced Fortune 500 and other traditional firms. Today, first-mover advantages are returning in new markets as traditional Web players catch up. Facebook is an excellent example of not-quite-a-first mover, but close enough to build a huge online audience.

*16. What factors will help define the future of e-commerce over the next five years?*

The factors that will help define the future of e-commerce over the next five years include:

- The technology of e-commerce—the Internet, the Web, and the number of mobile devices—will continue to proliferate through all commercial activity; overall revenues will continue to rise rapidly; and the numbers of both visitors and products and services sold will continue to grow.
- Prices will rise to cover the real costs of doing business on the Web and to pay investors a reasonable rate of return on their capital.
- E-commerce margins and profits will rise to the level of traditional retailers. (The difference between revenues from sales and cost of goods sold will be equal to that of traditional firms.)
- The top e-commerce sites will increasingly obtain very well-known brands from strong, older firms.
- The most successful e-commerce firms will use both traditional marketing channels such as physical stores and printed catalogs as well as e-commerce Web sites. Five years from now we may have a definitive answer to these questions as Walmart and Amazon compete against one another for dominance in online retail. Clearly, Walmart is the leader in the offline traditional retailer marketplace.

*17. Why is a multi-disciplinary approach necessary if one hopes to understand e-commerce?*

A multi-disciplinary approach is necessary in order to understand e-commerce because no single academic discipline covers all facets of the e-commerce phenomenon. E-commerce is primarily a technologically driven occurrence, including information technologies developed over the past fifty years, with the Internet and the Web at the core. However, beyond the infrastructure are the business purposes that drive the phenomenon: the changing business models and strategies that will transform old companies and spawn new ones. To understand e-commerce, one must understand some basic business concepts such as: industry structures, business models, firm and industry value chains, and consumer behavior. They must also comprehend the nature of electronic markets and information goods. Finally, the impact on society must be considered: global e-commerce can have consequences for individuals concerning their intellectual property and privacy rights. Public policy issues such as equal access, equity, content control, and taxation will need to be addressed.

### Projects

1. *Define “social e-commerce” and describe why it is a new form of advertising, search, and potentially commerce.*

A working definition of “social e-commerce” involves online commercial transactions that take place in an online social milieu involving friends, acquaintances, and others in the consumer’s social network. In many respects this is similar to a traditional village market where consumers search for, evaluate, and purchase products, in the presence of their social network members (families, friends, and neighbors). The social online experience can support search functions; rather than using Google to search for reviews on products, ask your friends instead about their experience with the product. By simply attracting huge audiences (eyeballs), social networks are an excellent venue for display advertising and text ad placement. Facebook and other networks are experimenting with conducting transactions within the social site itself, rather than having customers drift to Amazon and other retailers.

2. *Search the Web for an example of each of the five major types of e-commerce described in Section 1.1. Create an electronic slide presentation or written report describing each Web site (take a screenshot of each, if possible) and explain why it fits into one of the five types of e-commerce.*

The purpose of this project is for students to begin looking at the Web sites they visit from a critical perspective and begin analyzing the information they can find at those sites. Presentations/reports submitted for this project will differ depending on the examples selected by students. Examples might include the following:

- B2C: Any one of a number of B2C companies such as e-tailers, service providers, portals, content providers, and community providers might be selected.

- B2B: Any one of a number of B2B companies such as Elemica (consortia), Grainger.com (e-distributor), and Inventory Locator Service (ILS) (exchange) could be selected.
- C2C: Leading examples of C2C e-commerce companies include eBay, Craigslist, Etsy, and others that act as an intermediary between consumers seeking to make transactions.
- Social e-commerce: Facebook is at the center of social e-commerce, both as a platform for other companies, particularly small businesses, and in its own right via Facebook Gifts.
- M-commerce: Companies with significant mobile commerce capabilities are Amazon, eBay, Orbitz, and Fandango.
- Local e-commerce: Companies that are involved with local e-commerce include Groupon, LivingSocial, Google Offers, and AmazonLocal, among others.

