

# E-commerce - Doing business on the Internet

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## **1.0 Introduction**

**Over the last few years, new words and abbreviations have been added to our vocabulary: e-commerce, e-business, e-mail, e-tail, www, dotcom, Internet, browser, cyberspace, b2b, b2c, and others. All these new terms have one thing in common, they belong to “The New Economy” – electronic commerce.**

**The Internet has brought along new challenges for companies around the world. Never has it been easier for a company to find customers for the products it is selling, or for customers to find the company. The Internet has also brought along many new companies who understand the possibilities that “The New Economy” has to offer. In theory, a single person can create a homepage in a few days, show a picture of a product for sale and instantly get everyone (with a computer and a modem) as potential customers. Some business people compare the Internet with the US gold rush (1840’s – 1850’s), others talk of fool’s gold. Those who do not believe in the Internet say that the only people making money are the “sharpies selling maps and pickaxes<sup>1</sup>”. The Internet is moving fast, no doubt about that, but where is it going and how will it end?**

**In this report, I will describe and discuss the possibilities and pitfalls of doing business on the Internet. This will be done from a company’s point of view. I will look at the marketing environment to find out what a company’s marketing strategy needs to be. The target group for this report is mainly decision-makers in companies that are not yet taking full advantage of the Internet’s possibilities. However, consumers who are afraid of using the Internet and its possibilities could also benefit from reading this report.**

**In order to fully grasp the dimensions of this new phenomenon, I will start in short by telling the story of the Internet, how it came by and why it is (or ought to be) the hottest topic in business today.**

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<sup>1</sup> There's little but fool's gold in the Internet boomtown by Paul Kedrosky, <http://ebutik.com/journal/fools.htm>

**Most Internet transactions are made between businesses (business-to-business or b2b). Business-to-consumer (b2c) transactions are the most visible part of the Internet, though. I will describe and discuss both these sections but will focus on b2c. The battle for customers (in b2c) stands between two kinds of companies.**

**I will describe the relation and differences between these “Internet only” companies and the so-called “clicks and mortar” companies. Who will be most likely to survive and why?**

**Some products are easier to sell than others. For instance, tangible products have to be stored at a warehouse, packed and shipped to the customer and that includes a lot of manpower, while software can be stored on a small server, sent over the Internet and paid for right away. Which products do consumers want to buy over the Internet and is there a limit to what a company can sell?**

**New initiatives have sprung up with the introduction of the Internet. It is now much easier for customers to achieve lower prices by cooperative buying and price comparison. What consequences will this have for companies and consumers?**

**The Internet opens up new ways of doing business. Will E-service and E-marketing change the whole concept of doing business? With the introduction of the Internet, consumers get a chance to visit hundreds of “stores” within a short time. Will this “customer knowledge” force companies to lower their prices?**

**One of the biggest problems of the Internet is the privacy issue. Customers are afraid of paying by credit card. What could be done to accommodate this problem? Are there other ways of paying for a product?**

**I will use statistics from the leading survey companies to support my findings.  
I will also use cases to show how specific companies have dealt with this new environment and what their strategy has been.**

**All numbers/figures used in this report are in US dollars.**

## **2.0 Internet History<sup>2</sup>**

**The history of the Internet started in the beginning of the 1960's under the leadership of the US Department of Defence's Advanced Research Project Agency (ARPA). The introduction of the so-called ARPANET intended to promote the sharing of super-computers among researchers in the USA. In 1969, the ARPANET connected 4 universities in the USA, namely Stanford Research Institute, University of California, Los Angeles, University of California, Santa Barbara, and the University of Utah. Researchers at these four US campuses created the first hosts of the ARPANET.**

**A side benefit of the ARPANET was that messages could use more than one connection (like a spider's web), so the network could continue to work even if parts of it were destroyed in the event of a military attack.**

**The ARPANET was an instant success. In 1971, the ARPANET grew to 23 hosts, connecting universities and government research centres around the USA. Two years later, in 1973, the ARPANET went international when it was connected to the University College in London, England, and the Royal Radar Establishment in Norway. In 1974, the Telnet was created. It was the first commercial version of the ARPANET. Within the next few years, a number of other networks were created and linked to the ARPANET.**

**The term "Internet" was first used in 1982. In 1983, TCP/IP (Transmission Control Protocol / Internet Protocol) became the universal language/standard of the Internet. In 1984, the number of Internet hosts exceeded 1,000.**

**E-mail and newsgroups were used at many universities throughout the world in the mid-80's. The mid-80's also brought along many personal computer and super-minicomputer industries. The combination of inexpensive desktop machines and powerful, network-ready servers allowed many companies to connect to the Internet for the first time. Corporations began to use the**

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<sup>2</sup> Internet Society: [www.isoc.org/internet-history](http://www.isoc.org/internet-history).

**Internet to communicate with each other and with their customers. In 1987, the number of Internet hosts exceeded 10,000.**

**By 1988, the Internet began to create concerns about privacy and security in the digital world. New words, such as “hacker”, “cracker” and “electronic break-in”, were now being used. These new worries were dramatically demonstrated on Nov. 1, 1988 when a malicious program called the “Internet Worm” temporarily disabled approximately 6,000 of the 60,000 Internet hosts online at that time.**

**In 1989, the number of Internet hosts exceeded 100,000. One year later in 1990, the number of hosts exceeded 300,000. In 1992, more than 1 million hosts were part of the Internet, and in 1996, nearly 10 million hosts were online.**

**This development has continued and along with all the new technologies added to the Internet, almost on a daily basis, the Internet is a phenomenon that no company or consumer should be indifferent about today.**

<b>Number of hosts on the Internet from the year 1969 to 2000<sup>3</sup></b>	
<b>1969</b>	<b>4</b>
<b>1984</b>	<b>1,000</b>
<b>1988</b>	<b>60,000</b>
<b>1990</b>	<b>300,000</b>
<b>1996</b>	<b>10,000,000</b>
<b>2000</b>	<b>72,000,000</b>

<sup>3</sup> Internet Society: [www.isoc.org/internet-history](http://www.isoc.org/internet-history).

