

# Chapter 7

## Learning Goals

- 1** Define e-business and discuss how it can help achieve business success.
- 2** Distinguish between a corporate Web site and a marketing Web site.
- 3** List the major forms of business-to-business (B2B) e-business.
- 4** Explain business-to-consumer (B2C) e-business and identify the products most often sold online.
- 5** Describe some of the challenges associated with e-business.
- 6** Discuss how organizations use the communication functions of the Internet to advance their objectives.
- 7** List the steps involved in developing successful Web sites and identify methods for measuring Web site effectiveness.
- 8** Explain the global scope of e-business.

## E-Business: Doing Business Online

**B**ecause teenagers and young adults already spend a lot of time online, it should be easy for marketers to sell them CDs, games, and high-fashion clothing on the Internet, right? After all, they're already at their computers. Why wouldn't they shop there as their parents do?

Selling online to the youth market isn't quite as simple as just offering a Web site. Teens might actually surf fewer hours a week than their parents, because having access at school is limited or focused on specific tasks, which doesn't bring the same freedom to shop that many adults enjoy. And when online, many teens are busy communicating—sending instant messages, writing and reading blogs, and conversing in chat rooms. Further, many teens are price conscious because their earning power is low



place of the typical dull navigation bar. In addition to high-fashion clothes for purchase, the site features flashy

## Reaching the Elusive Teen Market Online



and few have credit cards. These factors combine to make it easier for teens to window-shop than to actually purchase.

Still, retailers see big potential in capturing the attention of this lucrative—and elusive—market. For one thing, credit cards for many teens are only a year or two away, and the purchasing power of this age group is expected to be high. Within the next few years, roughly 34 million people will be in their teens in the United States, so they are an attractive market. Another motivation for venturing online is the opportunity to build customer loyalty, especially for big retail operations like Macy's Thisit.com, Crate and Barrel's cb2.com, and Pottery Barn's pbteen.com. Young people who begin a relationship online with a department store such as Macy's or a home-and-earth retailer like Pottery Barn may continue to shop there—online, in person, or by catalog—for many years. So how do retail businesses create Web sites that attract teens and young adults?

Macy's partnered with *Teen Vogue* magazine to develop Thisit.com for girls in the 13- to 17-year-old age range. The home page features a picture of Times Square with numbered billboards and a blimp. Hidden behind the numbers are descriptions of the site's contents—in

graphics, music and video clips to download, and fashion and grooming advice. The manager of Macy's online division says the site is "mostly designed to be about their lifestyle and communicating with them versus a hard sell like 'here's the merchandise, it's on sale.'" The site has no housewares or appliances, for instance, although all items on Thisit.com can be accessed, presumably by parents, from the company's main Web site at Macys.com.

Alloy.com, a specialty-clothing site that caters to female teens, packages polls, contests, sweepstakes, message boards, fashion advice, and horoscopes on its site. The site also features tips and news about trends, books, movies, and music and film celebrities. The polls and message boards help give the company feedback; its buyers can spot emerging trends from posted comments. Hip Web site <http://hollisterco.com>, owned by Abercrombie & Fitch, has separate pages for "Dudes" and "Betty's" in need of fashionable clothes and accessories, as well as trendy features about pop groups with audio and video clips on its "Club Cali" page. In contrast, eBay doesn't have to dress up its Web site very much to draw teens. In fact, it's hard for other companies to compete with eBay when it comes to entertainment value, and eBay and Amazon are already top destinations for teen shoppers.

But making Web sites entertaining and interactive isn't all retailers need to do. They must also draw teens to visit them, often by linking to popular "social networking" sites such as Facebook.com, Quizilla.com, CollegeBoards.com, and Xanga.com. Even the education site SparkNotes.com is considered a good way to reach teens. One reason is that teens consider social and educational sites safe and tend to trust information they find there. Stores are also experimenting with e-mail promotions and ways to use text messaging to reach teens.

Although many teen sites cater to females, retailers must still grapple with a few gender-related differences of Internet users. First, although teenage girls spend about 22 percent more time online than boys, teen boys buy more items online. The kind of merchandise boys buy—videos, music, games, and high-tech items—doesn't need to be tried on. And, as any parent can attest, teen girls simply like the social aspects of shopping together at the mall. But if Thisit.com brings the customer to the mall, Macy's won't be complaining.<sup>1</sup>

## Chapter Overview

Over the past decade few developments in contemporary business have been as monumental as the Internet and its related technologies. The Internet offers businesses and other organizations a source of information, a means of communication, and a channel for buying and selling, all rolled into one. With just a few ticks of the clock and a few clicks of a mouse, the Internet has revolutionized virtually every aspect of business. Consumers use the Internet for a variety of tasks: to pay bills, obtain product information, make purchases, and even consult with their physicians. Businesses use the Internet to exchange information with customers, advertise products, research market trends, and, of course, buy and sell a whole range of goods and services. New words have emerged, such as *blog*, *RSS*, *extranet*, and *wiki*, and old words have new meanings: *Web*, *search marketing*, *banner*, *pop-up*, and *online*.

Electronic business (or e-Business) refers to conducting business via the Internet. The size and scope of e-business is difficult to understate. For instance, during a two-week period leading up to Valentine's Day, U.S. consumers spent close to \$4 billion online, a 30 percent increase over the previous year.<sup>2</sup> Sigma-Aldrich, a St. Louis-based chemical company that sells products to biologists, has seen its online sales rise fiftyfold—from \$4 million to more than \$200 million in less than ten years. Office products retailer Staples reports that more than half its orders are placed via the company's Web site. Meanwhile, Ford Motor Credit recently launched an Internet portal for receiving and processing credit applications. Already the portal is processing around half of

all the applications that come from Ford dealers, or more than 150,000 per day.<sup>3</sup>

E-business involves much more than just buying and selling. Some surveys suggest that the Web is the number one medium for new-product information, eclipsing catalogs, print ads, and trade shows. The Internet allows retailers and vendors to exchange vital information, improving the overall functioning of inventory and supply, which lowers costs and increases profits. Moreover, an increasing number of Americans now get their news and information from blogs (short for *Web logs*, which are online journals) rather than from traditional media such as television and newspapers. Consequently, a growing number of businesses use blogs to put human faces on their organizations and communicate directly with customers.

Government agencies and not-for-profit organizations have also embraced the Internet. On college and university Web sites, students can obtain academic program information, register for courses, check grades, and even pay their college bills. Many states now allow residents to renew their car registrations online, saving time and trips to the motor vehicle office.

In the past decade, the number of Internet users in the United States and worldwide has grown dramatically. Today an estimated 200 million Americans—more than 63 percent of the U.S. population—access the Internet at home, at school, at work, or at public-access sites. Active at-home Internet users alone exceed 135 million in the United States today. Worldwide, the number of Internet users is close to 900 million.<sup>4</sup> While some of the initial

novelty has worn off, the Internet has become a significant presence in the daily lives of a majority of Americans. For instance, according to recent surveys, the average Internet user spends more time online than watching television.<sup>5</sup> Moreover, over half of all Americans accessing the Internet today use broadband connections—such as DSL or cable modems—which vastly increase reaction times and allow nearly seamless graphics and video displays.<sup>6</sup> Experts believe that the continued growth of broadband is one of the keys to the continued growth and development of e-business.

In spite of the past success and future potential of the Internet, issues and concerns relating to e-business remain. Some highly touted e-business applications have proven less than successful, cost savings and profits have occasionally been elusive, and many privacy and security

issues still linger. Nevertheless, the benefits and potential of e-business clearly outweigh the concerns and problems.

This chapter examines the current state and potential of e-business. We begin by discussing the capabilities of e-business, the benefits of e-business, and the ways organizations use the Web. Next, we focus on business-to-business (B2B) transactions, which make up the most e-business transactions today. Then we explore business-to-consumer (B2C) e-business—online shopping sites such as Macy’s Thisit.com, described in the opening vignette. We also consider some of the challenges of e-business. Next, we explain how organizations use the Web’s communication functions to advance their objectives. The chapter concludes with discussions of how to create and maintain an effective Web presence and the global reach of e-business.

## WHAT IS E-BUSINESS?

Today the term **e-business** describes a wide range of business activities that take place on the Internet using any of the applications that rely on Internet technology, such as e-mail and virtual shopping carts. E-business can be divided into the following five broad categories:

1. e-tailing, or virtual storefronts on Web sites
2. online business-to-business transactions
3. electronic data interchange (EDI), the business-to-business exchange of data using compatible software
4. e-mail, instant messaging, and other Web-enabled communication tools and their use as media for reaching prospective and existing customers
5. the gathering and use of demographic, product, and other information through Web contacts

E-business provides a foundation for launching new businesses, extending the reach of existing companies, and building and retaining customer relationships. A Web presence builds awareness of a company’s products and brands, provides the means for one-on-one communication with customers, and permits customers to place orders from anywhere in the world, at any time of day. E-business encompasses all of the following types of activities:

- Legally downloading songs from Apple Computer’s iTunes Web site
- Buying a used laptop computer on the online auction site eBay
- Accessing Infotrac (<http://www.infotrac.com>) through your college’s wireless network to find articles to complete a class research assignment
- Researching new-car models on Edmunds.com (<http://www.edmunds.com>) and getting price quotes from several local dealers

**electronic business**  
(e-business) conducting business via the Internet.

### “They Said It”

“First and foremost, the Internet is unique since it is THE only interactive medium—and that’s important because from a content, service, and communications perspective, we Web folks try to take advantage of that interactivity.”

—Jerry Yang (b. 1968)  
Co-founder, Yahoo!

## 7.1 Services Offered by IBM to Enhance E-Business



COURTESY OF IBM CORPORATION/PHOTOGRAPHER ROE ETHRIDGE

The growth of e-business has attracted an army of specialized software firms and other service suppliers that provide expertise for firms taking their first steps into this competitive arena. Examples include Accenture, IBM, Microsoft, and Oracle. IBM, for instance, offers its business customers both software and services designed to build virtual stores that go far beyond traditional Web sites. Although IBM was originally known as a producer of computer hardware, it now generates more than half its revenue from e-business and other information technology services.<sup>7</sup> IBM even runs e-business systems for companies that want to outsource this activity. The firm's management believes that much of its future lies in providing e-business services. As a result IBM sold its PC manufacturing business. Figure 7.1 illustrates the types of e-business services offered by IBM.

E-business has also had an impact on governments and others in the not-for-profit sector. For instance,

MunicipalNet is a growing e-procurement business based in Boston. It focuses on services to states, local governments, and the businesses that supply them. The city of Torrington, Connecticut, recently signed up for the MunicipalNet service. According to Charlene Antonelli, the city's purchasing agent, the service has generated far more bids and had an impact on prices. "We put a request out for a multimedia projector that previously we had a best price of around \$3,700. . . . Through the MunicipalNet service, we got a number of bids in at the \$2,000 level," noted Antonelli.<sup>8</sup> MunicipalNet can also help governments set up Web sites at which citizens can register cars, pay taxes, or look for government jobs. By one estimate, more than 15 percent of federal, state, and local taxes will be collected online within the next few years.

## Capabilities and Benefits of E-Business

The last years of the 20th century and the early years of the 21st century witnessed the change from a manufacturing-based industrial economy to its electronic successor—an economy based on information, the Internet, and other related online technologies. Many people see e-business as a major component of growth for the rest of the 21st century. Since the Web first opened for commercial activity in 1993, e-business has had a major impact on both consumers and businesses. It is estimated that in the United States e-business is currently over 2 percent of GDP. This figure is expected to increase to more than 5 percent within the next three to five years.<sup>9</sup> Some recent successes in e-business are summarized in Table 7.1.

E-business offers a wide variety of capabilities and benefits to contemporary businesspeople.

