

Class XI Business Studies

Chapter 5 Emerging modes of Business

Revision Notes

e-Business and e-Commerce

- The conduct of industry, trade and commerce using the computer networks is defined as e-Business
- e-business is a more elaborate term and comprises various business transactions and functions conducted electronically, including the more popular gamut of transactions called 'e-commerce'
- e-commerce covers a firm's interactions with its customers and suppliers over the internet.
- e-business includes not only e-commerce, but also other electronically conducted business functions such as production, inventory management, product development, accounting and finance and human resource management

Scope of e-Business

- On the basis of business function
 - production, finance, marketing and personnel administration as well as managerial activities like planning, organising and controlling can be carried out over computer networks
- On the basis of parties involved in electronic transaction
 - B2B which is a firm's interactions with other businesses,
 - B2C i.e., a firm's interactions with its customers and
 - Intra-B or a firm's internal processes

B2B Commerce

- Both the parties involved in e-commerce transactions are business firms, and, hence the name B2B, i.e., business-to business
- Creation of utilities or delivering value requires a business to interact with a number of other business firms which may be suppliers or vendors of diverse inputs; or else they may be a part of the channel through which a firm distributes its products to the consumers
- Historically, the term e-commerce originally meant facilitation of B2B transactions using Electronic Data Interchange (EDI) technology to send and receive commercial documents like purchase orders or invoices
- For Example, Manufacturing of aircraft requires large number of components which is manufactured by some other. Computers are used to place orders, monitoring production, delivery of component and making payments

B2C Commerce

- B2C (business-to-customers) transactions have business firms at one end and its customers on the other end
- It entails a wide gamut of marketing activities such as identifying activities, promotion and sometimes even delivery of products that are carried out online.
- It enables a business to be in touch with its customers on round-the-clock basis which helps in knowing the customer satisfaction level.
- For example, ATM speeds up withdrawal of money

Intra-B Commerce

- Parties involved in the electronic transactions are from within a given business firm.
- It is largely due to use of intra-B commerce that today it has become possible for the firms to go in for flexible manufacturing. Use of computer networks makes it possible for the marketing department to interact constantly with the production department and get the customized products made as per the requirements of the individual customer
- For example: Virtual Private Network (VPN) technology would mean that employees do not have to come to office. Instead, in a way the office goes to them and they can work from wherever they are, and at their own speed and time convenience. Meetings can be held online via tele/video conferencing

C2C Commerce

- The business originates from the consumer and the ultimate destination is also consumers
- This type of commerce is best suited for dealing in goods for which there is no established market mechanism
- For example: ebay, quikr etc where consumers sell their goods and services to other consumers.
- Another technology that has emerged to support C2C activities is that of the payment intermediary.
- For example: PayPal. Instead of purchasing items directly from an unknown, untrusted seller; the buyer can instead send the money to Pay Pal. From there, PayPal notifies the seller that they will hold the money for them until the goods have been shipped and accepted by the buyer

Difference Between e-Business and Traditional Business

BASIS	TRADITIONAL BUSINESS	E-BUSINESS
EASE OF FORMATION	Difficult	Simple
PHYSICAL PRESENCE	Required	Not required
LOCATIONAL REQUIREMENTS	Proximity to the source of raw materials or the market for the products	None
COST OF SETTING UP	High	Low as no requirement of physical facilities
OPERATING COST	High due to fixed charges associated with investment in procurement and storage,	Low as a result of reliance on network of relationships rather than ownership of resources

	production, marketing and distribution facilities	
NATURE OF CONTACT WITH THE SUPPLIERS AND THE CUSTOMERS	Indirect through intermediaries	Direct
NATURE OF INTERNAL COMMUNICATION	Hierarchical - from top level management to middle level management to lower level management to operatives	Non-hierarchical, allowing direct vertical, horizontal and diagonal communication
RESPONSE TIME FOR MEETING CUSTOMERS'/INTERNAL REQUIREMENTS	Long	Instantaneous
SHAPE OF THE ORGANISATIONAL STRUCTURE	Vertical/tall, due to hierarchy or chain of command	Horizontal/flat due to directness of command and communication
BUSINESS PROCESSES AND LENGTH OF THE CYCLE	Sequential precedencesuccession relationship, i.e., purchase - production/operation - marketing - sales. The, business process cycle is, therefore, longer	Simultaneous (concurrence) different processes. Business process cycle is, therefore, shorter
OPPORTUNITY FOR INTERPERSONAL TOUCH	Much more	Less
OPPORTUNITY FOR PHYSICAL PRE-SAMPLING OF THE PRODUCTS	Much more	Less. However, for digitable products such an opportunity is tremendous. You can presample music, books, journals, software, videos, etc.
EASE OF GOING GLOBAL	Less	Much, as cyber space is truly without boundaries
GOVERNMENT PATRONAGE	Shrinking	Much, as IT sector is among the topmost priorities of the government
NATURE OF HUMAN CAPITAL	Semi-skilled and even unskilled manpower needed.	Technically and professionally qualified personnel needed
TRANSACTION RISK	Low due to arm's length transactions and face-to-face contact.	High due to the distance and anonymity of the parties