### **3.0 The Internet as a marketing environment**

The Internet is now more than 30 years old but it has only been used commercially over the last 5-10 years. The Internet consists basically of computers, servers and telephone cables but because these technologies are now available all over the world and in such vast numbers, the Internet has a great potential as a business tool. This potential can be utilised for transactions between two businesses (b2b) and transactions between businesses and consumers (b2c) but also for other activities that will save companies money such as E-service, E-marketing and E-distribution. To put the Internet's potential into perspective, a very important reality to look at is the relative short time it took the Internet to achieve critical mass compared to other media.

<b>The time it took to achieve critical mass of 50 million users<sup>4</sup></b>	
<b>Radio</b>	<b>40 years</b>
<b>TV</b>	<b>13 years</b>
<b>Internet</b>	<b>4 years</b>

These numbers show that the Internet is growing faster than any other medium before it. The Internet should not be seen as just another medium, though. It is a medium that combines all of the media we know today, and a medium, that provides new opportunities, which will benefit companies around the world. These new opportunities (such as multi-media functions) will be discussed later (in 3.3). In the following, a number of Internet statistics will be used to further explain the potential of the Internet.

#### **3.1 Potential customers**

The number of potential customers using the Internet and where they are situated is crucial for companies before they decide to do business online.

<sup>4</sup> Critical mass (in this case 50 million users) is the amount needed for something to be successful. "E-business – digitale forretningsstrategier". Also [www.digitalestrategier.dk](http://www.digitalestrategier.dk).

<b>Internet population worldwide in the year 2000 and 2005 (in millions)<sup>5</sup></b>	
<b>2000</b>	<b>349</b>
<b>2005</b>	<b>766</b>

To have 349 million potential customers today (in the year 2000) and a predicted 766 million (in the year 2005) must be a fact that most companies could benefit from. In fact, 90% of top leaders from 500 of the largest companies around the world believe that the Internet will change – or have a big effect – on their company and the global marketplace in the year 2001<sup>6</sup>.

<b>Internet population by region in the year 2000 and 2005 (in %)<sup>7</sup></b>		
<b>Region</b>	<b>2000</b>	<b>2005</b>
<b>N. America</b>	<b>43.2</b>	<b>30.2</b>
<b>W. Europe</b>	<b>25.1</b>	<b>27.9</b>
<b>Asia-Pacific</b>	<b>20.6</b>	<b>24.8</b>
<b>E. Europe</b>	<b>3.1</b>	<b>5.9</b>
<b>Latin America</b>	<b>5.6</b>	<b>7.3</b>
<b>M. East / Africa</b>	<b>2.3</b>	<b>3.8</b>

<sup>5</sup> www.c-i-a.com, www.thestandard.com.

<sup>6</sup> “E-business – digitale forretningsstrategier”. Also www.digitalestrategier.dk.

<sup>7</sup> www.c-i-a.com, www.thestandard.com.

<b>Internet population top 15 in the year 1999 (in millions)<sup>8</sup></b>		
<b>Country</b>	<b>Amount in millions</b>	<b>% of population</b>
<b>US</b>	<b>110.8</b>	<b>40.6</b>
<b>Japan</b>	<b>18.2</b>	<b>14.4</b>
<b>UK</b>	<b>13.9</b>	<b>23.6</b>
<b>Canada</b>	<b>13.3</b>	<b>42.9</b>
<b>Germany</b>	<b>12.3</b>	<b>15.0</b>
<b>Australia</b>	<b>6.8</b>	<b>35.8</b>
<b>Brazil</b>	<b>6.8</b>	<b>4.0</b>
<b>China</b>	<b>6.3</b>	<b>0.5</b>
<b>France</b>	<b>5.7</b>	<b>9.7</b>
<b>South Korea</b>	<b>5.7</b>	<b>12.1</b>
<b>Taiwan</b>	<b>4.8</b>	<b>21.8</b>
<b>Italy</b>	<b>4.7</b>	<b>8.4</b>
<b>Sweden</b>	<b>3.9</b>	<b>43.3</b>
<b>The Netherlands</b>	<b>2.9</b>	<b>18.1</b>
<b>Spain</b>	<b>2.9</b>	<b>7.4</b>

The last two tables show that North America and especially the USA have the largest online population in the world. However, the first table also shows that this lead will diminish over the next five years. In the year 2005, it is predicted that Europe will have an online population matching the one of the USA, and Asia-Pacific will not be far behind. The number of commercial web sites is also much higher in the USA than elsewhere. Of all commercial web sites 90% are situated in the USA but this number is also predicted to fall over the next few years as more and more people outside the USA get connected to the Internet<sup>9</sup>.

The number of people online varies greatly from country to country. In the USA, more than 40% (110.8 million) are online, in Germany, however, only 15% (12.3 million) are online. There are several reasons for this. One of the

<sup>8</sup> www.c-i-a.com, www.thestandard.com.

<sup>9</sup> The Economist - February 26<sup>th</sup> 2000.

most important reasons is the difference in telephone call prices around the world. In the USA, local telephone calls are fairly cheap. This means that Internet users in the USA do not have to think about how much time they spend online. In Germany and the rest of Europe, however, local calls are not cheap at all. The competition on telecommunications in Europe is very strong at the moment and prices will fall. At the same time, connection speeds to the Internet will rise as new and better cables are put into the ground. ISDN, ADSL and other technologies will improve connection speeds in the near future.