- **Global reach.** The Net allows goods and services to be sold to customers regardless of geographic location. eBay, for instance, is now the nation's largest used-car dealer.<sup>10</sup> Buyers and sellers throughout the country meet in this virtual used-car marketplace, where more than \$7 billion worth of used vehicles are bought and sold annually.
- **Personalization.** Only a handful of Dell computers are waiting for customers at any one time. The production process begins when an order is received and ends a day or two later when the PC is shipped to the customer. Not only does this approach better satisfy customer needs, but it also sharply reduces the amount of inventory Dell has to carry.
- **Interactivity.** Customers and suppliers negotiate prices online in much the same manner as at a local flea market or car dealership. The result is the creation of an ideal product at the right price that satisfies both parties.

### "They Said It"

"The new information technology, Internet, and e-mail have practically eliminated the physical costs of communications."

—Peter Drucker  
(b. 1908–2005)  
Business author and strategist

## Some E-Business Successes

- More than 70,000 students are taking courses online at the University of Phoenix. The Web has helped the for-profit institution become the largest private college in the United States.
- FreshDirect—an online supermarket—now has annual revenues exceeding \$100 million and is the first online supermarket to turn a profit.
- The Boston Symphony Orchestra's Web site attracts thousands of visitors a day, and online ticket sales are approaching \$5 million annually. The orchestra credits the Web for a dramatic increase in the number of young concertgoers and season ticket subscribers.
- Americans book more than \$62 billion in online travel annually. This figure is expected to reach \$91 billion by 2009. By then one out of every three travel dollars will be booked online.

**Sources:** "About Us," University of Phoenix, accessed July 20, 2006, <http://www.uoponline.com>; Erick Schonfeld, "The Big Cheese of Online Grocers," *Business 2.0*, accessed July 20, 2006, <http://www.business2.com>; Deborah Vence, "Boston Orchestra Tunes Up Net Campaign," *Marketing News*, accessed July 20, 2006, <http://www.marketingpower.com>; Rob McGann, "U.S. Online Travel Market to Soar," ClickZ Network, accessed June 20, 2006, <http://www.clickz.com>.

- *Right-time and integrated marketing.* Online retailers, such as Amazon.com and Buy.com, can provide products when and where customers want them. Moreover, the Internet enables the coordination of all promotional activities and communication to create a unified, customer-oriented promotional message.
- *Cost savings.* E-business can markedly reduce the costs associated with operating and starting a business. Ace Hardware says that a Web-based program has reduced inventory costs by around 20 percent.<sup>11</sup>

In addition to the benefits listed here, increasing evidence shows that an effective online presence improves the performance of traditional brick-and-mortar operations. As noted earlier, some surveys suggest that the Web has become the primary source of product information. A study by the Dieringer Group, a marketing and business research firm, found that a significant segment of American consumers—perhaps as many as 83 million—rely on the Internet nearly twice as much for local purchasing information compared with traditional media such as newspaper, local TV, or radio ads. For each dollar these consumers spent online, the study found, they spent \$1.60 offline at local stores.<sup>12</sup>

## Business Web Sites

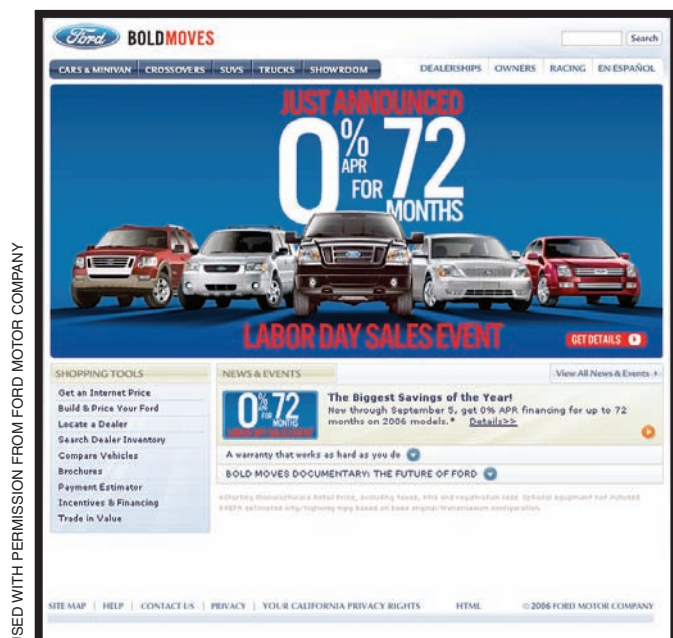
Virtually all businesses today have Web sites. They may offer general information, electronic shopping, and promotions such as games, contests, and online coupons. Type in the firm's Internet address, and the Web site's home page appears on your computer screen.

Two types of company Web sites exist. Many firms have established **corporate Web sites** to increase their visibility, promote their offerings, and provide information for other interested parties. Rather than selling goods and services directly, these sites attempt to build customer goodwill and assist retailers and other resellers in their marketing efforts.

### assessment check

1. Define e-business.
2. List some benefits of e-business.

**corporate Web site** Web site designed to increase a firm's visibility, promote its offerings, and provide information to interested parties.



USED WITH PERMISSION FROM FORD MOTOR COMPANY

Ford Motor Company's website is an example of an informational web site as it includes details about Ford's products as well as financial documents, investor relations, and job-related information.

# (b)usiness (e)tiquette

## Tips for Using E-Mail

You are probably aware of the general guidelines about using e-mail responsibly, such as following the rules of grammar and spelling, not typing in all caps, and not sending anyone information you wouldn't mind seeing in the daily newspaper. Here are a few tips that should help ensure that your online business correspondence is always effective and appropriate.

1. Choose a professional-looking format; avoid color, fancy type fonts, and emoticons (smiley faces).
2. Keep your message short and to the point.
3. Always include a specific subject line so that your correspondents know what to expect. For instance, write "Revised schedule for McGregor project" instead of "Schedule."
4. If you are replying to an e-mail, respond as promptly as you would to a phone call on the same subject.
5. Write and reply to all the people who need the information you are sending, but only to those people.
6. If you are writing to a large group of people who don't know one another, use the BCC (blind carbon copy) function to ensure that each person's e-mail address remains private from the others.
7. Let recipients know ahead of time if you are sending a very large attachment, because download times can vary. You might want to break large attachments into several smaller ones to make downloading easier.
8. If a disagreement or argument develops during e-mail communications, stop, calm down, and continue the discussion in person or on the phone.
9. Before you send any e-mail, proofread your message and double-check the "To:" line. Make sure you have attached any needed documents and that you've typed your name at the bottom of the message.
10. Remember that e-mails are considered public documents. Avoid writing anything you wouldn't say in person.

**Sources:** "Email Etiquette," Online Writing Lab at Purdue University, accessed July 20, 2006, <http://owl.english.purdue.edu>; "Harness E-Mail: E-Mail Etiquette," Learn the Net, accessed July 20, 2006, <http://www.learnthenet.com>; "Email Etiquette," AllBusiness, accessed July 20, 2006, <http://www.allbusiness.com>.

For example, the Web site for Levi's jeans offers detailed product information and a chance to view recent commercials. Consumers who want to actually buy jeans, however, can link to the Web sites of retailers such as Kohl's and JCPenney.

In addition to using the Web to communicate product information and build relationships with customers, many companies use their Web sites for a variety of purposes, including disseminating financial information to investors, enabling prospective employees to apply online for jobs, and providing e-mail communication for customers and other interested parties. Some tips for writing and using e-mail in a business setting are listed in the "Business Etiquette" feature.

Although **marketing Web sites** often include information about company history, products, locations, employment opportunities, and financial information, their goal is to increase purchases by site visitors. For instance, the Starbucks Web site contains all of the information traditionally found on a corporate Web site, but it also includes an online store selling everything from coffee to espresso machines. Many marketing Web sites try to engage consumers in interactions that will move them closer to a demonstration, trial visit, purchase, or other marketing outcome. Some marketing Web sites, such as Sony.com, are quite complex. Visitors can go to pages for Sony Pictures Entertainment (with movie trailers and sweepstakes), Sony Music (audio and video clips plus news about recordings), and Sony Online Entertainment (online games plus information about games and gaming systems), among other possibilities.

## assessment check

1. Briefly identify the differences between a corporate Web site and a marketing Web site.
2. Visit the Web site for Specialized (<http://www.specialized.com>). Is this site a corporate Web site or a marketing Web site?

**marketing Web site**  
Web site whose main purpose is to increase purchases by visitors.

## BUSINESS-TO-BUSINESS (B2B) E-BUSINESS

FedEx's Web site is not designed to be flashy. There are no fancy graphics or streaming video clips, just lots of practical information to assist the firm's customers. The site enables customers to check rates, compare services, schedule package pickups and deliveries, track shipments, and order shipping supplies. This information is

vital to FedEx's customers, most of whom are businesses. Customers access the site thousands of times a day.

**Business-to-business e-business**, known as **B2B**, is the use of the Internet for business transactions between organizations. Although most people are familiar with such consumer-oriented (B2C) online firms as Amazon.com and eBay, B2C transactions are dwarfed by their B2B counterparts. B2B e-business transactions stand at nearly \$2.5 trillion. By some estimates, close to 80 percent of all e-commerce activity consists of B2B transactions.<sup>13</sup> In the United Kingdom, more than 30 percent of all businesses purchased goods and services over the Internet in a recent year.<sup>14</sup>

In addition to generating sales revenue, B2B e-business also provides detailed product descriptions whenever they are needed. Payments and other information are transferred on the Web. Moreover, B2B e-business can slash order-processing expenses. Business-to-business transactions, which typically involve more steps than consumer purchases, can be much more efficient on the Internet. Orders placed over the Internet typically contain fewer errors than handwritten ones, and when mistakes occur, the technology can quickly locate them. So the Internet is an attractive option for business buying and selling. In some industries, relying on the Internet to make purchases can reduce costs by almost 25 percent.

B2B e-business activity has become more varied in recent years. In addition to using the Web to conduct one-on-one sales transactions and provide product information, companies use such tools as EDI, extranets, private exchanges, electronic exchanges, and e-procurement.

## Electronic Data Interchanges, Extranets, and Private Exchanges

**Electronic Data Interchange** One of the oldest applications of technology to business transactions is **electronic data interchange (EDI)**, computer-to-computer exchanges of invoices, purchase orders, price quotations, and other sales information between buyers and sellers. EDI requires compatible hardware and software systems to exchange data over a network. Use of EDI cuts paper flow, speeds the order cycle, and reduces errors. In addition, by receiving daily inventory status reports from vendors, companies can set production schedules to match demand.

Wal-Mart was one of the first major corporations to adopt EDI in the early 1990s. In fact, the retailer refuses to do business with distributors and manufacturers that do not use compatible EDI standards. EDI is one of the major reasons Wal-Mart is able to operate with the efficiency that has made it the market leader in retailing. It can buy just the merchandise its customers want and just when it needs to restock its shelves, using a system known as **quick response**. Quick response is the retailing equivalent of *just-in-time inventory*, an inventory management system commonly used in manufacturing. (Just-in-time inventory is discussed in detail in Chapter 11.) Today, most large retailers have adopted variations of Wal-Mart's quick response system.

Early EDI systems were limited due to the requirement that all parties had to use the same computer operating system. So a company using UNIX couldn't easily link up with a company using Windows NT. That changed with the introduction of something called Web

**business-to-business (B2B) e-business** electronic business transactions between organizations using the Internet.

### "They Said It"

"Information technology and business are becoming inextricably interwoven. I don't think anybody can talk meaningfully about one without talking about the other."