Benefits of e-Business

Easy to Set Up

- we can set up an online business even by sitting at home if we have the required software, a device, and the internet.

Cheaper than Traditional Business

- The cost taken to set up an e-business is cheaper. Also, the transaction cost is effectively less.

No Geographical Boundaries

- Anyone can order anything from anywhere at anytime.
- On the one hand, it allows the seller an access to the global market; on the other hand, it affords to the buyer a freedom to choose products from almost any part of the world.

Flexible Business Hours

- Since the internet is always available. E-business breaks down the time barriers that location-based businesses encounter

Speed And Efficiency

- Online ordering systems can process payments and orders in real-time, usually faster, more accurately and cheaper than human workers

Movement towards a paperless society

- Use of internet has considerably reduced dependence on paperwork
- In fact, e-commerce tools are effecting the administrative reforms aimed at speeding up the process of granting permissions, approvals and licences

Limitation of e-Business

Lack of Personal Touch

- One can touch or feel the product. So it is difficult for the consumers to check the quality of a product.
- In the traditional model, we have contact with the salesperson. This lends it a touch of humanity and credibility. It also builds trust with the customer. An e-Business model will always miss out on such attributes.

Delivery Time

- The delivery of the products takes time. This lag time often discourages customers.
- However, e-businesses are trying to resolve such issues by promising very limited delivery times. For example, Amazon now assures one-day delivery

Security Issues

- There are a lot of people who scam through online business. Also, it is easier for hackers to get your financial details. It has a few security and integrity issues. This also causes distrust among potential customers

Need for technology capability and competence of parties to e-business

- e-business requires a fairly high degree of familiarity of the parties with the world of computers. And, this requirement is responsible for what is known as digital divide
- Digital divide means the division of society on the basis of familiarity and non-familiarity with digital technology.

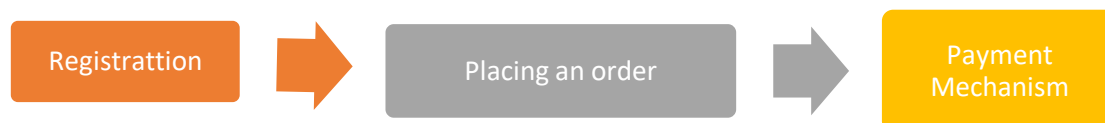
Ethical fallouts

- companies use an 'electronic eye' to keep track of the computer files you use, your e-mail account, the websites you visit etc

Online Transaction

- We visualise three stages involved in online transactions.
- Firstly, the pre-purchase/sale stage including advertising and information seeking
- Secondly, the purchase/sale stage comprised of steps such as price negotiation, closing of purchase/sales deal and payment
- Thirdly, the delivery stage

Process of Online Trading



- Registration:
 - Registration means that you have an 'account' with the online vendor.
 - Among various details that need to be filled in is a 'password' as the sections relating to your 'account', and 'shopping cart' are password protected
- Placing an order:
 - You can pick and drop the items in the shopping cart.
 - Shopping cart is an online record of what you have picked up while browsing the online store
 - After being sure of what you want to buy, you can 'checkout'
- Payment Mechanism:
 - Purchases through online shopping may be done in a number of ways:
 - Cash-on Delivery: Payment for the goods ordered online may be made in cash at the time of physical delivery of goods.
 - Cheque: The online vendor may arrange for the pickup of the cheque from the customer's end. Upon realisation, the delivery of goods may be made.
 - Net-banking Transfer: Modern banks provide to their customers the facility of electronic transfer of funds over the Internet using Immediate Payment Services (IMPS), NEFT and RTGS
 - Credit or Debit Cards: Credit card allows its holder to make purchase on credit. The amount due from the card holder to the online seller is assumed by the card issuing bank, who later transfers the amount involved in the transaction to the credit of the seller. Debit card allows its holder to make purchases through it to the extent of the amount lying in the corresponding account. The moment any transaction is made, the amount due as payment is deducted electronically from the card.
 - Digital Cash: This type of currency has no real physical properties, but offers the ability to use real currency in an electronic format. Like e-wallets , PayTm etc