For each example chosen, the student should describe the features of the company that indicate which particular category of e-commerce it falls into. For example, if Barnesandnoble.com is chosen as a representative of B2C e-commerce, the student might describe the features he or she sees available on the home page. They should note that Barnesandnoble.com focuses primarily on the sale of books, music, software, magazines, prints, posters, and related products to individual consumers.

3. *Choose an e-commerce Web site and assess it in terms of the eight unique features of e-commerce technology described in Table 1.2. Which of the features does the site implement well, and which features poorly, in your opinion? Prepare a short memo to the president of the company you have chosen, detailing your findings and any suggestions for improvement you may have.*

As with the first project, the purpose of this exercise is for students to begin looking at the Web sites they visit from a critical perspective and to begin analyzing the information they can find at those sites. Presentations/reports submitted for this project will differ depending on the example selected by students.

In assessing a Web site in terms of the eight unique features of e-commerce technology, a student might focus on the following:

- Ubiquity: What kinds of m-commerce applications, if any, does the site offer? (Such applications increase ubiquity by making e-commerce available from a wider range of devices.)
- Global reach: Does the Web site try to reach consumers outside of its host country? If so, how well is this implemented?

- Universal standards: There should not be much variance between Web sites with respect to this feature of e-commerce technology.
  - Richness: Does the Web site use animated graphics, Flash animations, online video, or streaming media to deliver marketing messages? If so, how effective does the student find these features? Do they aid the consuming experience, or hinder it?
  - Interactivity: In what ways is the Web site interactive?
  - Information density: Students should note what, if any, information (via registration or through other means) a Web site overtly collects from visitors or users.
  - Personalization/Customization: In what ways does the Web site personalize its marketing messages? For instance, is the user greeted by name? Can products and services be customized?
  - Social technology: Does the Web site offer ways for consumers to share opinions and preferences? Is there any capacity for content generation?
4. *Given the development and history of e-commerce in the years from 1995–2013, what do you predict we will see during the next five years of e-commerce? Describe some of the technological, business, and societal shifts that may occur as the Internet continues to grow and expand. Prepare a brief PowerPoint slide presentation or written report to explain your vision of what e-commerce will look like in 2017.*

Although each student's answer may differ depending on their personal perspective on e-commerce, here are some possible predictions:

- Technological shifts: The Internet will continue to grow, but at a slower pace. Internet usage, however, will become more focused, targeted, and intense. New client platforms will continue to emerge. Mobile devices such as smartphones and tablets may eclipse traditional desktop computers.
- Business shifts: Larger traditional firms will come to dominate e-commerce. There will be a greater emphasis on profitability for online ventures. Alternatively, as the costs of creating and running a Web site decline, more innovative small firms will enter the marketplace and challenge the leaders in e-commerce.
- Societal shifts: There will be a greater emphasis on regulation and control over the Internet and e-commerce in areas such as taxation, content, and entertainment. Consumers will demand music, and other media, to be delivered to any of several different platforms, from desktop to smartphones.

5. *Follow up on events at Pinterest since June 2013 (when the opening case was prepared). Prepare a short report on your findings.*

Given the large number of press reports on Pinterest, students should be able to find a plethora of information by using the Web to search for articles. For example, Pinterest has started to accept advertising in the form of “Promoted Pins.”