—Bill Gates (b. 1955)  
Co-founder, Microsoft

The screenshot shows the Inovis website with a red header and a navigation menu. The main content area features a section titled "EDI Translation Software" with a sub-header "EDI Translation Software". The text describes Inovis's fully integrated, industry-driven EDI translation software solutions that help businesses efficiently manage their global trading partner communities, resulting in improved customer relationships and increased revenue and profitability. It mentions that Inovis offers dynamic solutions that showcase the latest in technology and best business practices and deliver superior value. Below this, there is a section titled "Data Synchronization" which states that Inovis technology addresses fundamental industry challenges such as global data synchronization, mandate compliance, transaction management and global trade management. The company's comprehensive line of EDI translation software, services, and hosted service offerings provide web-based data transformation, connectivity and synchronization, along with real-time business activity monitoring. A final paragraph notes that with more than 20 years of experience, Inovis enables collaborative business processes and solves the issue of complete EDI translation software for more than 20,000 customers and their trading partners, helping businesses expand into new markets and channels, speed transaction flows, synchronize product information and improve supply chain processes. The website footer includes copyright information for Inovis, Inc. and links to Site Map, Terms of Use, Privacy Policy, Accessibility, and Gallery.

USED WITH PERMISSION, INOVIS, INC.

Inovis is one of many companies that provide a comprehensive line of B2B software and services, including EDI as well as providing Web-based data transformation, real-time business activity monitoring, and exception management capabilities.



services—Internet based systems that allow parties to communicate electronically with one another regardless of the computer operating system used by each individual party. Web services rely on open-source XML (Extensible Markup Language) standards.

**Extranets** Internet commerce also offers an efficient way for businesses to collaborate with vendors, partners, and customers through **extranets**, secure networks used for e-business and accessible through the firm's Web site by external customers, suppliers, or other authorized users. Extranets go beyond ordering and fulfillment processes by giving selected outsiders access to internal information. As with other forms of e-business, extranets provide additional benefits such as enhanced relationships with business partners. As noted earlier in the chapter, Ford Motor Credit uses an extranet to process credit applications from Ford dealers. Intelsat, which operates global communications satellites, has an extranet called Intelsat Business Network (IBN). More than 2,500 users of IBN log on from more than 400 organizations to check the availability of satellite capacity, view satellite maps, download corporate documents, and participate in discussion groups. Users can personalize their IBN account so that it shows information about only the services they use.<sup>15</sup>

Security and access authorization remain critical issues, and most companies create virtual private networks that protect information traveling over public communications media. These networks control who uses a company's resources and what users can access. Also, they cost considerably less than leasing dedicated lines.

**Private Exchanges** The next generation of extranets is the **private exchange**, a secure Web site at which a company and its suppliers share all types of data related to e-business, from product design through order delivery. A private exchange is more collaborative than a typical extranet, so this type of arrangement has sometimes been called *c-business*. The participants can use it to collaborate on product ideas, production scheduling, distribution, order tracking, and any other functions a business wants to include. Partners in a private exchange often form strategic alliances, similar to those described in Chapter 4. Wal-Mart Stores has a private exchange it calls a *retail link*. The system permits Wal-Mart employees to access detailed sales and inventory information. Suppliers such as Procter & Gamble and Nestlé, in turn, can look up Wal-Mart sales data and forecasts to manage their own inventory and logistics, helping them better meet the needs of the world's largest retailer and its millions of customers worldwide.

Another variant of extranets is an *intranet*, which provides similar capabilities but limits users to an organization's employees. Intranets are discussed in Chapter 15.

## Electronic Exchanges and E-Procurement

The earliest types of B2B e-business usually consisted of a company setting up a Web site and offering information, as well as products, to any buyer willing to make online purchases. Then entrepreneurs created **electronic exchanges**, online marketplaces that bring buyers and sellers together and cater to a specific industry's needs. One of the earliest electronic exchanges, FreeMarkets, was set up by a former General Electric executive named Glen Meakem. FreeMarkets allowed suppliers to compete for the business of organizational buyers of anything from gears to printed circuit boards. The idea was to improve the efficiency of the purchase process for hundreds of business products.

Initially, many believed that electronic exchanges would become one of the most popular uses of the Internet. It didn't quite work out that way. Something like 15,000 electronic exchanges were launched within a span of a few years. Today, however, less than 20 percent remain. The others either merged or simply disappeared. (FreeMarkets was acquired recently

by the e-business software firm Ariba.) Only electronic exchanges specializing in electronic components and transportation services have proven consistently successful.<sup>16</sup>

Why did many electronic exchanges perform so poorly? Experts believe that many suppliers weren't happy with the pressure to come in with the lowest bid each time a satisfied long-term buyer decided to make a new purchase. Moreover, many buyers preferred to cultivate long-term relationships with their suppliers, even those that charged slightly higher prices occasionally. Purchasing agents simply didn't see enough benefits from electronic exchanges to abandon suppliers they knew.<sup>17</sup>

Evolving from electronic exchanges has been something called **e-procurement**, Web-based systems that enable all types of organizations to improve the efficiency of their procurement processes. Ariba, the company that acquired FreeMarkets, offers a variety of e-procurement software products. Many large corporations, such as Saks and Unilever, use Ariba products such as Buyer for purchasing operating goods and services. Unilever reports that Buyer and other Ariba e-procurement software products have saved the company tens of millions of dollars. Saks believes that Buyer has cut the negotiating cycle time from four months to six weeks and saved the company 10 to 20 percent off regular, published prices.<sup>18</sup>

E-procurement also benefits the public sector. For instance, the State of North Carolina has recently instituted a program called *NC E-Procurement*, which combines Internet technology with traditional procurement practices to streamline the purchasing process and reduce costs. State and local governmental agencies, public schools, and state-supported colleges can use the system to purchase products from state-approved vendors. According to the state, "E-Procurement has reduced prices for goods and services through volume discounts, and also enables administrative and operational cost savings by streamlining processing and interactions with vendors/suppliers." One North Carolina county reported saving more than 30 percent on printer supplies by using E-Procurement.<sup>19</sup>

### assessment check

1. What is B2B e-business? How large is it relative to B2C e-business?
2. What is an EDI? An extranet? A private exchange?
3. Briefly explain how e-procurement works.

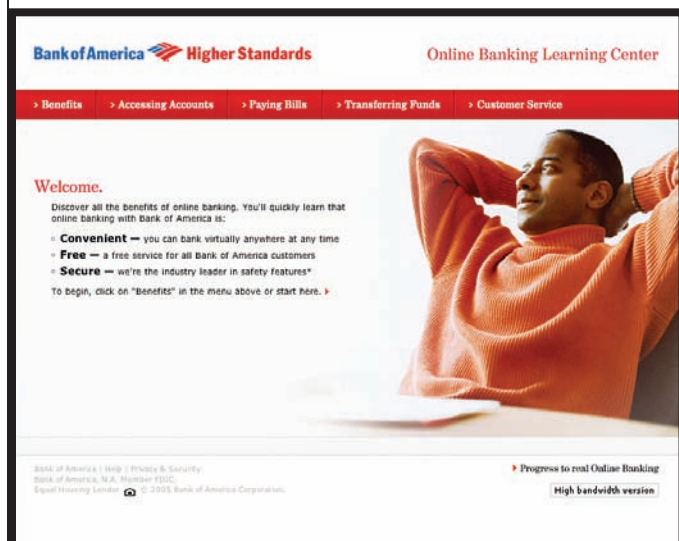
## ONLINE SHOPPING COMES OF AGE

One area of e-business that has consistently grabbed news headlines is Internet shopping. Known as **business-to-consumer e-business**, or **B2C**, it involves selling directly to consumers over the Internet. Driven by convenience and improved security for transmitting credit card numbers and other financial information, online retail sales, sometimes called *e-tailing*, now account for around 8 percent of total retail sales in the United States.<sup>20</sup> During one holiday shopping period, over 10 percent of consumer spending took place online, one-third more than in the prior year.<sup>21</sup> At present, about 30 percent of the population shops online. It is estimated that nearly half of American consumers will soon make purchases online.<sup>22</sup>

Most people generally think of the Web as a giant cybermall of retail stores selling millions of goods online. However, service providers are also important participants in e-business. These firms include providers of financial services. Brick-and-mortar banks, such as Wachovia, and brokerage firms, such as Fidelity Investments, have greatly expanded their online services. In addition, many new online service providers are rapidly attracting customers who want to do more of their own banking and stock trading 24/7. Figure 7.2 illustrates some of the benefits of banking online. Airlines, too, have discovered the power of the Web. For example, Southwest Airlines and JetBlue sell more than half of their tickets online, leading the industry in sales via this low-cost channel.<sup>23</sup> Southwest's Web site is the only airline Web site that regularly makes the top rankings for popularity, ease of use, and revenue generation—more than \$3 billion annually in air travel is booked through Southwest.com.<sup>24</sup> The success of Southwest.com is described in more detail in the "Hit & Miss" feature.

**business-to-consumer (B2C) e-business** selling directly to consumers over the Internet.

## 7.2 The Benefits of Online Banking



USED WITH PERMISSION, BANK OF AMERICA CORPORATION

**electronic storefront** company Web site that sells products to customers.

put its bridal registry, personal shopping, and interior-decorating services online. Clothing retailer Lands' End used to generate virtually all of its orders by telephone. A few years ago the company decided to turn to B2C e-business to boost sales and reduce costs. Today, LandsEnd.com is the world's largest apparel Web site and has pioneered several ways to enhance the online shopping experience.<sup>25</sup> Online customers can communicate with customer service representatives in real time, and two customers can even shop on the site simultaneously—just as if they were shopping together in a brick-and-mortar store. Customers can even “try on” clothes using a tool called Virtual Model.

Generally, online retailers—such as L.L. Bean and Barnes & Noble—provide an online catalog where visitors click on items they want to buy. These items are placed in a file called an **electronic shopping cart**. When the shopper indicates that he or she wants to complete the transaction, the items in the electronic shopping cart are listed on the screen, along with the total amount due, so that the customer can review the whole order and make changes before making a payment.

One factor that experts think will have a significant influence on the growth of online shopping is the increased availability of broadband technology. According to data from Nielsen NetRatings, more than 55 percent of American Internet users now have broadband connections. Nielsen projects that 70 percent of all U.S. home Internet users will soon be using broadband. Why is this trend significant for e-tailers? On average, broadband users are online more often for longer periods of time, and, most important, spend more online than narrowband users. Typically, today around 70 percent of all online retail purchases are conducted over broadband connections. Broadband shoppers also spend around 34 percent more online than narrowband shoppers.<sup>26</sup>

### Who Are the Online Buyers and Sellers?

The Pew Internet and American Life Project collects and analyzes data about Americans' Internet usage, including online buying behavior. A recent survey they conducted paints a comprehensive demographic picture of online users and buyers. Some of the key findings of the report are summarized in Figure 7.3 on page 224. While the typical Internet user is still

Another point to remember is that there are basically two types of B2C Web sites: shopping sites and informational sites. Williams-Sonoma has a shopping site (<http://www.williams-sonoma.com>), where customers can view product information and place orders online. By contrast, Toyota's Web site (<http://www.toyota.com>) is informational only. Consumers can view detailed product information, compare financing alternatives, and even request a price quote from a local dealer. They *cannot*, however, buy a new car online.

### E-Tailing and Electronic Storefronts

Major retailers have staked their claims in cyberspace by setting up **electronic storefronts**, Web sites that sell items to consumers. Wal-Mart received such a positive response to the launch of its electronic storefront a couple of years ago that it expanded online product offerings from 2,500 to more than 40,000 items. Macy's department store has



# HIT & MISS

## Southwest Scores with Its Web Site

Southwest Airlines has solved the problem of communicating great deals to its customers in real time. The company's innovation is no surprise to the travel industry, because Southwest was also the first airline to have its own Web site, now more than ten years old and still one of the most popular Internet sites in any category.