e-Business Risks

- Transaction Risks:
 - Seller denies that the customer ever placed the order or the customer denies that he ever placed the order. This may be referred to as 'default on order taking/giving
 - The intended delivery does not take place, goods are delivered at wrong address, or goods other than ordered may be delivered. This may be regarded as 'default on delivery'.
 - Seller does not get the payment for the goods supplied whereas the customer claims that the payment was made. This may be referred to as 'default on payment'.

- Thus, in e-business risk may arise for the seller or the buyer on account of default on order taking/giving, delivery as well as payment
- **Data storage and transmission risks:**
 - Data stored in the systems and en-route is exposed to a number of risks. Vital information may be stolen or modified to pursue some selfish motives or simply for fun/ adventure
 - Installing and timely updating anti-virus programmes and scanning the files and disks with them provides protection to your data files, folders and systems from virus attacks.
 - Data may be intercepted in the course of transmission. For this, one may use cryptography. It refers to the art of protecting information by transforming it (encrypting it) into an unreadable format called 'cyphertext'. Only those who possess a secret key can decipher (or decrypt) the message into 'plaintext'
- **Risks of threat to intellectual property and privacy:**
 - Once the information is available over the internet, it moves out of the private domain. It then becomes difficult to protect it from being copied.
 - Data furnished in the course of online transactions may be supplied to others who may start dumping a host of advertising and promotional literature into your e-mail box.