### **Companion Web Site, Learning Tracks, and Video Cases**

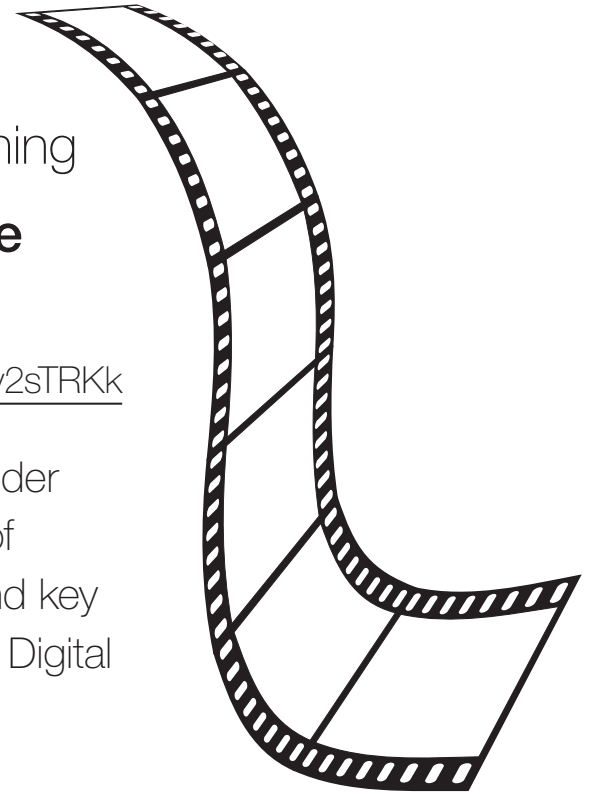
You can also direct your students to the Companion Web Site for the book, located at [www.azimuth-interactive.com/ecommerce10e](http://www.azimuth-interactive.com/ecommerce10e). There they will find a collection of additional projects and exercises for each chapter; links to various technology tutorials; information on how to build a business plan and revenue models; information on careers in e-commerce, and more. Learning Tracks that provide additional coverage of various topics and a collection of video cases that integrate short videos, supporting case study material, and case study questions are also available for download from the books’ Online Instructor Resource Center at [www.pearsonhighered.com/laudon](http://www.pearsonhighered.com/laudon). Learning Tracks and Video Cases for this chapter include:

- Learning Track 1.1 Global e-commerce Europe
- Learning Track 1.2 Global e-commerce China
- Learning Track 1.3 Global e-commerce Latin America
- Video Case 1.1 The Future of E-commerce





## video case



**chapter 1** The Revolution Is Just Beginning

**case 1** **The Future of E-commerce**

**watch the  
video at**

<http://www.youtube.com/watch?v=EoaOy2sTRKk>

**summary**

Gian Fulgoni, Chairman and co-founder of comScore, discusses the future of e-commerce in the United States and key findings from comScore's 2012 U.S. Digital Future in Focus. *L=3:49.*

### case

ComScore specializes in analyzing e-commerce data generated by over 2 million Internet users who have given comScore permission to measure their online and offline buying behavior and other activities. This data, along with consumer demographic data, is analyzed and combined with the expertise of comScore industry analysts and predictive analytics to provide custom and industry reports and insights into consumer behavior and advertising effectiveness. In addition to custom products, comScore produces numerous publicly available whitepapers and reports on the state and future of e-commerce.

In this video, the Chairman and co-founder of comScore, Gian Fulgoni, discusses key findings from comScore's 2012 U.S. Digital Future in Focus report. Fulgoni notes spectacular growth in Internet retail spending over 2011 when compared to retail spending in physical stores.

One important trend he notes is the influence of free shipping on Internet purchases: Free shipping has become a norm, and up to 50 percent of shoppers are abandoning online purchases at checkout if they encounter charges for shipping.

continued

A second trend is the influence of smartphones on retail shopping. Smartphones enable consumers to find the lowest price for a product they have found at a physical store and purchase that product from another physical or Internet retailer. Fulgoni discusses the influence this might have on a retailer's physical shopping and inventory locations and how this might bring about smaller, less costly physical stores that are intended primarily as demonstration venues.