To reach travelers with news about short-term special deals, such as a \$33 flight from Chicago to St. Louis that was good for only a three-hour booking window, the innovative carrier created a software program called "DING!," named after the sound some e-mail systems make to announce a new message. Downloading the program from <http://www.southwest.com> takes a couple of minutes and creates a special icon in the user's system tray at the bottom of the screen. When Southwest has a new rock-bottom special for subscribers a tiny envelope appears on the icon and a "ding" sound is heard. Simply clicking on the icon brings up all the information on the user's computer screen, including a "Book Now" button.

During the registration process, users specify their home city or zip code and receive only information about that destination. Top cities are Baltimore, Chicago, Houston, Los Angeles, Oakland, and Phoenix.

Most offers are available for less than a day and represent savings from \$5 to \$75 off Southwest's lowest-priced one-way Internet specials. They require fourteen-day advance purchase, and customers have to be near their computers often to take advantage of the short-term offers. But in just the first few months of operation, travelers who like the thrill of getting a great deal booked more than \$10 million worth of tickets through DING!, making it a resounding success for the company. "Only Southwest Airlines would dare to offer fares this low," says the publisher of BestFares.com.

## Questions for Critical Thinking

1. Why do you think customers are willing to download DING! when the low prices are available for such a short period of time?
2. Can you think of any other uses Southwest might consider for its DING! software?

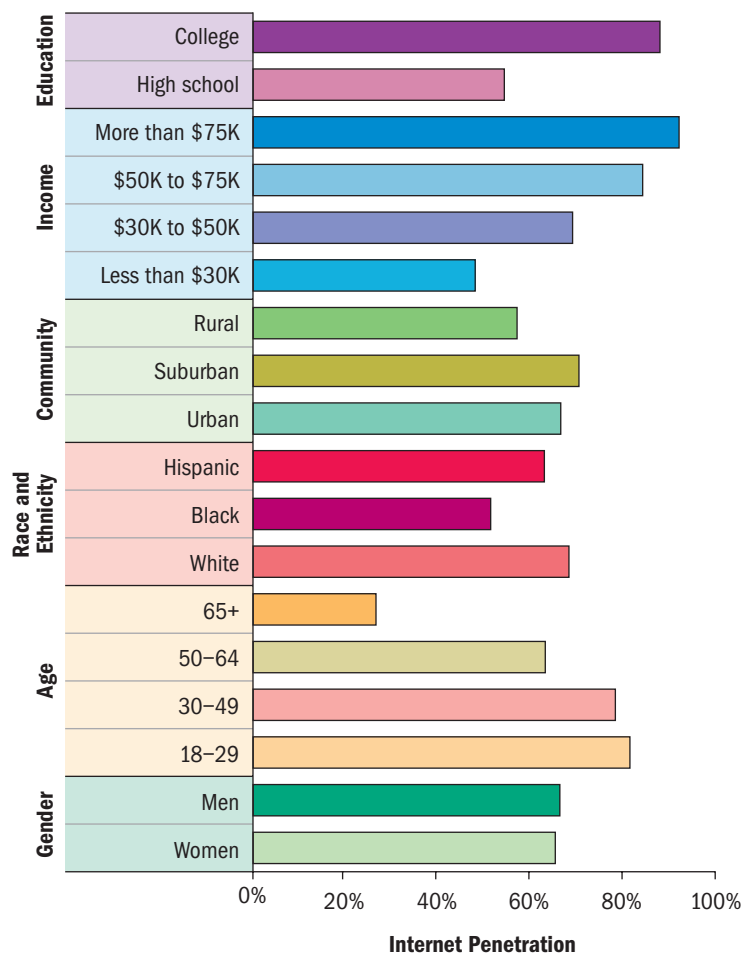
**Sources:** "What Is DING!?" Southwest Airlines Web site, accessed July 20, 2006, <http://www.southwest.com>; "Southwest Airlines Delivers the Heat with Hot Summer Fares," PRWebDirect, accessed July 20, 2006, <http://www.prwebdirect.com>; Jessica Labrencis, "Southwest's New Ding Fares: Worth the Download?" SmarterTravel.com, accessed July 20, 2006, <http://www.smartertravel.com>.

relatively young, highly educated, urban or suburban, and affluent, the demographics of online buyers are apparently changing. For instance, since 2000, Internet penetration—the percentage of a particular group going online—among older Americans has increased faster than it has among younger Americans. Moreover, today there is much less difference among demographic groups in the percentage of Internet users who purchase products online compared with a few years ago. Women, for example, are today just as likely as men to purchase products online. In 2000, men made up the majority of online shoppers.<sup>27</sup>

Realizing that customers would have little or no opportunity to rely on many of the senses—smelling the freshness of direct-from-the-oven bread, touching the soft fabric of a new cashmere sweater, or squeezing fruit to assess its ripeness—early online sellers focused on offering products that consumers were familiar with and tended to buy frequently, such as books and music. Other popular early online offerings included computer hardware and software, and airline tickets.

Figure 7.4 on page 225 lists the five product categories showing the highest growth in online sales during a recent year. The data illustrate how the B2C market has changed in recent years. A few years ago, books, music, and airline tickets were the most popular items sold online. Today, clothing and apparel, toys and video games, and consumer electronics are tops. In fact, online sales of clothing and apparel are growing at an annual rate of more than 40 percent.<sup>28</sup>

## 7.3 Demographics of Internet Users



Internet penetration is the percentage of a certain demographic group that accesses the Internet.

**Source:** Pew Internet and American Life Project, accessed July 20, 2006, <http://www.pewinternet.org>.

In the coming years online sales of apparel, prescription drugs, and home products will continue to grow rapidly as the demographics of Internet users change. Because women—who spend more money on apparel than men do—will continue to become a larger share of Internet users, online apparel sales are likely to stay hot. Similarly, as the population of online users over age 55 grows, so will the online sales of prescription drugs. Kitchen products, small appliances, and large appliances—which typically are bought more frequently by women and older consumers—will also experience strong growth in the near future.<sup>29</sup>

### Benefits of B2C e-Business

Why do consumers shop online? Three main reasons are most often cited in consumer surveys: price, convenience, and personalization.

**Lower Prices** Many products actually cost less online. Many of the best deals on airfares and hotels, for instance, are found at travel sites on the Internet. If you call Delta Airlines' toll-free number, before you speak to an agent a recorded voice invites you to visit Delta.com, "where lower fares may be available." Visitors to BN.com—the online store of bookseller Barnes & Noble—find that many bestsellers are discounted by up to 40 percent. At the brick-and-mortar stores, bestsellers are marked down only 30 percent. It comes as no surprise to anyone who has ever searched the Web for the best price for software or a newly issued CD that almost 60 percent of Web shoppers cited lower prices as a motivation for shopping online.<sup>30</sup>

The Web is an ideal method for savvy shoppers to compare prices from dozens—even hundreds—of sellers. Online shoppers can compare features and prices at their leisure, without being pressured by a salesperson or having to conform to the company's hours of operation. One of the newer e-commerce tools, **bots**, aid consumers in comparison shopping. Bots—short for *robots*—are search programs that check hundreds of sites, gather information, and bring it back to the sender. Assume you're in the market for a new computer monitor. At Shopping.com, you can specify the type and size of monitor you're looking for, and the Web site displays a list of the highest-ranked monitors, the e-tailer offering the best price on each, and the estimated taxes and shipping expenses. The Web site even ranks the e-tailers by customer experience and tells you whether a particular model is in stock.

**Convenience** A second important factor in prompting online purchases is shopper convenience. Cybershoppers can order goods and services from around the world at any hour of the day or night. Most e-tailers allow customers to register their credit-card and shipping informa-

tion to streamline future purchases. Customer register with a user name and password, which they enter when they place another order. E-tailers typically send an e-mail message confirming an order and the amount charged to the buyer's credit card. Another e-mail is sent once the product is shipped, along with a tracking number that the customer can use to track the order through the delivery process.

Many Web sites offer customized products to match individual customer requirements. Nike (<http://nikeid.nike.com>) enables online shoppers the opportunity to customize a running shoe, personalizing such features as the outsole, the amount of cushioning, and the width. The personalized shoe costs about \$10 more than buying it off the shelves.

**Personalization** While online shopping often operates with little or no human interaction, successful B2C e-business companies know how important personalization is to the quality of the shopping experience. Customer satisfaction is greatly affected by the firm's ability to offer service tailored to many customers. But each person expects a certain level of customer service. Consequently, most leading online retailers offer customized features on their Web sites.

In the early years of e-commerce, Web marketers cast their nets broadly to land as many buyers as possible. Today, the emphasis has turned toward one-to-one marketing, creating loyal customers who are likely to make repeat purchases. How does personalized marketing work online? Say you buy a book at Amazon.com and register with the site. The site welcomes you back for your next purchase by name. Using software that analyzes your previous purchases, it also suggests other books you might like. You can even choose to receive periodic e-mails from Amazon.com informing you of new products. Many other leading e-tailers have adopted similar types of personalized marketing.

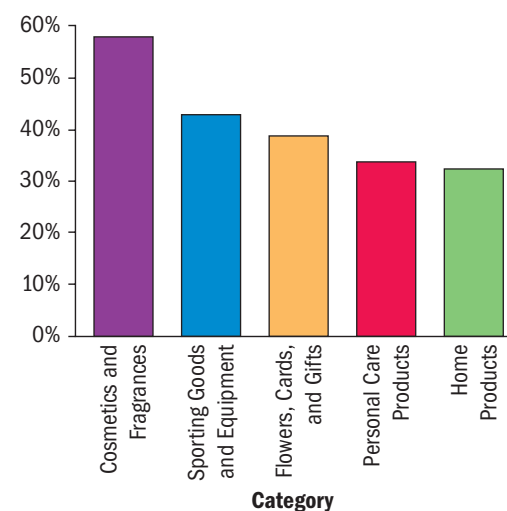
## Developing Safe Online Payment Systems

In response to consumer concerns about the safety of sending credit card numbers over the Internet, companies have developed secure payment systems for e-business. The most common forms of online payment are electronic cash and electronic wallets. Internet browsers, such as Microsoft Internet Explorer, contain sophisticated encryption systems. **Encryption** is the process of encoding data for security purposes. When such a system is active, users see a special icon indicating that they are at a protected Web site.

To increase consumer security most companies involved in e-business use **Secure Sockets Layer (SSL)** technology to encrypt information and verify the identity of senders and receivers (called *authentication*). SSL consists of a public key and a private key—software that encrypts and decrypts information. The public key is used to encrypt information, and the private key is used to decipher it. When a browser points to a domain with an SSL certificate, the technology authenticates (verifies the identity of) the server and the visitor and establishes an encryption method and a unique session key. Both parties can then begin a secure session that guarantees a message's privacy and integrity. VeriSign is one of the leading providers of SSL technology, which is used by more than 90 percent of *Fortune* 500 companies and the ten largest banks in the United States.<sup>31</sup>

An electronic wallet is another online payment method. An **electronic wallet** is a computer data file at an e-business site's checkout counter that contains not only electronic cash but credit card information, owner identification, and address. With electronic wallets, customers

Fastest-Growing Online Retail Categories



**Source:** Enid Burns, "Online Retail Growth Robust," ClickZ Network, accessed July 20, 2006, <http://www.clickz.com>.

## assessment check

1. Outline the differences between shopping Web sites and informational sites. Visit the Web site of Cross pens (<http://www.cross.com>). Is this site a shopping or informational B2C Web site?
2. Discuss the characteristics of the typical online buyer, how those characteristics are changing, and the potential impact on the types of products sold online.
3. List some ways online merchants try to ensure secure payment systems.

do not have to retype personal information each time they make a purchase at that site. Consumers simply click on the electronic wallet after selecting items, and their credit card payment information, name and address, and preferred mailing method are transmitted instantly.