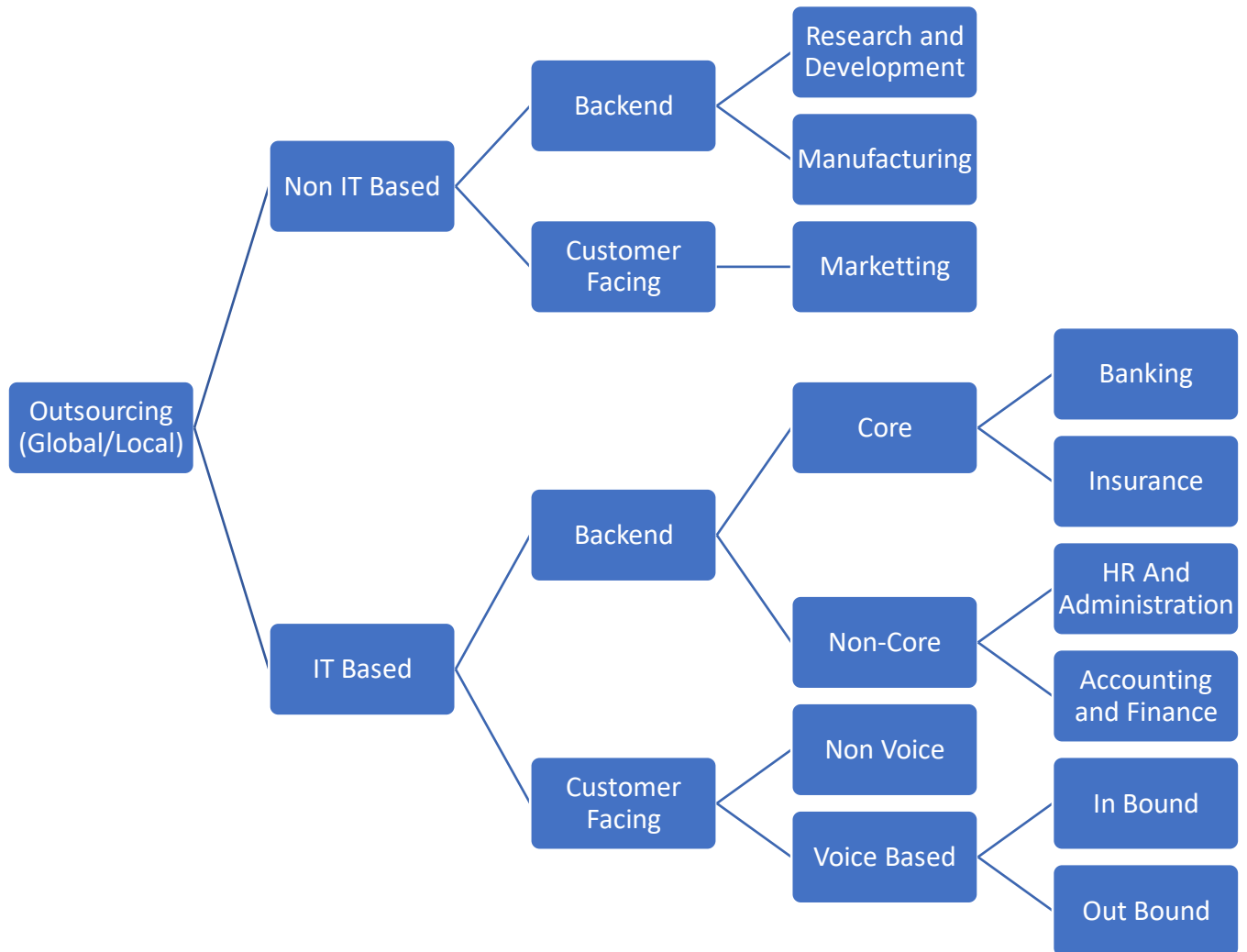
Outsourcing

It refers to a long-term contracting out generally the non-core and of late even some of the core activities to captive or third-party specialists with a view to benefitting from their experience, expertise, efficiency and, even investment.

Features of Outsourcing

1. **Interchangeable or Fungible Activities:** Activities which are not differentiable can be outsourced but unique activities can't be outsourced.
2. **Requiring Explicit knowledge which is Formal and Codifiable:** An IT programmer's job can be outsourced but not that of a CEO, because CEO's job involves managerial, technical and human relations skills.
3. **Activity is Measurable:** You cannot outsource what you cannot measure.
4. **Activity is not interconnected to other jobs:** A job which is fungible, specialised, and measurable may not be outsourced, if it is connected to other critical activities within the organisation. Inter-connectedness may be pooled, sequential and mutual.

Scope of Outsourcing



Need for Outsourcing

	Quest of Excellence	Cost Reduction	Growth through Alliance	Fillip to economic development
<ul style="list-style-type: none"> • Business firms are realising the usefulness of focusing on just a few areas where they have distinct capability or core competence, and contracting out the rest of the activities to their outsourcing partners • Delimiting the scope of business enables them to focus their attention and resources on select activities for better efficiency and effectiveness. 	<ul style="list-style-type: none"> • Outsourcing enables the firms to pursue excellence in two ways. One, they excel themselves in the activities that they can do the best by virtue of limited focus. • And, they excel by extending their capabilities through contracting out the remaining activities to those who excel in performing them. 	<ul style="list-style-type: none"> • Division of labour and specialisation, besides improving quality, reduces cost too • This happens due to the economies of large scale accruing to the outsourcing partners as they deliver the same service to a number of organisations. • Differences in prices of factors of production across the countries are also a factor contributing to cost reduction 	<ul style="list-style-type: none"> • To the extent you can avail of the services of others, your investment requirements are reduced, others have invested in those activities for you • Therefore, you can expand rapidly as the same amount of investible funds result in creation of a large number of businesses. • Outsourcing facilitates interorganisational knowledge sharing and collaborative learning 	<ul style="list-style-type: none"> • Outsourcing, more so offshore outsourcing, stimulates entrepreneurship, employment and exports in the host countries (i.e., the countries from where outsourcing is done).

Concerns over Outsourcing

Confidentiality	<ul style="list-style-type: none"> • Outsourcing depends on sharing a lot of vital information and knowledge • It can harm the interest of the party that outsources its processes and even has a risk of competitor firm gets started
Sweat Shopping	<ul style="list-style-type: none"> • Outsource seek to lower their costs, they try to get maximum benefit from the low-cost manpower • So, the firm that go in for outsourcing look for is the 'doing' skills rather than development of the 'thinking' skills.
Ethical Concerns	<ul style="list-style-type: none"> • In order to cut cost outsources the work to some other country where the work is done in an unethical way. • For example work is accomplished by doing child labour
Resentment in the home countries	<ul style="list-style-type: none"> • In the course of contracting out manufacturing, marketing, Research and Development or IT-based services, what is ultimately contracted out is 'employment' or jobs. • This may cause resentment back in the home country if the home country is suffering from the problem of unemployment.