### video case questions

1. What other current Internet trends do you see as having an effect, negative or positive, on Internet spending? Explain your answer.
2. Fulgoni refers to two major factors that drive consumers to purchase online rather than in physical stores: convenience and lower prices. What other factors would drive a consumer to purchase a product online rather than from, say, the local Walmart? What are the advantages of purchasing at a store?
3. Fulgoni states that the ability of consumers to use smartphones to scan barcodes at physical stores and seek lower prices could radically alter retailers' decisions in locating and designing stores and warehouses. He specifically mentions retailers reducing the size of physical stores, and using these stores more as demonstration venues with less inventory, and placing warehouses in lower rent locations. Explain the rationale behind this. Are there any disadvantages in this solution?

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## CHAPTER 1: THE REVOLUTION IS JUST BEGINNING

### LEARNING TRACK 1.1 GLOBAL E-COMMERCE: EUROPE

#### WESTERN EUROPE: UNITED KINGDOM, GERMANY, FRANCE, SPAIN, AND ITALY

In Western Europe, a maturing B2C e-commerce sector is marked by a large population of established online consumers, established payment and logistics systems, and a growing population of mobile shoppers. Leading the way in 2012 with approximately \$140 billion in sales was the United Kingdom, followed by Germany (\$47 billion), France (\$33 billion), Spain (\$18.5 billion), and Italy (\$16 billion). Retail giants Amazon UK, Argos, and Play.com are the leaders in the UK market, which also features numerous, diverse smaller retailers. Sainsbury's and Tesco head the most successful online grocery segment in the world. In Germany, Amazon.de leads (6.8 billion euros), with former mail-order company the Otto Group in second place with approximately one-half the sales (3.4 billion euros). eBay, Amazon, and FNAC, an entertainment retail chain, are the top sites in France.

Despite the recession and currency crisis that has plagued Europe since 2007, Western European e-commerce saw a 15% uptick in 2012. Driven by an increasingly savvy Internet population, bargain shoppers conducting online price comparisons, and the rise of mobile e-commerce, these gains are expected to continue through 2014. Western Europe has the highest percentage of mobile phone users of any region in the world, and one-third of those are smartphone users. Robust competition between carriers and device subsidies have kept costs down, and investments in the LTE (Long Term Evolution) mobile broadband communication infrastructure have improved access to mobile data, providing support for m-commerce.

As growth slows in the top three nations, development of the B2C sector in Spain and Italy is expected to keep Western European e-commerce totals growing. Consumers in the UK, Germany, and France currently account for 60% of online buyers and 72% of Western European sales. Around 85% of UK Internet users make an online purchase, and market penetration in Germany and France is nearly as high. UK buyers spent on average \$3,585 annually in 2012, a total that is expected to top \$5,000 by 2016. The Spanish and Italian markets, which currently comprise only 12% of sales in the region, are ripe for expansion. Only 15.3% of Western European e-commerce consumers hail from these countries, and less than half of Spanish and Italian Internet users made an online purchase in 2012. Challenges hindering the emergence of these markets are the relatively low use of credit

cards and lack of alternative online payment systems. In spite of this, average annual spending per consumer is increasing most rapidly in Italy and Spain

## **EASTERN EUROPE: RUSSIA, POLAND, CZECH REPUBLIC, AND SLOVAKIA**

**T**he Eastern European B2C e-commerce sector is much less developed. While total Western European sales topped \$286 billion in 2012, online retail sales in Eastern Europe were only \$43.19 billion. Russia is the biggest contributor to this total with \$15.14 billion in e-commerce sales. Poland, Czech Republic, Ukraine, Hungary, and Slovakia contribute most of the remaining two thirds. Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Estonia, Greece, Latvia, Lithuania, Macedonia, Romania, and Slovenia bring up the rear. The bulk of Eastern European Internet users are Russian, but market penetration is highest in Slovakia, which surprisingly boasts a higher rate than the overall European average.