## E-BUSINESS CHALLENGES

Not surprisingly, e-business has had its problems and challenges. Consumers are concerned about protecting their privacy and being victimized by Internet fraud, frustrated with unreliable and hard-to-use Web sites, and annoyed over the inconveniences of scheduling deliveries and returning merchandise. Businesses are concerned about potential conflicts with business partners and difficulty in measuring the effectiveness of Internet-based promotion.

### Privacy Issues

Consumers worry that information about them will become available to others without their permission. In fact, research indicates that privacy is one of the top concerns of Internet users and may impede the growth of e-business.<sup>32</sup> As the earlier discussion of Internet payments explained, concern about the privacy of credit card numbers has led to the use of secure payment systems. To add to those security systems, e-business sites require passwords as a form of authentication—that is, to determine that the person using the site is actually the one who is authorized to access the account. More recently, **electronic signatures** have become a way to enter into legal contracts such as home mortgages and insurance policies online. With an e-signature, an individual obtains a form of electronic identification and installs it in his or her Web browser. Signing the contract involves looking up and verifying the buyer's identity with this software.

Thanks to cookies and spyware, which are automatic data collection methods, online companies can track their customers' shopping and viewing habits. The way that companies use these technologies has the potential both to make visits to the Web site more convenient and to invade computer users' privacy. Amazon.com, for instance, has long employed sophisticated data collection systems to track customer habits. While Amazon sees such data gathering as the best way to keep customers happy and loyal, some believe that the company is getting too close to becoming a type of Big Brother—an all-knowing and all-seeing organization, complete with customer's credit card numbers. The "Hit & Miss" feature describes Amazon's latest technologies designed to better know and predict shopping habits—and the concerns these technologies raise.

Most consumers want assurances that any information they provide won't be sold to others without their permission. In response to these concerns, online merchants protect consumer information. For example, many Internet com-



Amazon.com makes use of its automatic data collection methods in order to provide personalized recommendation pages based on a user's past purchases and the items they have viewed.

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# HIT & MISS

## Amazon as Big Brother?

Amazon.com, among the biggest and most innovative of online retailers, has been collecting detailed information about its customers' buying habits and preferences for years. Most of that information is crunched by sophisticated software to provide customers with personalized recommendations based on their past searches, browses, and purchases. Amazon recently changed its privacy policies to allow it to share with its suppliers and partners the personal information it collects, and it has launched a new search engine called A9 that can store data on every item a customer has ever searched for.

Amazon, like many other e-tailers, believes its customer-tracking technology is its most important weapon against competition from its rivals—both traditional and Internet retailers. Its storehouse of information about shoppers allows Amazon to suggest new products customers might be interested in, better direct their searches on the site, and even stop them from making duplicate purchases if they're forgetful. All these services come under the heading of "relationship building," according to the company.

But some privacy advocates wish Amazon would ask permission to collect, and share, all the information it gathers. That would allow customers to opt out of these processes if they wished. It might also protect

Amazon from charges that it is veering close to the edge of the law, specifically a federal law that limits the gathering of information about children under age 13. Amazon recently received a patent on technology that allows it to track gift-giving habits, including the gift recipient's age. The company says it has not yet used the technology and will not violate any laws.

## Questions for Critical Thinking

1. Begun as a book-selling Web site, Amazon has branched into electronics, hardware, software, jewelry, tools, toys, cameras, office products, and more. What effect do you think this expansion of its product offerings has had on its need to protect its competitive position? Why?
2. Do you think Amazon is in danger of violating its customers' privacy? Why or why not?

**Sources:** Leslie Walker, "Ad Firms Follow Customers around the Web," *Washington Post*, accessed July 20, 2006, <http://www.washingtonpost.com>; Allison Linn, "Amazon.com Knows, Predicts Shopping Habits," Yahoo! News, accessed July 20, 2006, <http://news.yahoo.com>; Rob Tedeschi, "A Web Site for Gift Seekers," *New York Times*, accessed July 20, 2006, <http://www.nytimes.com>.

panies have signed on with Internet privacy organizations such as TRUSTe, shown in Figure 7.5. By displaying the TRUSTe logo on their Web sites, they indicate that they have promised to disclose how they collect personal data and what they do with the information. Prominently displaying a privacy policy is an effective way to build customers' trust.

A policy is only as good as the company publishing it, though. Consumers have no assurances about what happens if a company is sold or goes out of business. Now-defunct Toysmart.com promised customers that it would never share their personal data with a third party. But when the company landed in bankruptcy court, it considered selling its database, one of its most valuable assets. And Amazon.com has told customers openly that if it or part of its business is purchased at some point, its database would be one of the transferred assets.

Such privacy features may become a necessary feature of Web sites if consumer concerns continue to grow. They also may become legally necessary. Already in the United States, the *Children's Online Privacy Protection Act (COPPA)* requires that Web sites targeting children younger

TRUSTe Logo

USED WITH PERMISSION.  
TRUSTE.

reviewed by

**TRUSTe**  
site privacy statement

Figure

7.5



than age 13 obtain “verifiable parental consent” before collecting any data that could be used to identify or contact individual users, including names and e-mail addresses.

Security concerns are not limited to consumers. Employees are realizing that their employers can monitor their online behavior and e-mail messages at work. Some companies even specialize in helping employers use such information. Tacit Knowledge Systems builds a database from key terms in employees’ e-mail. The primary objective is to help a company identify which employees have knowledge that they can contribute to the company—for example, knowledge about a particular competitor or type of product. Of course, many employees might be uncomfortable with their employer tracking what they write about. So Tacit’s software allows employees to decide which aspects, if any, of their personal profile they want to make public.

Companies, too, are concerned about the privacy of their data, and with good reason. For instance, the personal data of almost 60,000 people affiliated with California State University, Chico, were recently stolen by computer hackers.<sup>33</sup> This incident followed closely a similar case of identity theft in which personal data for more than 145,000 people were exposed by a security breach at ChoicePoint, a firm that collects and stores consumer financial data.

To prevent such intrusions, companies install combinations of hardware and software called *firewalls* to keep unauthorized Net users from tapping into private corporate data. A **firewall** is an electronic barrier between a company’s internal network and the Internet that limits access into and out of the network. However, an impenetrable firewall is difficult to find. A determined and skilled hacker can often gain access. So it is important for firms to test their Web sites and networks for vulnerabilities and back up critical data in case an intruder breaches security measures.

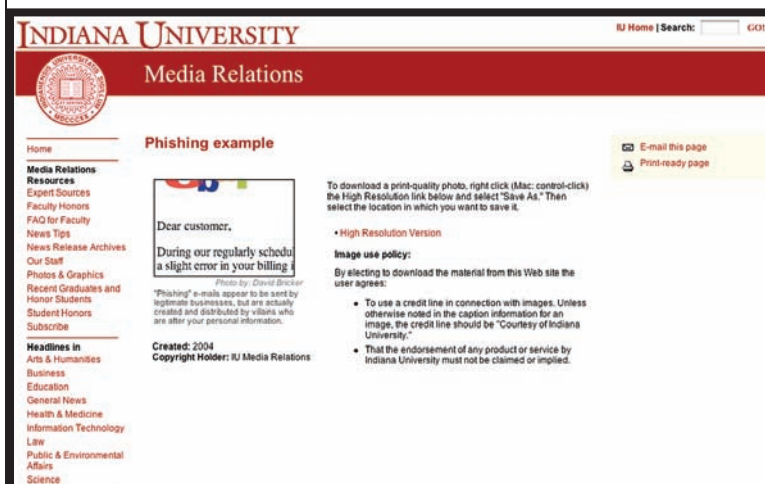
## Internet Fraud

**phishing** high-tech scam that uses authentic looking e-mail or pop-up ads to get unsuspecting victims to reveal personal information.

Fraud is another barrier to e-business. The Internet Crime Complaint Center (<http://www.ic3.gov>), run by the FBI, compiles complaints concerning Internet fraud. According to recent statistics, IC3 logged more than 207,000 complaints during a recent year, an increase of 67 percent from the prior year. Online auctions were the number one source of fraud complaints. Around 70 percent of the total Internet-related fraud complaints referred to law enforcement agencies dealt with online auctions. Auction fraud ranges from merchandise that does not

match the description the bidder was given, such as fraudulent paintings, to products that were purchased but never delivered. Nondelivery of merchandise, credit and debit card fraud, investment fraud, and identify theft also made up major categories of Internet-related complaints referred to law enforcement agencies, according to the center.<sup>34</sup>

One growing type of Internet fraud, called **phishing**, is a high-tech scam that uses e-mail or pop-up messages claiming to be from familiar businesses or organizations, such as banks, Internet service providers, or even government agencies. The message usually asks the reader to “update” or “validate” account information, often stating that some dire consequence will occur if the reader doesn’t respond. The purpose of phishing is to get unsuspecting victims to disclose personal informa-



Here is an example of a PHISHING, which has been personalized enough to fool many unsuspecting e-mail users, but still remains generic enough to be spotted by someone who is familiar with this type of internet fraud.

tion such as credit card numbers, bank account numbers, Social Security numbers, or computer passwords. Phishing is also a common method of distributing viruses and malicious spyware programs to computer users. As the Federal Trade Commission advises, if you receive an e-mail or pop-up message that asks for personal information, don't reply or click on the link in the message no matter how authentic the message or pop-up appears. Legitimate companies don't ask for personal or financial information via e-mail or pop-ups.<sup>35</sup> If in doubt, rather than following the link in the suspect e-mail, users should contact the organization directly, either by separately typing the Web address in a browser or by telephone.

Payment fraud is another growing problem for many e-tailers. Orders are placed online, paid for using a credit card, and the merchandise is shipped. Then, the cardholder asks the credit card issuer for chargeback to the e-tailer. The cardholder claims that he or she never made the purchase or never received the merchandise. Some claims are legitimate, but many involve fraud. Because an online purchase doesn't require a customer's signature or credit card imprint, the merchant, not the credit card issuer, bears the liability in most fraud cases. E-tailers are trying to reduce payment fraud by employing software that spots fraud before it happens, using payment verification services offered by credit card companies such as Visa, and even hiring companies who specialize in fighting credit card chargebacks.

## Poor Web Site Design and Service

For e-business firms to attract customers—and keep them—companies must meet buyers' expectations. For instance, customers want to find items without frustration and get questions answered. However, Web sites are not always well designed and easy to use. In fact, around two-thirds of Web shopping carts are abandoned before a customer places an order. In other words, among the people who start selecting items to buy online, most of them change their minds before making a purchase.

System overload is another problem for e-tailers, especially during holiday and other heavy shopping periods. For instance, during one recent holiday shopping period, some customers reported breakdowns during Amazon's one-click checkout process. Others reported errors in the addresses to which items were sent. According to Gomez—a research firm that conducts automated shopping searches across popular online merchants—for about 13 percent of its attempted purchases on Amazon.com the week after Thanksgiving, technical glitches stopped the transaction. During the same period, other popular e-tailing sites, such as L.L. Bean, operated so slowly at times that they were unusable.<sup>36</sup>

Another challenge to successful e-business is merchandise delivery and returns. Retailers sometimes have trouble making deliveries to on-the-go consumers. And consumers don't want to wait for packages to be delivered. Also, if customers aren't satisfied with products, they have to arrange for pickup or send packages back themselves.