### **3.2 E-commerce revenues**

From a consumer's point of view, the Internet offers many other activities than shopping. Therefore, we should look at e-commerce revenues, in order to find out how much money companies can make on the Internet today and in the future.

<b>E-commerce revenues worldwide in the year 1999 and 2003 (in billions)<sup>10</sup></b>		
<b>Region</b>	<b>1999</b>	<b>2003</b>
<b>USA</b>	<b>74</b>	<b>709</b>
<b>Europe</b>	<b>19</b>	<b>431</b>
<b>Other</b>	<b>18</b>	<b>178</b>
<b>Total</b>	<b>111</b>	<b>1.318</b>

These Internet revenues can be divided into b2b-revenues and b2c-revenues.

<b>B2b-revenues worldwide in the year 1999 and 2003 (in billions)<sup>11</sup></b>		
<b>Region</b>	<b>1999</b>	<b>2003</b>
<b>USA</b>	<b>50</b>	<b>634</b>
<b>Europe</b>	<b>15</b>	<b>367</b>
<b>Other</b>	<b>15</b>	<b>139</b>
<b>Total</b>	<b>80</b>	<b>1.140</b>

<sup>10</sup> www.idc.com

<sup>11</sup> www.idc.com

<b>B2c-revenues worldwide in the year 1999 and 2003 (in billions)<sup>12</sup></b>		
<b>Region</b>	<b>1999</b>	<b>2003</b>
<b>USA</b>	<b>24</b>	<b>75</b>
<b>Europe</b>	<b>4</b>	<b>64</b>
<b>Other</b>	<b>3</b>	<b>39</b>
<b>Total</b>	<b>31</b>	<b>178</b>

<b>Top 10 countries in e-commerce in the year 1998 and 2002 (in billions)<sup>13</sup></b>			
<b>Region</b>	<b>1998</b>	<b>Region</b>	<b>2002</b>
<b>USA</b>	<b>37.4</b>	<b>USA</b>	<b>409.0</b>
<b>Japan</b>	<b>2.0</b>	<b>Germany</b>	<b>62.8</b>
<b>Germany</b>	<b>1.7</b>	<b>UK</b>	<b>47.6</b>
<b>UK</b>	<b>1.4</b>	<b>Japan</b>	<b>28.8</b>
<b>Canada</b>	<b>1.4</b>	<b>France</b>	<b>28.5</b>
<b>Australia</b>	<b>1.4</b>	<b>Canada</b>	<b>19.9</b>
<b>France</b>	<b>0.4</b>	<b>Italy</b>	<b>18.1</b>
<b>Italy</b>	<b>0.4</b>	<b>The Netherlands</b>	<b>12.6</b>
<b>The Netherlands</b>	<b>0.4</b>	<b>Sweden</b>	<b>8.7</b>
<b>Sweden</b>	<b>0.3</b>	<b>Spain</b>	<b>8.0</b>

These tables show that the USA is leading in e-commerce revenues and that b2b is the biggest market in general. Germany, the UK, France and Italy are the biggest e-commerce markets in Europe. The tables also show that the growth potential is huge both for b2b and b2c.

Europe is far behind the USA in b2c today but will almost catch up by the year 2003. More than 80% of e-commerce revenues worldwide are made in b2b by the year 2003.

<sup>12</sup> www.idc.com

<sup>13</sup> www.idc.com

With these figures in mind, it is fair to say that e-commerce has a big potential today and especially in the near future whether it is b2b or b2c. But first of all the Internet is big business for those companies that supply the infrastructure including hardware, software, telecommunications, technical support and security.

### **3.3 Possibilities and pitfalls in b2b**

B2b is also called “the quiet giant” since the media has not given it the same kind of attention as b2c. But it is a fact that b2b is much bigger than b2c in terms of revenues.

There are several ways for companies to save time and money and make money on the Internet. B2b-marketplaces (also called e-procurement) can help companies find the best and cheapest sub-suppliers. It can also help companies to get closer relations with their dealers and business associates.

Dealers can see whether the products, they want to buy, are in stock or have to be produced before they can be delivered. The very second the company changes prices in its database, the dealer can see it on his computer. In fact, any information will be available to the dealer at the time it is written into the company’s database. Administration costs will fall as time is saved.

#### **Case 1 – Bang & Olufsen dealer system / marketplace<sup>14</sup>**

The Danish high fidelity company, Bang & Olufsen, has introduced a new Internet based dealer system that, when fully tested, will enable its roughly 2,500 dealers worldwide to order B&O-products over the Internet. The dealers will be able to see whether the products in question are in stock or have to be produced, hence, the dealers will know when the products can be delivered. The system will help to ensure that dealers get the products configured for that particular market. It will also be possible to download information about products such as warranties, technical specifications and manuals. The only requirements for the dealers are that they have a computer with a modem and a password. Bang & Olufsen is positive that the system will

<sup>14</sup> Computerworld (Denmark) – March 14<sup>th</sup> 2000.