B2C e-commerce sales in Russia have so far been captured by domestic companies such as OZON, an online shopping mall; KupiVIP, and online shopping club and e-commerce platform, and Holodilnik, a major appliance retailer. Most medium and small retailers have yet to establish an Internet presence. This lack of online shopping opportunities coupled with underdeveloped logistics and payment systems has restrained growth. Presently, Russia's scant 23 million e-commerce consumers account for 30% of the Eastern European market. These shoppers comprise approximately 38% of total Russian Internet users, a percentage mirrored across the region. While revenue increases are expected due to the still growing Internet audience, 60% of the current Internet user population is as yet untapped. With expected gains in disposable income, and as brand-new Internet users gain online proficiency, domestic, as well as international, retail entry is likely, and revenues should continue to rise. However, sales growth is expected to stall at 5% by 2015.

The growth of online buyers has slowed, both in Russia and in Eastern Europe as a whole. The nearly 29% expansion in Russian e-commerce consumers in 2012 is expected to drop to only 8.6% in 2013. Current Internet users who have not yet been converted to consumers are a seemingly intractable group. Those likely to make an online purchase are expected to have done so by 2016 with further gains in the consumer base dropping to 4.2%. Moreover, average annual spending per consumer is not expected to rise from its 2012 total of \$656.

Somewhat surprisingly, given the resistance of many Internet users to online purchasing, one successful Russian enterprise is online supermarket Utkonos.ru, which is shuttering all bricks-and-mortar shops and pick-up stations to become a completely online operation. Ranked third in revenue among Russian Internet firms in 2011, Utkonos was the top retailer, outperformed only by search engine/search and contextual advertising firm, Yandex (the Google of Russia), and the online game and social services site, Mail.ru. Other product categories that have caught on include electronics, home appliances, computers, shoes, and clothing.

continued

2012 saw significant developments with Russian firms to support the impending m-commerce surge. Mobile carriers MTS, VimpelCom, and MegaFon signed an agreement to support m-commerce, and MegaFon partnered with Net Element, a global technology and publishing company, to provide Net Element's m-commerce payment processing system to its 64 million subscribers. Shortly before this announcement, Net Element had received agreements for two rounds of financing from Alfa Bank, Russia's largest private bank, to support the growth and further development of TOT Money, its mobile payment-processing platform.

M-commerce sales in Poland rose at double the rate of the rest of Eastern Europe between 2010 and 2011, an attention-grabbing 700% from the previous year. Overall, B2C e-commerce grew by 25% in 2012, down from the two preceding years. The top two Polish e-commerce sites are Allegro.pl, the Polish eBay, and Groupon.pl. Internet access is still only 60%, and 40% of those users have made an online purchase, but a steady 30% annual climb in the online consumer base has been driven by shoppers searching for bargains during the recession. Online comparison shopping and the hunt for value are expected to continue to drive growth for the next several years, although 2012 saw a decrease in the 30% annual e-commerce growth that had prompted Ecommerce Europe, an industry lobby group, to identify Poland as one of the fastest growing e-commerce markets in the European Union. The still rapidly expanding m-commerce segment, consumers under the age of 35 (70% of whom are already making online purchases), and value shoppers searching for bargains on clothing, shoes, household appliances, and consumer electronics are expected to keep Poland's B2C e-commerce growth ahead of Europe as a whole.

The Czech Republic was also identified by Ecommerce Europe as one of the most rapidly expanding e-commerce market in the European Union. While e-commerce in Europe was growing at a rate of 21% annually (pre-2012), the Czech Republic and Poland were recording 30% annual growth. With an Internet penetration equal to Poland's (60%), but a lower online consumer base (only 30% of those users had made an online purchase), the Czech Republic recorded B2C e-commerce growth largely through the growth of m-commerce and per capita average annual spending. The revenue-leading sites in the Czech Republic are Alza.cz, a consumer electronics retailer, Mall.cz, a mass merchandiser that carries small household appliances, electronics, computers, mobile phones, toys and more, and Kasa.cz, a pure play Internet retailer with a wide product line including audio-video products, appliances, consumer electronics, sporting goods, furniture, toys, cosmetics, garden supplies, and motor vehicle technology. The majority of Czechs use C.O.D. (60%) with online banking transfers as the second most popular payment method for online goods (35%). Credit card use is minimal, and lack of online payment systems could continue to hamper e-commerce development. While e-commerce sales in the developed nations now comprise between 6% and 8% of total retail sales, the share of total retail sales derived from e-commerce in the Czech Republic is just 4%. However, Russian e-commerce still accounts for only 2% of total retail sales.