Retailers have begun to address these issues. Most Web sites allow customers to track orders from placement to delivery. E-tailers have worked hard on a process known as *reverse logistics*. Detailed directions on how to return merchandise, including preprinted shipping labels, are included in orders. A few, such as Nordstrom's and Chef's Catalog, even pay the shipping cost for returns.

Many of the so-called pure-play dot-com retailers—those without traditional stores or catalogs—didn't survive for very long. They had no history of selling and satisfying customers. Because of expertise in all parts of retailing, companies that combine their brick-and-mortar operations with e-business—such as Old Navy and REI—have generally been more successful than those with little or no retail experience.

The same lesson also applies to other service industries. To be successful at e-business, a firm must establish and maintain competitive standards for customer service. When it began

enabling customers to check flight schedules and purchase tickets online, Southwest Airlines worked hard to make sure its Web site had the same high service standards the airline is known for. As noted earlier, Southwest.com has proved both very popular and profitable.

## Channel Conflicts

Companies spend time and money to nurture relationships with their partners. But when a manufacturer uses the Internet to sell directly to customers, it can compete with its usual partners. Retailers often have their own Web sites. So they don't want their suppliers competing with them for sales. As e-business broadens its reach, producers must decide whether these relationships are more important than the potential of selling directly on the Web. Disputes between producers, wholesalers, and retailers are called **channel conflicts**.

Mattel, well known for producing toys such as Barbie, Cabbage Patch dolls, and Matchbox cars, sells most of its products in toy stores and toy departments of other retailers, such as Target and Wal-Mart. The company wants an Internet presence, but it would cut the retailers out of this important source of revenue if it sold toys online to consumers. Mattel cannot afford to lose the goodwill and purchasing power of giant retailers such as Toys "R" Us and Wal-Mart. So the company sells only specialty products online, including pricey American Girl dolls.

Pricing is another potential area of conflict. In their eagerness to establish themselves as Internet leaders, some companies sell merchandise at discount prices. American Leather sells custom leather furniture through upscale retailers, and each dealer serving a geographic area has an exclusive contract for the collections it offers in its area. But at least one dealer began offering American Leather furniture at a discount to customers outside its market area. Other dealers complained, so American Leather established a policy that dealers were not to advertise the company's products on the Internet. Instead, American Leather offered links to local dealers on its own Web site and made plans to allow buyers to order online, with the sale to be directed to the dealer serving the consumer's geographic area.

### assessment check

1. List the major challenges to e-business.
2. Most cases of Internet-related fraud come from what category of online activity?
3. What is a channel conflict?

## USING THE WEB'S COMMUNICATION FUNCTION

The Internet has four main functions: e-business, entertainment, information, and communication. Even though e-business is a significant activity and is growing rapidly, communication still remains the most popular Web function. For instance, the volume of e-mail today exceeds regular mail (sometimes called *snail mail*) by an estimated ten to one. It's not surprising, then, that contemporary businesspeople use the communication function of the Internet to advance their organizational objectives.

Companies have long used e-mail to communicate with customers, suppliers, and other partners. Most companies have links on their Web sites that allow outside parties to send e-mails directly to the most appropriate person or division within the company. For instance, if you have a question concerning an online order from Eddie Bauer, you can click on a link on the retailer's Web site and send an e-mail to a customer service representative. Many online retailers have gone even further, offering their customers live help. Using a form of instant messaging, live help provides real-time communication between customers and customer service representatives. Figure 7.6 illustrates how one online retailer uses live help to better meet the needs of its customers.

Firms also use e-mail to inform customers about such company events as new products and special promotions. While using e-mail in this manner can be quite cost effective, companies have to be careful. A growing number of customers consider such e-mails **spam**—the popular name for junk e-mail. In fact, in a recent survey, one of the leading reasons given by consumers for reducing online shopping was “receiving spam after online purchase.”<sup>37</sup> Many Internet users use *spam filters* to automatically eliminate junk e-mail from their in boxes.

## Online Communities

In addition to e-mail, many firms use Internet forums, newsgroups, electronic bulletin boards, and Web communities that appeal to people who share common interests. All of these sites take advantage of the communication power of the Internet which, as noted earlier in the chapter, is still a main reason

people go online. Members congregate online and exchange views and information on topics of interest. These communities may be organized for commercial or noncommercial purposes.

Online communities can take several forms, but all offer specific advantages to users and organizations alike. Online forums, for instance, are Internet discussion groups. Users log in and participate by sending comments and questions or receiving information from other forum members. Forums may operate as electronic bulletin boards, as libraries for storing information, or even as a type of classified ad directory. Firms often use forums to ask questions and exchange information with customers. Adobe, which designs such software as Acrobat and Photoshop, operates a “user-to-user” forum on its Web site as a support community for its customers. Customers who share common personal and professional interests can congregate, exchange industry news and practical product tips, share ideas, and—equally important—create publicity for Adobe products.

Newsgroups are noncommercial Internet versions of forums. Here people post and read messages on specific topics. Tens of thousands of newsgroups exist on the Internet, and the number continues to rise. **Electronic bulletin boards** center on a specific topic or area of interest. For instance, mountain bikers might check online bulletin boards to find out about the latest equipment, new places to ride, or current weather conditions in popular biking locations. While newsgroups resemble two-way conversations, electronic bulletin boards are more like announcements.

Online communities are not limited to consumers. They also facilitate business-to-business marketing. Using the Internet to build communities helps companies find other organizations to benchmark against, including suppliers, distributors, and competitors that may be interested in forming an alliance. Business owners who want to expand internationally frequently seek advice from other members of their online community.

## Blogs

Another type of online communication method that is gaining popularity is the **blog**. Short for *Web log*, a blog is a Web page that serves as a publicly accessible personal journal for an individual or organization. Typically updated daily or even more frequently, these hybrid

## Online Shopping Site with “Live Help” Function

USED WITH PERMISSION, CRUTCHFIELD CORPORATION.

**spam** popular name for junk e-mail.

**blog** online journal written by a blogger.

## “They Said It”

“When I took office, only high-energy physicists had ever heard of what is called the World Wide Web. . . . Now even my cat has its own page.”

—Bill Clinton (b. 1946)  
42nd president of the United States

diary-guide sites are read on a regular basis by almost 30 percent of American Internet users. Using *RSS (Really Simple Syndication)* software, readers are continually kept up-to-date on new material posted on their favorite blogs whenever they are online. Unlike e-mail and instant messaging, blogs let readers post comments and ask questions aimed at the author (called a  *blogger*). Some blogs today also incorporate **wikis**. A wiki is a Web page that anyone can edit, so a reader can, in addition to asking questions or posting comments, actually make changes to the Web page. Video blogs—called **podcasts**—are another emerging technology. Bloggers can prepare a video recording on a PC and then post it to a Web site, from which it can be downloaded to any MP3 player. According to the Web site iPodder.org, more than 3,000 podcasts operate worldwide.<sup>38</sup>

With the growing interest in blogs, many companies incorporate blogs in their e-business strategies. GreenCine—a small online DVD rental company—partially credits its blog for a sharp increase in revenues. Films critiqued by the blog’s two writers are often snapped up immediately by renters.<sup>39</sup> Moreover, many believe that corporate blogs, if done properly, can also help build brand trust. An example is iLounge.com, a blog hosted by Apple, which lets users discuss their ideas for the next-generation iPod. David Eastman, managing director of Agency.com, believes that iLounge.com benefits Apple in two ways. First, it helps build the iPod brand; second, it gives Apple ideas to improve the design of Apple’s most successful product. On the other hand, Eastman says that companies that try to exploit their audiences using blogs will end up hurting their brands. An example was the blog hosted by Cadbury Schweppes for its Raging Cow milk drink. That site didn’t come across as particularly genuine because all it featured were product-endorsing comments from children.<sup>40</sup> In fact, many Internet users view most corporate blogs today as being more public-relations vehicles than anything else, and experts advise companies to use blogs with care. Rebecca Blood, author of *The Weblog Handbook: Practical Advice*, advises companies that “repositioning marketing materials on a blog is a waste of time. . . . Those materials already exist. The blog that is powerful is when it is real.”<sup>41</sup>

Some people who write blogs muse about their jobs, including co-workers, bosses, and customers. Sometimes employee blogs make employers very nervous. One blogger who was working for a New York public-relations company described late nights in her cubicle “debating

semantics with corporate idiots [clients].” In another posting, the blogger wrote, “I wonder how much longer I can deal with the mediocrity and just plain idiocy of corporate America.” Even though the blogger didn’t name any names, anyone who knew the blogger personally, or knew where she worked, could have identified the targets of her stinging criticism. The firm’s managers discovered the blog and forced the blogger to remove it from the Web before any clients found out about the journal. But an employee blog can also benefit a company. Kevin Dugan works as a public-relations consultant and is a blogger. At the top of Dugan’s blog is a disclaimer stating that the opinions expressed are his and are not supported by his firm. Dugan and his employer believe that his blog is more than just a soapbox; it indirectly markets the

The screenshot shows the homepage of 'the Valve', a literary organ. The header includes the logo and the tagline 'IMPROVING CIRCULATION VENTING STEAM'. Below the header, there are navigation links like 'Welcome to The Valve', 'Login', and 'Register'. The main content area features a blog post titled 'Primum Mobile' by Adam Roberts, dated August 25. The post discusses the 'Stellatum' and 'Primum Mobile' concepts. To the left of the main post, there are sections for 'Valve Links', 'Current Authors', and 'Past Authors'. The footer of the page includes a 'Past Valve Book Events' section.

USED WITH PERMISSION, ASSOCIATION OF LITERARY SCHOLARS AND CRITICS AND THE VALVE AND ITS AUTHORS.

Blogs, web logs or web-based diaries, are a popular feature on the Internet today.

## SHOULD COMPANIES MONITOR EMPLOYEE BLOGS?

*The explosion of employee blogs (personal Web logs) has unexpectedly brought employers into the spotlight. Mark Jen described his first week at Google, including employee orientation, the cafeteria, and the company's finances. Heather Armstrong wrote colorful anonymous commentary about her boss and co-workers at a California software company. Peter Whitney wrote about his life, his friends, and his work at Wells Fargo. Ellen Simonetti posted revealing photos of herself in her Delta Airlines uniform.*

All of these people were fired when their employers discovered their blogs. Whether they intended to harm their employers, thought anonymity would protect them, or complied with a boss's request to remove relevant posts, these and many other bloggers have learned the hard way that few companies are comfortable being the topic of employee comments on the Internet.

Is it ethical for employers to take disciplinary action based on the postings in employees' blogs?

### PRO

1. Negative comments on the Internet can circulate worldwide and be preserved in many media without offering the injured party an opportunity to respond.
2. Workers have an ethical responsibility not to harm their employer by criticizing the organization publicly or revealing its trade

secrets and not to use the Internet to launch demoralizing personal attacks against co-workers. Companies should be able to counteract such postings.

### CON

1. Employees can talk freely about their jobs and co-workers in public places such as parties, commuter trains, and bars; blogs are no different as a form of free speech.
2. Blogs allow employees to reach out to the public, including customers, clients, and recruits, and firms benefit from the humanizing effect of such frank and personal communication. Positive postings can even boost the company's image.

### SUMMARY

A recent study of 526 organizations showed that one in four had

guidelines on blogging, and more firms are sure to follow suit. IBM tells employees to state that they don't speak for the firm; Microsoft actively encourages blogs. "It's great," says a Microsoft group manager. "It's instant feedback. We give a lot of support to blogging and . . . how to be a good blogger." Employee blogging is still a gray area, however, and employment consultants advise that if you must blog, ask first.

