Chapter 5: Emerging Modes of Business

Exercises — Exercises

Q1 State any three differences between e-business and traditional business.

Three differences between e-business and traditional business are as follows. (1) Ease of formation: a traditional business needs many procedures and is difficult to set up, whereas an e-business is simple to start. (2) Physical presence and cost of setting up: a traditional business needs a physical location and facilities, so set-up cost is high; an e-business needs no physical presence, so set-up cost is low. (3) Nature of contact and response time: a traditional business deals with suppliers and customers indirectly through intermediaries and responds slowly, while an e-business has direct contact and responds instantaneously. Other differences include organisational structure (tall and hierarchical versus flat) and transaction risk (low versus high).

Q2 Describe briefly any two applications of e-business.

Two applications of e-business are: (1) e-Procurement: this involves internet-based sales transactions between business firms. It includes reverse auctions, which let a single business buyer trade online with many sellers, and digital marketplaces, which let multiple buyers and sellers trade with one another. (2) e-Trading: this is the online buying and selling of securities such as shares and other financial instruments. For example, sharekhan.com is India's largest online trading firm. Other applications include e-bidding/e-auction, e-communication/e-promotion and e-delivery.

Q3 Describe briefly the data storage and transmission risks in e-business.

Data held in computer systems, and data travelling between them, are exposed to several risks. Vital information may be stolen or altered, either for selfish gain or simply for fun. The main threats are viruses and hacking. A virus is a program that replicates itself on other computer systems; its effect can range from a mere on-screen annoyance (Level-1) to disruption of functioning (Level-2), damage to data files (Level-3) and complete destruction of the system (Level-4). Protection comes from installing and regularly updating anti-virus programs and scanning files and disks. Data may also be intercepted in transmission; cryptography guards against this by converting information into unreadable cyphertext that only a holder of the secret key can decrypt into plaintext.

Q4 Why are e-business and outsourcing referred to as the emerging modes of business? Discuss the factors responsible for the growing importance of these trends.

E-business (trading and related activities done over electronic networks such as the internet) and outsourcing (contracting business activities, often IT-enabled, to outside specialists) are called emerging modes because they are not new businesses but new, still-developing ways of doing business, and their use is expanding fast with advances in information technology. Factors behind their growing importance: (1) Cost effectiveness: customers want quality at low prices, and both modes cut working capital and operating costs, allowing competitive pricing. (2) Innovation and technology: competition forces firms to adopt up-to-date technology and new methods, which these modes make easier. (3) Time saving: buyers expect anywhere, anytime purchase and quick delivery, which online trading and specialised service providers supply. (4) After-sales service: round-the-clock support through websites and call centres attracts customers. (5) Better communication technology: faster, cheaper internet-based communication makes it practical to transact and coordinate with distant partners. (6) Internal and competitive pressure: managers keep seeking better ways to run purchase, production and marketing, and firms increasingly concentrate on core strengths instead of doing everything themselves.

Q5 Elaborate the steps involved in on-line trading.

Online transactions broadly pass through three stages: pre-purchase (advertising and information-seeking), purchase (price negotiation, closing the deal and payment) and delivery. From a customer's standpoint the steps are: (1) Registration: the buyer registers with the online vendor by filling a form and creating a password, so that the account and shopping cart are protected from misuse. (2) Placing an order: the buyer picks items into the shopping cart, which is an online record of the chosen items, can add or remove items, and then checks out. (3) Payment mechanism: payment can be made through cash on delivery, cheque, net-banking transfer (IMPS, NEFT, RTGS), credit or debit cards, or digital cash. After payment is secured, the vendor arranges delivery of the goods.

Q6 Evaluate the need for outsourcing and discuss its limitations.

Need: Outsourcing arose from global pressure for higher quality at lower cost, demanding customers and fast-changing technology. Its benefits show why it is needed. (1) Focus on core activities: handing routine, complex or non-core work (such as call centres or payroll processing) to specialists frees management to concentrate on what the firm does best. (2) Excellence: the firm builds specialisation in its core area while partners who excel at other tasks perform them better. (3) Cost reduction: economies of scale at the service provider lower costs and allow competitive prices. (4) Growth through alliance: partners may invest capital in outsourced activities, helping the firm expand. (5) Economic development: host countries such as India gain employment, entrepreneurship and exports, for example through BPO and ITES units. Limitations: (1) Confidentiality: sharing sensitive information with a third party risks leaks, and the partner may become a competitor. (2) Ethical concerns: providers may cut costs by exploiting cheap labour, paying below minimum wages or using child labour. (3) Low-skill, sweatshop-type work: cheap labour supplies routine skills rather than thinking skills, which can hurt quality. (4) Resentment in home countries: jobs move abroad, creating unemployment and public opposition in the outsourcing firm's country.

Q7 Discuss the salient aspects of B2C commerce.

B2C (business-to-customer) commerce has business firms at one end and their customers at the other. Salient aspects: (1) It is wider than online shopping, since marketing starts before a product is offered and continues after sale; it covers identifying customer needs, promotion and sometimes even delivery of products such as music or films online. (2) It performs these activities at much lower cost but high speed; ATMs speeding up cash withdrawal are an example. (3) Customers today want individual attention, tailor-made features and convenient delivery and payment, which e-commerce makes possible. (4) It lets a business stay in touch with customers round the clock and run online surveys to learn who buys what and how satisfied they are. (5) Its corollary, C2B, gives consumers freedom to shop at will and use toll-free call centres to make queries and lodge complaints, and these call centres can be outsourced.

Q8 Discuss the limitations of electronic mode of doing business. Are these limitations severe enough to restrict its scope? Give reasons for your answer.

Limitations: (1) Low personal touch, making it less suitable for products such as garments and toiletries. (2) Order taking can be instant but physical delivery takes time, and websites sometimes open slowly, frustrating users. (3) Parties need technology capability and computer familiarity, which creates a digital divide. (4) Greater risk because of anonymity and non-traceability of parties, with hazards of impersonation, leakage of card details, viruses and hacking. (5) People resist change and new technology. (6) Ethical issues, such as employers monitoring employees' e-mail and files. These limitations are not severe enough to restrict its scope, because most are being overcome: websites are becoming more interactive to reduce the low-touch problem, communication technology keeps improving speed and quality, and the digital divide is being narrowed through about 150 community telecentre projects in villages and rural areas. Hence e-business is here to stay and is poised to reshape business, governance and economies.