Like the Poles and the Czechs, Slovaks frequent price comparison sites to hunt for online bargains, and more than half report that they conduct online research before shopping offline. Comparison shopping is even more pressing in Slovakia because goods are higher priced than

continued

the European Union average due to its underdeveloped offline retail segment. Although B2C e-commerce has not grown as quickly in Slovakia, a number of factors point to its continued rise. First, daily Internet users represent 84% of the population, and as many as 83% of these users have made at least one online purchase, significantly higher proportions than the rest of the region. Second, most Slovakian Internet users, particularly those in the younger age brackets, perceive online shopping as both economical and time-saving. While clothes, sporting goods, and household goods have so far been the most popular online purchases, British grocery giant Tesco entered Slovakia in October 2012, likely encouraged by the success of Utkonos in Russia. The most visited sites are consumer electronics dealer Alza.sk, mass merchandiser, Mall.sk, books and movies purveyor, Gorila.sk, Nayelectrodom.sk, Hej.sk, and Martinus.sk, the largest online bookseller in Slovakia. Like the Czechs, Slovaks predominantly use C.O.D. to pay for online purchases (52%). 23% use a bank transfer, with the remainder using credit cards or payment upon pick-up at a bricks-and-mortar outlet.

Overall, B2C e-commerce in Eastern Europe is primed for advancement. Internet access is still on the upswing, as is the number of Internet users who are becoming online consumers. However, in many countries, lack of adequate online payment processing platforms and distrust of entering personal financial data online are challenges that have yet to be surmounted. Logistics systems that can satisfy customer demands for timely delivery must also be perfected. Straightforward return/exchange policies, adequate customer communication, particularly regarding order status and customer disputes, and building consumer trust in the quality of online goods will help e-retailers in this region to succeed.

*SOURCES: "New Media Trend Watch Markets by Country: Germany," NewMediaTrendWatch.com, February 15, 2013; "New Media Trend Watch Markets by Country: Slovak Republic," NewMediaTrendWatch.com, February 15, 2013; "German E-commerce Sector Rapidly Expanding," DW.de, February 12, 2013; "Amazon Receives 1 Euro Out of Every 5 in German e-commerce," Ecommercefacts.com, February 11, 2013; "Poland's Austerity-driven E-commerce Boom," by Jan Cienski, Blogs.ft.com/Beyondbrics, February 4, 2013; "Eastern Europe B2C E-Commerce Report 2012," Yahoo Finance, December 17, 2012; "Global Mobile and M-Commerce Report 2012," yStats.com, November 2, 2012; "Net Element Receives 300 Million Rubles (\$9.5 Million) Credit Facility and Expects Another 300 Million Rubles Under Factoring Agreement from Alfa Bank," by Tyler Sminkey, Roar Media, September 5, 2012; "Worldwide B2C Ecommerce Forecast: Midyear 2012 Update," by Alison McCarthy, eMarketer, Inc., September 2012; "Worldwide Mobile User Forecast," by Alison McCarthy, eMarketer, Inc., August 2012; "E-sales in the Czech Republic Hit CZK 37bn in 2011," PMR IT and Telecommunications Sector in Central and Eastern Europe, Ceeitandtelecom.com, March 14, 2012; "Top List of Russia's Largest Internet Firms (And Up-And-Comers)," by Greg Anderson, ArcticStartup.com, February 29, 2012; "E-commerce in Slovakia: Situation in Recent Years and Future Trends," by Matej Mesko & Zuzana Papulova, FPO IT Research & Communities, Freepatentsonline.com, January 1, 2011.*

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