**Sources:** Matt Villano, "Write All about It (at Your Own Risk)", *New York Times*, accessed July 20, 2006, <http://www.nytimes.com>; Stephanie Armour, "Warning: Your Clever Little Blog Could Get You Fired," *USA Today*, accessed July 20, 2006, <http://www.usatoday.com>; "Blog-Linked Firings Prompt Calls for Better Policies," *CNN.com*, accessed July 20, 2006, <http://cnn.technology.com>.

solving  
an

**ETHICAL**

controversy



firm's work and philosophies.<sup>42</sup> The ethics of employee blogs—and what employers should do about them—is debated in more detail in the "Solving an Ethical Controversy" feature.

## Web-Based Promotions

Rather than relying completely on their Web sites to attract buyers, companies frequently expand their reach in the marketplace by placing ads on sites their prospective customers are likely to visit. **Banner ads**, the most common form of Internet advertising, are typically small messages placed in high-visibility areas of frequently visited Web sites. **Pop-up ads** are separate windows that contain an advertising message. The effectiveness of pop-up ads, however, is questionable. For one thing, scam artists use pop-ups. For another, many Internet users simply hate pop-up ads—even those from legitimate companies. Consequently, most Internet service providers now offer software that blocks pop-up ads. Google and Microsoft also offer free pop-up ad-blocking software.

**search marketing** paying search engines, such as Google, a fee to make sure that the company's listing appears toward the top of the search results.

Another type of online advertising gaining popularity is so-called **search marketing**. Firms make sure that they are listed with the major search engines, such as Google. But that is not enough. A single search for an item—say, plastic fasteners—will yield thousands of sites, many of which might not even be relevant. To overcome this problem, companies pay online search engines to have their Web sites or ads pop up after a computer user enters certain words into the search engine, or to make sure that their firm's listing appears toward the top of the search results. Google and other search engines now include “sponsored links” on the right side of the search results page. When a user clicks on one of the sponsored links, he or she is taken to that site and the company pays the search engine a small fee. Many experts consider search marketing the most cost-effective form of Web-based advertising.

Companies also use online coupons to promote their products via the Web. For instance, customers can visit a company's Web site—such as Procter & Gamble's (<http://www.pg.com>)—to learn about a new product and then print a discount coupon redeemable at participating retailers. Consumers can also search for virtual coupons using such criteria as business name, location, and keyword, and then download and print them. ValPak Marketing Systems, a longtime leader in the paper coupon industry, now offers the online equivalent at its Web site (<http://www.valpak.com>).

### assessment check

1. What are online communities? Explain how online communities can help companies market their products and improve customer service.
2. What is a blog? A wiki? A podcast?
3. Explain the difference between a banner ad, a pop-up ad, and search marketing.

## MANAGING A WEB SITE

Business Web sites serve many purposes. They broaden customer bases, provide immediate accessibility to current catalogs, accept and process orders, and offer personalized customer service. As technology becomes increasingly easy to use, anyone with a computer and Internet access can easily design and then publish a site on the Web. How people or organizations use their sites to achieve their goals determines whether their sites will succeed. Figure 7.7 lists some key questions to consider in developing a Web site.

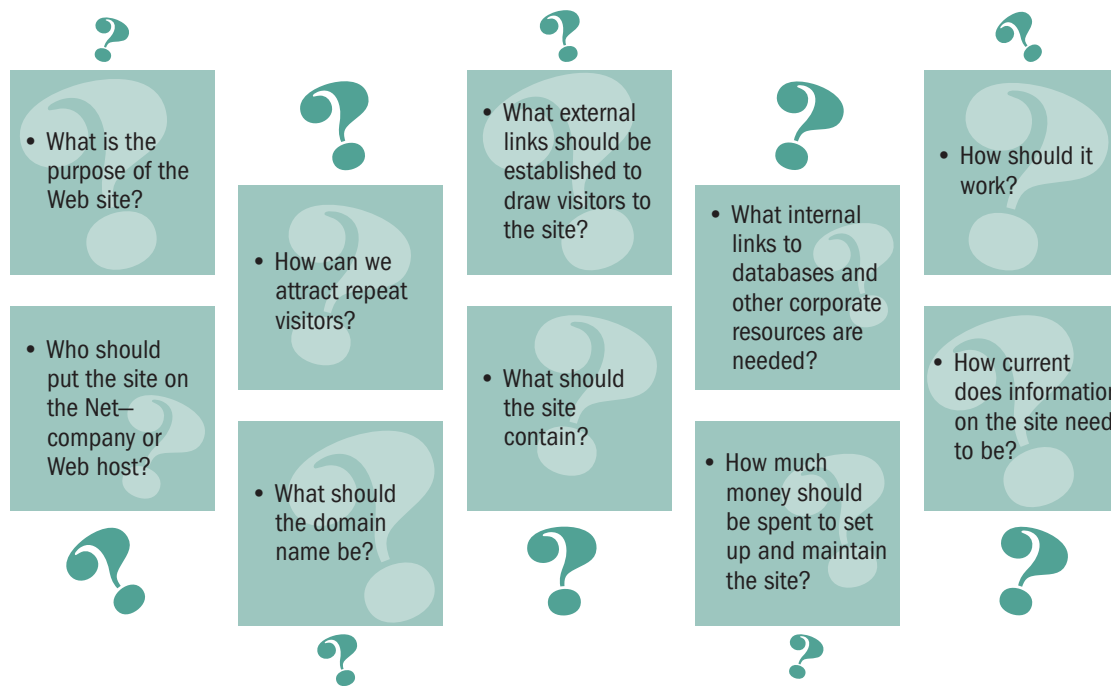
### Developing Successful Web Sites

Most Web experts agree that it is easier to build a bad Web site than a good one. When judging Web sites, success means different things to different businesses. One firm might feel satisfied by maintaining a popular site that conveys company information or reinforces name recognition—just as a billboard or magazine ad does—without requiring any immediate sales activity. Web sites like those of the *Los Angeles Times* and *USA Today* draw many visitors who want the latest news, and Yahoo!, Google, and ESPN are successful because they attract heavy traffic. Popular Web sites add to their success by selling advertising space to other businesses.

Internet merchants need to attract customers who transact business on the spot. Some companies host Web sites that offer some value-added service to create goodwill for potential customers. Organizations such as the Mayo Clinic and accounting giant Ernst & Young provide useful information or links to related sites that people frequently visit. But to get people to stay at the site and complete a transaction, the site must also be secure, reliable, and easy to use.

**Planning and Preparation** What is the company's goal for its Web site? Answering this question is the first and most important step in the Web site development process. For discount

## Questions to Consider in Developing a Web Site



brokerage firm Charles Schwab, the primary objective is to sign up new customers. So the Web site designers put a link called “Open an Account” prominently in the upper right-hand corner of the home page. In addition, to reinforce Schwab’s image as a respectable investment firm, the site uses a businesslike color scheme.

Objectives for the Web site also determine the scope of the project. If the company’s goal is to sell merchandise online, the site must incorporate a way for customers to place orders and ask questions about products, as well as links to the company’s databases to track inventory and deliveries. As in this example, the plan includes not only the appearance of the Web site but also the company’s behind-the-scenes resources for making the Web site deliver on its promises.

Other key decisions include whether to create and maintain a site in-house or to contract with outside experts. Some companies prefer to retain control over content and design by producing their own sites. However, because acquiring the expertise to develop Web sites can be very time-consuming, hiring specialists may be more cost-effective. Often companies such as Yahoo!, Google, or IBM are enlisted to provide both software and consulting services to clients for their Web sites.

Naming the Web site is another important early step in the planning process. A domain name should reflect the

USED WITH PERMISSION, YAHOO! INC.

Yahoo offers many web-related services besides just Internet searches. A successful Web site, such as Yahoo!, requires planning not only for the interest of the site, but also on the business end.



company and its products and be easy to remember. For U.S. companies, the last part of the domain name identifies an affiliation category. Examples include .com for businesses, .org for organizations, .gov for government sites, and .edu for educational institutions. For companies outside the United States, the last part of the domain name identifies the country of origin, such as .ca for Canada and .jp for Japan. In addition to the original .com, .gov, and .org addresses, several new suffixes have been added to the Internet's naming system, including .aero, .biz, .coop, .info, .museum, .name, and .pro. These suffixes were created to alleviate overcrowding in the .com domain and represent the first major addition of Internet addresses in more than a decade. With millions of domain names already registered, the search for a unique, memorable, and easily spelled name can be difficult.

**Content and Connections** Content is one of the most important factors in determining whether visitors return to a site. People obviously are more inclined to visit a site that provides material that interests them. Many e-business Web sites try to distinguish themselves by offering information or online communities along with a chance to buy. For example, Williams-Sonoma's Web site lures traffic to the site with weekly menu planners; printer-ready recipes; and features that convert menus between metric and U.S. measurement systems, adjust measurements for different numbers of servings, and create shopping lists for menus. Many sites offer links to other sites that may interest visitors.

Standards for good content vary for every site, but available resources should be relevant to viewers, easy to access and understand, updated regularly, and written or displayed in a compelling, entertaining way. When the World Wide Web was a novelty, a page with a picture and a couple of paragraphs of text seemed entertaining. But such "brochureware" falls far short of meeting today's standards for interactivity, including the ability to accept customer data and orders, keep up-to-the-minute inventory records, and respond quickly to customer questions and complaints. Also, today's Internet users are less patient about figuring out how to make a site do what it promises. They won't wait ten minutes for a video clip to download or click through five different pages to complete a purchase.

After making content decisions and designing the site, the next step is connecting to the Internet by placing the required computer files on a server. Companies can have their own dedicated Web servers or contract to place their Web sites on servers at ISPs or other host companies. Most small businesses lack the necessary expertise to set up and run their own servers; they are better off outsourcing to meet their hosting and maintenance needs. They also need to draw business to their site. This usually requires a listing with the major search engines, such as Google and Yahoo!.

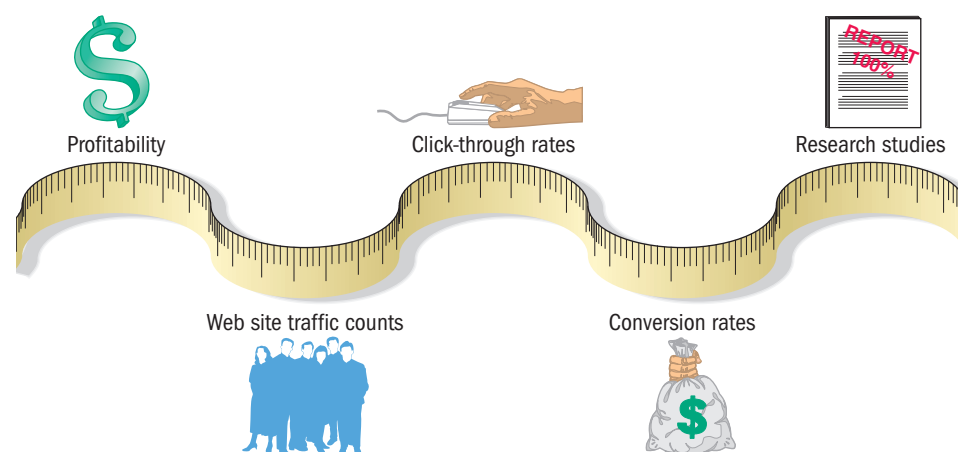
## Costs and Maintenance

As with any technological investment, Web site costs are an important consideration. The highly variable cost of a Web site includes not only development expenses but also the cost of placing the site on a Web server, maintaining and updating it, and promoting it. A reasonably tech-savvy employee with off-the-shelf software can create a simple piece of brochureware for a few hundred dollars. A Web site that can handle e-business will cost at least \$10,000. Creating it requires understanding of how to link the Web site to the company's other information systems.

Although developing a commercial Web site with interactive features can cost tens of thousands of dollars, putting it online can cost as little as \$11.95 a month for a spot on the server of a **Web host** server such as Yahoo!