**be a great help both for its dealers and for the company itself. The marketplace should be fully functional in March 2002. At the moment it is being tested with 9 dealers.**

**The multi-media functions of the Internet can be used to hold conferences with business associates anywhere in the world. This will save time and money for any company that does business globally. Phone bills will be lower with the Net2Phone technology<sup>15</sup> and other related technologies making it possible to place long distance calls, at the price of a local call, over the Internet.**

**Outsourcing will also be easier. Michael Dertouzos from MIT (Boston, USA) suggests that office duties should be moved to developing countries such as India. Michael Dertouzos says that half of all the work done in the richest 15 countries is done in the office<sup>16</sup>.**

**There are three types of b2b marketplaces<sup>17</sup>:**

- 1. A vertical marketplace managed by the supplier (GM TradeXchange). Here, sub-suppliers can offer their products such as seats, tyres and raw materials to GM. Toyota and VW have shown an interest in joining this marketplace.**

#### **Case 2 – GM TradeXchange<sup>18</sup>**

**General Motors has established a marketplace called TradeXchange. Here, sub-suppliers can offer their products to GM. GM charges a fee every time they accept an offer from a sub-supplier. The sub-suppliers have to pay this fee if they want to do business with GM. Half of the fee is paid to the company (CommerceOne) that supplied the software for this marketplace. GM forces its sub-suppliers to use TradeXchange. TradeXchange is based on a private**

<sup>15</sup> [www.net2phone.com](http://www.net2phone.com)

<sup>16</sup> Computerworld (Denmark) "Send kontoret til Indien" page 29 – March 24<sup>th</sup> 2000 – Own translation from Danish.

<sup>17</sup> Computerworld (Denmark) – February 11<sup>th</sup> 2000.

<sup>18</sup> Computerworld (Denmark) – February 11<sup>th</sup> 2000.

**network called Automotive Network Exchange (ANX). This network is ten times more expensive to use than it would be to use the Internet. However, it is also much more secure to use.**

- 2. A horizontal marketplace across trades (such as Ask-Smith<sup>19</sup>). Here, office supplies and related items are sold and bought by different companies.**
- 3. A vertical marketplace managed by a trade alliance (such as PC-marketplace). Here, PC and hardware companies shop for raw materials.**

#### **Case 3 – PC marketplace<sup>20</sup>**

**Twelve of the largest producers of personal computers (and other hardware products) have joint together to start a new Internet based marketplace for their sub-suppliers. Among the 12 companies are Hewlett-Packard, Compaq, AMD, NEC, Hitachi and Samsung. The goal is to lower production costs and purchase prices by as much as 5 to 7 percent. The advantages attached to this marketplace should result in faster delivery from these 12 companies. Each of the 12 companies is investing 100 million dollars in this marketplace. IBM recently started a marketplace of its own together with 9 other companies.**

**The pitfalls in b2b are first of all technical. According to a study by IDC<sup>21</sup> presented on the conference, “IDC Directions 2000”, the greatest challenge is to get the systems to work together with the IT-systems already in use in companies today. Another challenge is to pick the right system. Michael Arnbjerg from IDC<sup>22</sup> says that making the right choice in collaboration with your partners is crucial. It is also important that the suppliers’ catalogues are somewhat uniform and up-to-date.**

<sup>19</sup> [www.ask-smith.net](http://www.ask-smith.net).

<sup>20</sup> Computerworld (Denmark) – May 9<sup>th</sup> 2000.

<sup>21</sup> Computerworld (Denmark) “Handel mellem virksomheder dominerer” – April 11<sup>th</sup> 2000.

<sup>22</sup> Computerworld (Denmark) “Handel mellem virksomheder dominerer” – April 11<sup>th</sup> 2000 – Own translation from Danish.

Another problem in b2b (which is much more visible in b2c and which will be discussed further in 3.4.2) is not having a homepage for every language spoken by your customers. This problem is very relevant in Europe where a company's customer base can include many nationalities and languages.

### **3.4 Possibilities and pitfalls in b2c**

B2c transactions over the Internet have received a lot of attention over the last few years. Even though b2c revenues are not as high as the revenues made in b2b, b2c is the market where the biggest changes have happened and will happen.

New companies have been “born” and old ones are changing rapidly as a result of the possibilities of the Internet. The amount of information available on the Internet is so enormous that finding exactly what you are looking for can be difficult. The companies behind search engines were the first to earn money on the Internet. But this is just the tip of the iceberg.

#### **3.4.1 Selling information**

Companies selling information and entertainment such as newspapers, TV-stations, radio-stations, and magazines can benefit greatly from the Internet but there are also many threats that require rethinking. The Internet makes it possible for these companies to reach a very large audience and give their customers a much better service. It is also a lot easier for customers to find the information they are looking for, (since a well designed homepage with a search function works just like a database) and best of all, a customer only has to pay for the information he or she looks at or listens to. At the moment, TV and radio-stations lack the possibility of transmitting high quality signals over the Internet due to the technical limitations that the telephone cables have today. This will change rapidly, though, as new technologies emerge. One of the newer technologies that allows higher transmissions is ADSL. This technology along with coming technologies will solve this problem.

**If a Danish customer wanted to subscribe to the New York Times, he would probably receive the newspaper later than his American counterpart (if it would be possible at all). But since the newspaper is already on the Internet<sup>23</sup> the Danish subscriber can read the newspaper at the same time as his American counterpart.**

**However, most newspapers do not make all of their content available on the Internet. Some newspapers have chosen only to make a part of the newspaper available to non-subscribers and have created a new system that allows paying subscribers to see all of the content on the Internet. By giving its subscribers a password, they can enter parts of the homepage only accessible to them. In the near future, it will probably also be possible for subscribers only to subscribe to the Internet version of a newspaper or magazine and thereby save a fair amount of money since paper, in itself, is an expensive commodity. The newspaper company would also save the forwarding expenses and would be able to give these savings on to the customers.**

**The newspaper companies have encountered many problems over the last few years though<sup>24</sup>. The number of readers has fallen and so have the advertising revenues. People looking for information are no longer using only the newspapers but are turning to specialized Internet databases as well. A person looking for a job or a company looking for an employee will find much more (and better) information in such databases<sup>25</sup>. It is not only quicker but also much easier to use.**

**Newspaper companies have used different strategies to survive<sup>26</sup>:**

- 1. Vertical context (such as the Wall Street Journal).**
- 2. Branding (such as the New York Times).**
- 3. Real value, local news. (The Chicago Tribune has created its own strategy)**

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<sup>23</sup> www.nyt.com.

