The Basics of E-commerce

Before beginning this lesson, return to the menu and select “worksheet #1”; print the worksheet. This worksheet will help you learn and apply the information in this lesson. Either fill in the blanks as you go through the lesson or after you have completed it. There are links throughout the lesson that will take you to examples that illustrate a particular point. Feel free to ‘click’ on those links, and then come back to the lesson. If at any time you have any questions, please contact Dr. Pam Brown, p-brown@tamu.edu, instructor for this course.

Here’s what you will learn in Lesson #1:

- definitions of e-commerce,
- a description of the online business industry,
- who uses e-commerce and how they use it,
- trends in e-commerce, and
- how to know when your business is ready for e-commerce.

Now, on to a whole new world of opportunities!

What is e-commerce?
E-commerce is not just about selling goods and services online. It is about making effective use of the Internet to make AND save money, and it is about doing business more efficiently. E-commerce is concerned with doing business better online. It is about finding the right kinds of information to help you make better decisions. Finally, e-commerce is about looking at the Internet with a critical eye to determine the best choices for your business. E-commerce helps your business reach far beyond a physical market region. E-commerce creates networks with other businesses and customers that you might never know about or reach through a local address in a town. The main difference between selling in the store and online is that the customer is not in front of you when you ring up the sale, and you have to deliver the goods to the buyer!

E-commerce can involve ways of communicating, providing services, and making sales happen. Does this happen with one person or business? No, for e-commerce to happen, it takes technologists to build a ‘backbone’ or system for communication. It takes software applications through which you can search, learn, and communicate with other businesses. E-commerce requires businesses and people who act as intermediaries to make business transactions happen. Finally, e-commerce entails all of
the communication, information, and exchanges that take place electronically that may or may not result in the selling and buying of goods and services. E-commerce occurs between one business and another business or among many businesses. It takes place between businesses and consumers, as well. The Internet is the tool that allows communication and transactions to take place.

How big and how important is the Internet economy?
Before you begin this section, be mindful that the following information is based on statistics. Those are numbers that researchers use to make predictions. In the case of e-commerce, the statistics change rapidly. What may be an accurate number today at this writing will not be the same when you read this information. So take it all with a ‘grain of salt.’ Regularly check reliable sources of information. Refer to the section “for additional reading” at the end of the web course.

Many, many people AND businesses are using the Internet – not just to make money but to save money. As access to the Internet grows (meaning more people can get online from a variety of locations), the number of Internet users will increase.

The Internet economy has changed business in ways similar to the Industrial Revolution in the 1800s. It’s hard to determine if and where it will end. In the early 1990s, some business leaders said that if businesses weren’t on the web by the mid-1990s, they wouldn’t be in business by 2000. (Source: http://www.ecommerce-guide.com/news/trends/print.php/3524581, 2004). The turn of the century has come and gone, and still most businesses are not on the web doing business, although the numbers are growing.

So just how big is e-commerce in the U.S.? Sales in 2003 represented 1.6 percent of all retail sales, an increase of 26 percent, and totaled $54.9 billion! By 2008, online sales in the U.S. are projected to be $229 billion and make up 10 percent of all U.S. retail sales. (Source: http://www.forrester.com) December 2005 online sales reportedly doubled from 2004.

Who is using the Internet and how?
Surveys of online users tell us that worldwide, there are 605.6 million people (9.6 percent of the world’s population) online. The largest number is from Europe (190.9 million), then Asia/Pacific countries (187 million), and third, Canada/U.S. (182.6 million). Latin America reports 33.3 million; Africa, 6.3 million; and the Middle East, 5.1 million. The fastest-growing number of users, however, comes from Asian countries. (Source: http://www.nua.com/surveys/how_many_online/index.html)

These numbers will continue to grow as access to technology, particularly high-speed Internet access, is more widespread and more affordable. In the U.S., 128 million adults (64 percent) are Internet users. In comparison, 77 million teens between 12 and 17 (77 percent of teens) are Internet users. On a typical day, over 70 million U.S. adults go online. Of adults, 58 million use email. They may use email once in a day or send/receive multiple emails. Of the 19 million adults who shop for products online,
some will shop all day, while others may only look and never buy. There are over 4 million who participate in an online auction. But does that mean they actually make the bid and buy the item? These numbers and the one at this link, http://www.pewinternet.org/trends/User_Demo_08.09.05.htm, give us some idea of who is using the Internet. How people use the Internet varies by ethnicity, age, and income. But one thing is certain, Internet users who also ‘shop’ online are increasing in all categories of consumers.

Now, how does all this apply to you and your business? Think about YOUR customers. What do you know about them? Do they use the Internet? Do they have an email address? Do they blog? What’s their income level? What’s their ethnicity? Do you sell to more female than male customers? Or do you sell to more teens than 20 year olds? Knowing who your customers are is critical to your planning an e-commerce business.