<sup>24</sup> Berlingske Tidende – June 4<sup>th</sup> 2000.

<sup>25</sup> www.jobworld.com, www.jobs.com.

<sup>26</sup> Berlingske Tidende – June 4<sup>th</sup> 2000.

#### **Case 4 – Wall Street Journal<sup>27</sup>**

**The Wall Street Journal is an example of a newspaper that is read by a specialized group of people, namely business people who are interested in business related topics. Since this is the case, Wall Street Journal has created a homepage with specialized business services and in-depth information on the topics that interests its readers. They have been so successful that they now are able to earn money from this homepage by charging a fee from customers who use it.**

#### **Case 5 – The New York Times<sup>28</sup>**

**The New York Times has worked systematically on becoming the newspaper read by decision-takers and opinion-makers all over the country and has stopped focusing on its local readers. The newspaper is known for its trustworthiness and its high quality in general. The goal is now to focus on this position in order to attract high paying advertisers. These advertisers in return get an audience with a high income. The Internet helps the newspaper to be distributed to all corners of the country where national news are wanted but not always available.**

#### **Case 6 – The Chicago Tribune<sup>29</sup>**

**The Chicago Tribune has focused on local news. It has bought up other media such as radio and TV, in the city, in order to position itself in the local market for news. This way it can utilise its resources to the fullest and protect itself against competition.**

**Companies selling software have embraced the Internet too. Along with the information and entertainment companies mentioned above, they can now deliver their products “on demand”.**

<sup>27</sup> Berlingske Tidende – June 4<sup>th</sup> 2000.

<sup>28</sup> Berlingske Tidende – June 4<sup>th</sup> 2000.

<sup>29</sup> Berlingske Tidende – June 4<sup>th</sup> 2000.

### **3.4.2 Selling tangible products**

Tangible products can also be sold over the Internet. This just demands more effort. The battle for customers stands between two types of companies.

1. “Internet only” companies.
2. “Clicks and mortar” companies.

The “Internet only” companies are companies like Amazon ([www.amazon.com](http://www.amazon.com)) that are only present on the Internet and not in the physical world.

The “Clicks and mortar” companies are companies that are present both on the Internet and in the physical world. “Clicks and mortar” is a rewriting of “bricks and mortar”. The “clicks” refers to the action of buying something on the Internet.

One of the best-known and most successful “Internet only” companies is Amazon<sup>30</sup>. The arrival of the Internet has made it possible for Amazon to start up and take on the competition from established companies like Barnes & Noble, Toys “R” Us and other well-known companies.

#### **Case 7 – The Amazon story<sup>31</sup>.**

It all started in the summer of 1994 when Jeff Bezos, and his wife decided to start a business called Amazon.com. The garage was turned into an office and the first employee, a programmer, was hired. After having examined a number of mail-order products, they decided to start out by selling books. This turned out to be a great idea since the wholesalers’ catalogues were already digitised. The company went online in the summer of 1995 and 300 friends and family members tested the homepage and helped spread the word. Within 30 days and with no press coverage at all, Amazon sold books in all 50 US states and 45 countries.

<sup>30</sup> [www.amazon.com](http://www.amazon.com), [www.amazon.co.uk](http://www.amazon.co.uk), [www.amazon.de](http://www.amazon.de).

<sup>31</sup> Time Magazine – December 27<sup>th</sup> 1999. [www.time.com/time/poy/bezos.html](http://www.time.com/time/poy/bezos.html).

Today Amazon is far from the only bookstore on the Internet and the terms of running a successful business and keeping it alive have changed a lot too. A large number of companies have tried to do the same as Amazon but many have failed. The competition has grown further as “bricks and mortar” companies have turned their attention towards the Internet.

#### Case 8 – Amazon’s strategy<sup>32</sup>

Over the years, Amazon has extended its product range to include toys, CDs, DVDs, videos, electronics, software, PC and video games and more. This has brought along more customers but also more competition. Amazon has started business in Great Britain and Germany and has build warehouses all over the US and in Britain and Germany. Most of the competition has been bought up or driven out of business. All this has been possible because investors have been confident that Amazon someday would make a profit. Until today Amazon has used its earnings to grow even bigger but investors are now demanding that Amazon delivers a profit.

The “bricks and mortar” companies have been slow to realize the potential of the Internet but now companies like Toys “R” Us ([www.toysrus.com](http://www.toysrus.com)) and Charles Schwab ([www.schwab.com](http://www.schwab.com)) have gone online. To start with, they were not very successful but, today, they have regained much of the lost<sup>33</sup>. Charles Schwab had a hard time when Ameritrade ([www.ameritrade.com](http://www.ameritrade.com)) and Etrade ([www.etrade.com](http://www.etrade.com)) started up but today they are a good example of a “clicks and mortar” company with online and offline success. Ameritrade and Etrade still have a good hold of the marked but Charles Schwab is now just as big an opponent online as it always has been offline.

The “clicks and mortar” companies have several advantages over the “Internet only” companies. In the physical world, a customer can go to a store and feel the quality of a product. If the product in question is clothing, the customer can try it on and feel if the texture and size is right.

<sup>32</sup> The Standard, [www.thestandard.com](http://www.thestandard.com).

<sup>33</sup> Time Magazine – December 27<sup>th</sup> 1999.

**A customer looking for perfume can smell the product. Products can be purchased and brought home immediately, and if the products turn out to be out of order they can be exchanged easily at the nearest store. Many customers spend a whole Saturday or Sunday at the local mall just to kill time or have fun. “Clicks and mortar” companies such as Toys “R” Us and Barnes and Noble have been around for quite some years now. They have established a name and have gained brand recognition. All these advantages - combined with the advantages of the Internet - make for a strong all-round company, but only if the companies’ homepage is as good as the ones of the “Internet only” competition. The biggest fear of the “clicks and mortar” companies has been that online sales would “eat” sales in their physical stores<sup>34</sup>.**

**If a customer is willing to wait for the products to arrive, the “Internet only” companies are the right place to shop. Since an “Internet only” company does not have a physical store it can spend its’ money on large warehouses that hold a large range of goods. The number of employees can be held at a minimum, which allows companies to offer lower prices, and customers can read and write reviews of a certain product on the homepage. The “store” can be rearranged / redesigned a lot faster than a physical store. While an “Internet only” company can choose to sell any product at any price, the “clicks and mortar” companies have to coordinate their products / prices between the physical store and their Internet equivalent, in order not to frustrate or anger their customers. Since space is cheap on the Internet, “Internet only” companies can offer their customers extreme amounts of information, which would be very expensive to offer at a physical store.**

**One of the most common mistakes made by Internet companies is not having a homepage for every language spoken by their target groups. Many non-English speaking consumers around the world are only willing to shop online if homepages are available in their language<sup>35</sup>.**

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<sup>34</sup> Time Magazine – December 27<sup>th</sup> 1999.

<sup>35</sup> Computerworld (Denmark) – December 8<sup>th</sup> 2000.

Another very important criterion, for worldwide success, is for a company to have employees with knowledge of every local market the company operates in<sup>36</sup>.

### **3.5 What can be sold**

Anything can be sold over the Internet, but some items are more popular than others.

<b>US online retail revenue forecast by category (in billions)<sup>37</sup></b>			
	<b>1999</b>	<b>2000</b>	<b>Increase</b>
<b>Groceries</b>	<b>0.2</b>	<b>0.8</b>	<b>400%</b>
<b>Health</b>	<b>0.2</b>	<b>0.6</b>	<b>300%</b>
<b>Office products</b>	<b>0.1</b>	<b>0.2</b>	<b>100%</b>
<b>Sporting goods</b>	<b>0.1</b>	<b>0.2</b>	<b>100%</b>
<b>Movie and event tickets</b>	<b>0.3</b>	<b>0.5</b>	<b>86%</b>
<b>Clothing</b>	<b>0.9</b>	<b>1.6</b>	<b>78%</b>
<b>Other retail</b>	<b>0.8</b>	<b>1.4</b>	<b>75%</b>
<b>Travel</b>	<b>6.5</b>	<b>11.0</b>	<b>69%</b>
<b>Toys</b>	<b>0.3</b>	<b>0.5</b>	<b>67%</b>
<b>Flowers and speciality gifts</b>	<b>0.3</b>	<b>0.5</b>	<b>67%</b>
<b>Books, music and videos</b>	<b>1.8</b>	<b>2.8</b>	<b>56%</b>
<b>Consumer electronics</b>	<b>0.4</b>	<b>0.6</b>	<b>50%</b>
<b>Computer hardware and software</b>	<b>5.4</b>	<b>7.3</b>	<b>35%</b>
<b>Total</b>	<b>17.3</b>	<b>28.0</b>	<b>62%</b>

This table shows which products consumers in the USA choose to shop for, online. While groceries are the product area with the highest growth, the most money is spent on travel, computer hardware and software and books, music and videos. The table also shows that a product such as clothing is less popular than books, music and videos.

Cars are sold over the Internet too. Most consumers, however, still prefer to go to the nearest dealer, have a test drive and look around. But it is a fact that

<sup>36</sup> Computerworld (Denmark) – October 27<sup>th</sup> 2000.

<sup>37</sup> Jupiter Communications – April 2000, [www.thestandard.com](http://www.thestandard.com).

**many consumers compare prices over the Internet before they buy, and that prices have gone down as a result of this. Since it would be very expensive to ship a car from a warehouse to customers around the world, many companies that sell cars online work together with physical dealers and send customers to the nearest partner who then closes the deal<sup>38</sup>.**

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<sup>38</sup> [www.thestandard.com](http://www.thestandard.com).

#### **4.0 E-service and E-marketing<sup>39</sup>**

**E-service (or electronic service) is the service a company gives its customers over the Internet. This is an area where companies can save a lot of money and improve customer relations, since E-service in most cases does not acquire staff members. The most widely used types of E-service are:**

- 1. Self-service**
- 2. Automated e-mail agents.**
- 3. Personal service (staff members involved)**

**Self-service is mostly managed as a list of FAQs (frequently asked questions). Companies may use FAQs as a service for customers to get an answer for the most common problems. The list of FAQs is a cheap way to supply customer service and it can be updated as new questions arise.**

**Automated e-mail agents are computers / e-mail servers that automatically return an answer for a customers question / order. When a customer orders a product, an e-mail is automatically sent to the customer with the order information / a list of the products bought. The e-mail can also include everything from wishing the customer a Merry Christmas to informing the customer of the e-mail address to which complaints should be sent. Some agents can even return an answer to enquiries like: “Please send me a price list”.**

**Personal service is the kind of service where staff members are involved. This is of course also the most expensive service, but if it is used right it may also be a competitive parameter. To minimize costs, personal service should be combined with the other two types of E-service.**

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<sup>39</sup> “E-business – digitale forretningsstrategier”. Also [www.digitalestrategier.dk](http://www.digitalestrategier.dk).