Try this activity to learn how market research can help give you some idea of what people do online in addition to ‘shopping.’ In your browser, paste this web address:

http://www.PewInternet.org

At this site, scroll down to “latest trends”; click on Online Activities; then click on “online activities – total.” You will see a long chart. Scroll through the chart to find out the percentage of people who research a product before buying it and the percentage who buy a product. What kind of information did you find?

Do you expect that customers will come to your site and purchase before comparing prices at another site? Do you expect an increase in the number of e-commerce customers compared to front-door customers? If so, consider how the growth of Internet usage has remained steady since early 2001. Are there consumers you are not reaching? If so, how will you attract this audience to your web site when you have the whole world as your competition?

How many businesses use e-commerce?
Early estimates of businesses online predicted 70 percent of businesses would be online by 2003. However, the figures are closer to 60 percent of all businesses are now online. They are doing business as B2C (business to consumers), B2B (business to business), C2C (consumer to consumer), and C2B (consumer to business). Of all U.S. online users, about 67 percent (less than 92 million adults of the total 138 million online) actually bought a product online. The factors that seem to determine the adoption of e-commerce by small business owners is the cost and time to learn and develop an online business.
What are the favorite activities of Internet users?
The following are the most-used activities of online web users:

- go online (70 million),
- use email (58 million),
- get news (35 million),
- check the weather (25 million),
- get political news or information (24 million),
- research a product before buying it (19 million), and
- do research for their job (24 million).

More older Americans use email than do younger Americans, who report more usage of Instant Messaging. The group lagging the farthest behind in usage is the 65+ age group, while 19–29 year olds are the most online group. Look at this site (http://www.PewInternet.org) to get an idea of the daily types of activities online users do versus reporting going online at anytime. How would these activities affect how you plan your e-commerce business?

What kind of people shop on the Internet?
Between 2000–2004, the use of the Internet for shopping and auctions has grown. In the U.S., 84 million people have at some time purchased a product online. Four million online users shopped for products in 2004, while 4 million also participated in online auctions in 2004. This is a one million person increase over 2003. Whites are more likely than Blacks and Hispanics to be online, and Hispanics are more likely than Blacks to be online.

Understanding how consumers shop online will be helpful in developing your web site, deciding the features you will offer, and deciding how to market the business. Many new online businesses believe that sales will skyrocket by creating a web page. That has not been the case. Rather, they find that customers can be categorized by how they shop and whether they shop and buy or never close the sale. Closing or completing the online sale (transaction) is the most critical element in generating business online. Businesses of all sizes, including the biggest merchants, are challenged by the failure of their web sites to 'convert' lookers into buyers. The most common types of shoppers are:

- Directed Shopper – knows exactly what he or she wants and shops quickly and efficiently;
- Category Shopper – shops only certain categories;
- Gift Giver – visits and buys from gift sites frequently;
- Impulse Buyer – interested in products/services that reflect the latest trends;
• Browser – only a looker, seldom a buyer;
• Bargain Hunter – shops for best price; and
• Information Seeker – wants to learn more about a product/service.

Why you need to be concerned with the trends in e-commerce
New and existing business owners should be aware of trends and anticipate how those trends can affect their businesses. Among the most important trends are:

• Security – making online credit card transactions absolutely secure.
• Changing demographics – consumers are younger and more diverse, increasing older participation, increasing access to high-speed Internet.
• Comparison shopping – increasing use of these sites to get the best price.
• Conversions – convincing ‘lookers’ to become buyers, or actually completing the order on the shopping cart site.

Consider how the following information will affect your online business planning:

• The numbers of people using the Internet for information and business is predicted to continue increasing.
• As the number of households who have access to high-speed Internet connections increases, more consumers will be able to be online.
• Internet users who are young today will continue to seek sources of goods and services online in the years to come.
• The very smallest of businesses can create a virtual storefront on the web that allows them to be seen from anywhere in the world.
• Due to the hurdles of purchasing and shipping between international boundaries, most e-commerce is actually originated in the country where the business is located.
• Small business owners are willing to learn and apply new technology to create a plan for their e-commerce web site.

How do I know when my business is ready for e-commerce?
Only you can answer this question. You first have to know why you want to either add an e-business to your already existing business or why you want to start only an online business. You will have to know how to find your competition, search effectively online for resources, plan a strategy, and project costs. If having an e-commerce presence online is critical to your business, you will need to learn, plan, and take action to create an effective online presence that will generate sales for the business.
The next module will teach you to recognize different types of web pages that may be useful to your online business and how to use the Internet to search for information that can give your business a competitive advantage over another business.

Before you completely finish this module, we suggest you use the 'Electronic Business Plan – EB-Plan: Target Market' worksheet as a resource for beginning to plan your e-commerce business. The ‘additional reading’ list may be helpful to you in locating additional information or updating information.

Please continue to additional reading section of this course.