### Case 9 – Bad E-service<sup>40</sup>

According to a test done by Andersen Consulting during Christmas 1999, most Internet companies do not provide a satisfying E-service. “Internet only” companies, however, deliver a better E-service than “clicks and mortar” companies do. The Internet companies’ ability to deliver on time was also tested and rated very bad. The “Internet only” companies, however, were better than the “clicks and mortar” companies at this. Four out of five purchases were delivered on time as opposed to one out of five for the “clicks and mortar” companies.

E-marketing (or electronic marketing) is the kind of marketing a company uses to attract customers over the Internet. There are different methods for a company to advertise on the Internet, but the most widely used method is banner advertisements. Banner advertisements are small clickable advertisements placed on the Internet. When a customer clicks on one of these advertisements, he is taken to a company’s homepage. It is possible to link to any page on a company’s homepage. For instance, if a company wants to advertise for a specific book title, the customer can be directed to the exact page on a web site where this book is described.

Banner advertisements can be shown and paid for in various ways. Since the Internet is based on computers, it is fairly easy to control how often a banner advertisement is shown and how often it has been clicked. Companies can start a partnership (so-called affiliate programs) where each company places a banner advertisement on the partners’ homepage for free or they may choose to pay each other for the amount of customers who enter their homepage via the banner advertisement on their partners’ homepage. Unfortunately, it is now also possible for Internet users who are irritated with banner advertisements, and the increased download times they create, to purchase a software program that disables banner advertisements<sup>41</sup>.

<sup>40</sup> Danish newspaper Jyllands-Posten – January 12<sup>th</sup> 2000.

<sup>41</sup> [www.adsoff.com](http://www.adsoff.com).

Another way to advertise on the Internet is by e-mail. Many Internet companies, Internet magazines and other Internet services offer sending their customers a newsletter every time something new occurs whether it is new products on sale or a new design of the homepage. However, e-mails should only be sent to people who have signed up for them since “spamming” (the excessive use of e-mails) is very unpopular among Internet users<sup>42</sup>.

E-marketing has become very popular over the last few years. A report by the Myers Group<sup>43</sup> predicts that more money will be spent on E-marketing than on TV-commercials in the year 2005. Today Internet companies spend half of their marketing budgets on “offline” medias such as outdoor, TV, radio and magazines<sup>44</sup>. So how effective is E-marketing? A poll made by Forrester Research in April 1999<sup>45</sup> showed the following:

<b>Question:</b>	
<b>Which traffic-driving techniques do you use today and how effective are they?</b>	
<b><u>Ranked by popularity</u></b>	<b><u>Ranked by effectiveness</u></b>
	<b>1 (poor) to 5 (great)</b>
<b>89% Banner advertisements</b>	<b>Affiliate programs 4.3</b>
<b>77% E-mail to customers</b>	<b>E-mail to customers 4.3</b>
<b>45% Public relations</b>	<b>Public relations 4.1</b>
<b>34% Magazines</b>	<b>Television 4.0</b>
<b>34% Sponsorships</b>	<b>Outdoor 3.7</b>
<b>32% newspapers</b>	<b>Direct mail 3.4</b>
<b>32% Radio</b>	<b>Magazines 3.4</b>
<b>30% Direct mail</b>	<b>Radio 3.4</b>
<b>30% Television</b>	<b>Sponsorships 3.3</b>
<b>17% Outdoor</b>	<b>Banner advertisements 3.2</b>
<b>17% Affiliate programs</b>	<b>Newspapers 2.6</b>

<sup>42</sup> www.thestandard.com.

<sup>43</sup> Computerworld (Denmark) – April 4<sup>th</sup> 2000.

<sup>44</sup> “E-business – digitale forretningsstrategier”. Also www.digitalestrategier.dk.

<sup>45</sup> “E-business – digitale forretningsstrategier”. Also www.digitalestrategier.dk. Forty-seven marketing managers from Internet companies were interviewed (multiple answers allowed).

**The poll shows that banner advertisements are very popular among marketing managers, while TV and affiliate programs are not very popular. However, the poll also shows that affiliate programs and TV are very effective, while banner advertisements are not.**

**The results of the poll show that many marketing managers are using their marketing budgets in a wrong way. The only clear fact that can be seen from the poll is that marketing managers trust and use e-mails to customers.**

## **5.0 The Internet privacy issue / paying by credit card**

Many consumers are afraid of using their credit card on the Internet. Over the last few years there have been many cases of hackers getting hold of information that should have been confidential<sup>46</sup>. At the moment there are no standard international rules on purchases made over the Internet. However, consumers enjoy the same rights as they would if they shopped at a physical store in their own country or abroad<sup>47</sup>.

Companies can choose to accommodate this problem by offering another method of payment. Instead of consumers having to pay by credit card, a company can choose to send along a bill with the package / product.

Companies may also accept payment from a customer via home banking if the customer feels this is safer.

### **Case 10 – Harald Nyborg<sup>48</sup>**

The Danish hardware chain, Harald Nyborg, offers its customers 3 ways of payment. Customers can pay for a product by credit card or via home banking. It is also possible to establish an account at Harald Nyborg and credit it every time a purchase is made.

Most Internet companies only offer customers to pay by credit card. When a customer pays by credit card, the company receives the money before the customer receives the product. This of course is an advantage for the company but not all customers feel this is a fair way of doing business, since some deliveries take more than a week to arrive.

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<sup>46</sup> [www.thestandard.com](http://www.thestandard.com).

<sup>47</sup> Berlingske Tidende – February 6<sup>th</sup> 2000.

<sup>48</sup> [www.harald-nyborg.dk](http://www.harald-nyborg.dk).

## 6.0 Cooperative buying and price comparison

Cooperative buying has been around for many years, but the Internet has made it easier for people with different backgrounds to join forces. Companies like Letsbuyit<sup>49</sup>, Mobshop<sup>50</sup> and Mercata<sup>51</sup> are now making it easier for customers to achieve lower prices. The more people who sign up, the lower the prices will be. All a customer has to do is to sign up and decide what products he or she is interested in and at what price.

### Case 11 – Letsbuyit.

On Letsbuyit's homepage, a customer can search the database for products of interest. If there are no products of interest, the customer can suggest a product to Letsbuyit and they will consider adding it to their range. When a customer has found a product he wants to buy, he can see how many customers are signed up for it. The customer can then choose one of three different prices, the lower the price the more people are needed. When and if enough people sign up for the same product, Letsbuyit orders the products and sells them on to the customers who signed up. Letsbuyit earns money by charging a small fee every time a product is sold. It is possible for a customer to buy a product even though he is the only one interested, but of course the price is also higher in this case.

Price comparison has also been around for some time now, but the Internet has made it easier for customers to find the information they are looking for. Companies like StreetPrices<sup>52</sup> and DealTime<sup>53</sup> have created large databases where everybody looking for a low price can have a look.

However, these companies only show results for the most popular products. It is not possible to find everything.

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<sup>49</sup> [www.letsbuyit.com](http://www.letsbuyit.com).

<sup>50</sup> [www.mobshop.com](http://www.mobshop.com).

<sup>51</sup> [www.mercata.com](http://www.mercata.com).

<sup>52</sup> [www.streetprices.com](http://www.streetprices.com).

<sup>53</sup> [www.dealtime.com](http://www.dealtime.com).

**On the question: How does DealTime choose which stores to search? The answer is: “Our goal is to search as many stores as possible, making DealTime the first stop for all of your online shopping. We choose which stores to search based on a variety of factors, including third-party ratings; the popularity of the site with consumers; its customer-service track record; the amount, quality and price of the merchandise it offers; and feedback from our customers. Our aim is to give you the most choices, helping you find reliable, easy-to-use sites that offer the products you want at the prices you want to pay”<sup>54</sup>.**

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<sup>54</sup> [www.dealtime.com](http://www.dealtime.com).

## **7.0 Conclusion**

**It can be concluded that the Internet has a big effect on the world of business today. If the predicted growth in Internet revenues holds water, the Internet will be an even bigger contestant in the near future. However, the Internet as a marketplace for both companies and consumers is still in its youth.**

**Companies and consumers are facing all the problems that accompany this fairly new phenomenon. Since everything surrounding the Internet is very technical, there are also very many technical problems. Standards are not yet created in order for international trade to work properly. If problems occur when customers order products from another country and they do not arrive, it is often hard for a customer to find out what to do. The privacy issue has to be addressed also. There will be no future E-commerce, if this problem is not fixed. Companies and governments should work together to solve these trade problems.**

**Companies have to find a solution to these basic problems of e-commerce. If they succeed, companies could benefit greatly from the obvious advantages of the Internet. Especially companies that sell information and software can benefit from the Internet.**

**“Internet only” companies ruled the Internet to start with, but it looks like the “bricks and mortar” companies have an advantage now that they have added their “clicks”.**

**The USA is leading in e-commerce but this lead will diminish over the next few years. Companies doing business in Europe have a disadvantage over the companies that do business in the USA due to the many languages spoken in Europe.**

**Companies have to realise that even though many products can be sold over the Internet, it is not all products that sell well.**

**E-service and E-marketing are areas where much money can be saved. Companies should not spend their entire marketing budget on E-marketing, though. TV and radio commercials are still very effective. Even though much money can be saved on E-service, companies should not save too much. Consumers want a good service when they shop online.**

**Cooperative buying looks like an area that could be big business. Companies like Letsbuyit and Mercata, though, need to enlarge their product range in order to attract more customers.**

**Price comparison is an easy way for customers to check prices on the most popular products. Companies like DealTime and StreetPrices, however, need to enlarge their databases if they want to attract a larger crowd.**

**E-commerce in general will have a big impact on companies and consumers when it has overcome its teething troubles. The toughest obstacles are the technical problems and the privacy issue. The Internet and E-commerce is here to stay.**

## **8.0 List of literature**

**Berlingske Tidende: “Pres på pressen”, June 4<sup>th</sup> 2000.**

**Computerworld: “Dyrt at være inde I varmen”, February 11<sup>th</sup>, 2000.**

**Computerworld: “B&O åbner e-handel”, March 14<sup>th</sup>, 2000.**

**Computerworld: “Send kontoret til Indien”, March 24<sup>th</sup> 2000.**

**Computerworld: “TV-reklamer snart slået af Internet”, April 4<sup>th</sup>, 2000.**

**Computerworld: “Handel mellem virksomheder dominerer”, April 11<sup>th</sup>, 2000.**

**Computerworld: “PC-producenter laver b2b-markedsplads”, May 9<sup>th</sup>, 2000.**

**Computerworld: “Kultur kan ikke kopieres”, October 27<sup>th</sup>, 2000.**

**Computerworld: “Danskerne vil have Internet på Dansk”, December 8<sup>th</sup>, 2000.**

**Economist, The: “Dotty about dot.commerce?”, February 6<sup>th</sup>, 2000.**

**Jyllands Posten: “E-handel med ringe service”, January 12<sup>th</sup> 2000.**

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**[www.adsoff.com](http://www.adsoff.com)**

**[www.letsbuyit.com](http://www.letsbuyit.com)**

**[www.mobshop.com](http://www.mobshop.com)**

**[www.mercata.com](http://www.mercata.com)**

**[www.streetprices.com](http://www.streetprices.com)**

**[www.dealtime.com](http://www.dealtime.com)**

**[www.harald-nyborg.dk](http://www.harald-nyborg.dk)**