It's also important for a Web site to stay current. Visitors don't return to a site if they know the information never changes or that claims about inventory or product selection are

## Measures of Web Site Effectiveness



not current. Consequently, updating design and content is another major expense. In addition, site maintenance should include running occasional searches to test that links to the company's Web site are still active.

## Measuring Web Site Effectiveness

How does a company gauge the return from investing in a Web site? Measuring the effectiveness of a Web site is a tricky process, and the appropriate process often depends on the purpose of the Web site. Figure 7.8 lists some measures of effectiveness. Profitability is relatively easy to measure in companies that generate revenues directly from online product orders, advertising, or subscription sales. As noted earlier, Southwest Airlines generates more than \$3 billion annually in revenue from Southwest.com. However, what's not clear is how many of those tickets Southwest would have sold through other channels if Southwest.com did not exist. Moreover, and as noted earlier, evidence shows that so-called **Web-to-store** shoppers—a group that favors the Internet primarily as a research tool and time-saving device for retail purchases made in stores—are a significant consumer niche.<sup>43</sup>

For many companies, revenue is not a major Web site objective. Most company Web sites are classified as corporate Web sites, not shopping sites. For such companies, online success is measured by increased brand awareness and brand loyalty, which presumably translates into greater profitability through offline transactions.

Some standards guide efforts to collect and analyze traditional consumer purchase data, such as how many Ohio residents bought new Honda Accords the previous year, watched ABC's series *Lost*, or tried McDonald's new chicken sandwiches. Still, the Internet presents several challenges for businesses. Although information sources are getting better, it is difficult to be sure how many people use the Internet, how often, and what they actually do online. Some Web pages display counters that measure the number of visits. However, the counters can't tell whether someone has spent time on the page or skipped over it on the way to another site, or whether that person is a first-time or repeat viewer.

Advertisers typically measure the success of their ads in terms of **click-through rates**, meaning the percentage of people presented with a banner ad who click on it, thereby linking to a Web site or a pop-up page of information related to the ad. Recently, the average click-through

**click-through rate** percentage of people presented with a Web banner ad who click on it.

rate has been declining to about 0.5 percent of those viewing an ad. This rate is much lower than the 1.0 to 1.5 percent response rate for direct-mail advertisements. Low click-through rates have made Web advertising less attractive than it was when it was novel and people were clicking on just about anything online. Selling advertising has therefore become a less reliable source of e-business revenues.

**conversion rate** percentage of visitors to a Web site who make a purchase.

As e-business gains popularity, new models for measuring its effectiveness are being developed. A basic measurement is the **conversion rate**, the percentage of Web site visitors who make purchases. A conversion rate of 3 to 5 percent is average by today's standards. A company can use its advertising cost, site traffic, and conversion rate data to find out the cost to win each customer. E-business companies try to boost their conversion rates by ensuring that their sites download quickly, are easy to use, and deliver on their promises. Many are turning to one of several firms that help companies improve the performance of their Web sites. For instance, CompUSA—a computer and electronics retailer—turned to Web consultants Coremetrics to help it improve the overall performance of its Web site. Using Coremetrics Online Analytics, CompUSA identified the specific online shopping tools that helped create loyal, high-volume customers. By improving these tools and making them more accessible on its Web site, CompUSA increased revenues by more than \$2 million.<sup>44</sup>

Besides measuring click-through and conversion rates, companies can study samples of consumers. Research firms such as Media Metrix and RelevantKnowledge recruit panels of computer users to track Internet site performance and evaluate Web activity; this service works in much the same way that television rating firm ACNielsen monitors television audiences. WebTrends provides information on Web site visitors, including where they come from; what they see; and the number of “hits,” or visits to the site, during different times of the day. Other surveys of Web users investigate their brand awareness and their attitudes toward Web sites and brands.

### assessment check

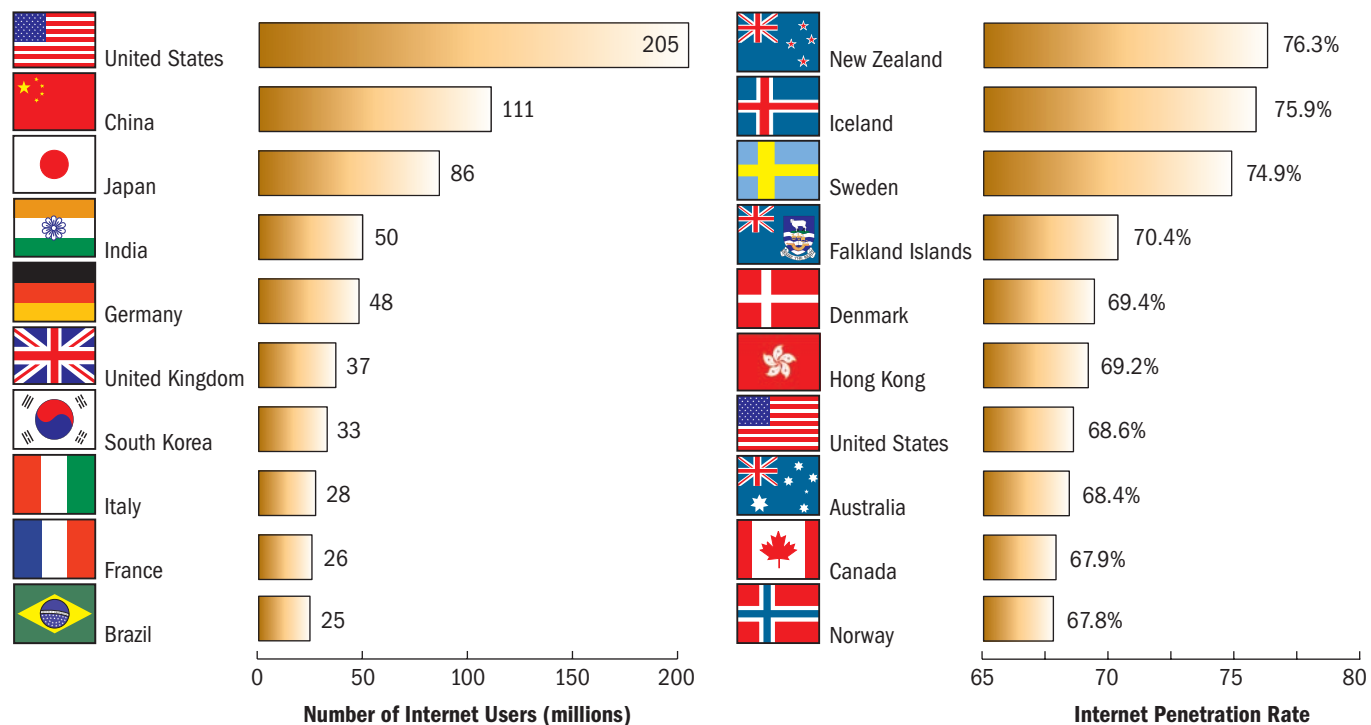
1. What are the first three questions a company should ask itself when planning a Web site?
2. How does the type of Web site affect measures of effectiveness?
3. Explain the difference between click-through and conversion rates.

## THE GLOBAL ENVIRONMENT OF E-BUSINESS

For many companies, future growth is directly linked to a global strategy that incorporates e-business. While the United States still leads the world in technology, communications infrastructure, and ownership of PCs and other consumer technology products, other countries are rapidly catching up. This is also the case when it comes to Internet use. Figure 7.9 shows the top ten nations in terms of number of Internet users and Internet penetration. As the figures show, while the United States leads the world in the number of Internet users—more than 200 million—it ranks only fifth in Internet penetration, at less than 68 percent. Sweden leads the world in Internet penetration, with an estimated 74 percent. Moreover, Internet usage in the United States is growing more slowly than it is in other countries. For instance, in a recent year the average amount of time spent online by U.S. Internet users barely changed. By contrast, average time spent online was up 25 percent in Hong Kong, 19 percent in France, and 12 percent in Japan.<sup>45</sup>

When it comes to e-business, the United States still leads, but the rest of the world is making major strides forward. Forrester Research, an e-business research firm, estimates that online shopping currently accounts for around 5 percent of total retail sales in the United Kingdom, increasing to over 11 percent by 2008. While broadband penetration in Europe and Asia is lower than it is in the United States, the rate of growth in broadband in other countries and regions appears to be accelerating. As we've discussed earlier, people with broadband connections typically spend more online than those with narrowband connections. Moreover, U.S. firms cannot expect that their earlier experience with the Internet and e-business gives

## World Internet Statistics



Source: Internet World Stats, accessed July 20, 2006, <http://www.internetworldstats.com>.

them a natural and permanent edge in foreign markets. According to recent statistics, Web sites run by U.S. firms still make up eight of the ten most popular e-business Web sites in Europe, with eBay and Amazon leading the way. However, Fnac.com—the online subsidiary of giant French retailing group PPR—is now more popular than Amazon in both France and Spain, and it is growing rapidly in other European countries.<sup>46</sup>

With so many users and so much buying power, the Internet creates an enormous pool of potential customers. Companies can market their goods and services internationally and locate distribution sources and trading partners abroad. Customers can search for products at their convenience, browsing through online catalogs that always show current information. Many companies divide their Web sites internationally. For instance, when you visit software company Symantec's Web site, you are first asked your country of origin; after entering the information, you are automatically taken to that country-specific portion of the Web site. A list of the products available for your country are listed, along with local distributors and service centers. And the information on the site is presented in the local language.

One practical implication of this global marketplace is the different languages that buyers and sellers speak. Reflecting the Internet's origins, more than half of users now communicate in English. However, the remainder use other languages, led by Japanese, German, Chinese, Spanish, and French. So far, roughly three of every four Web pages are still in English, slowing the adoption of the Internet in non-English-speaking countries. Other international differences are important, too. Auction site eBay initially goofed in the United Kingdom by launching an auction site with prices stated in U.S. dollars. After realizing that its British audience was offended and confused, the company quickly switched to British pounds.

**assessment check**

1. How do language differences affect global e-business?
2. How does e-business heighten global competition?

E-business can heighten competition. In the virtual global marketplace, many manufacturers use the Internet to search online catalogs for the lowest-priced parts. No longer can local suppliers assume that they have locked up the business of neighboring firms. Furthermore, the Internet is a valuable way to expand a company's reach, especially for small businesses that would otherwise have difficulty finding customers overseas.

## WHAT'S AHEAD

The Internet is revolutionizing the way we communicate, obtain information, seek entertainment, and conduct business. It has created tremendous opportunities for B2B and B2C e-business. So far, B2B transactions are leading the way online. B2C e-business is growing and attracting new buyers every year. Companies are just beginning to harness the communication power of the Web to help achieve higher levels of customer satisfaction and loyalty. In spite of the challenges and roadblocks, the future of e-business looks bright.

In upcoming chapters, we look at other trends that are reshaping the business world of the 21st century. For example, in the next part we explore the critical issues of how companies organize, lead, and manage their work processes; manage and motivate their employees; empower their employees through teamwork and enhanced communication; handle labor and workplace disputes; and create and produce world-class goods and services.



### Summary of Learning Goals

#### 1 Define e-business and discuss how it can help achieve business success.

E-business involves targeting customers by collecting and analyzing business information, conducting customer transactions, and maintaining online relationships with customers, suppliers, and other interested parties by means of the Internet. It consists of e-tailing, business-to-business transactions, electronic data interchanges, business-to-business exchange of data, and the use of Web-enabled communication tools such as e-mail. E-business increases a company's global reach, increases personalization, is interactive, offers right-time and integrated marketing, and can reduce costs.

#### Assessment Check Answers

##### 1.1 Define e-business.

E-business refers to conducting business via the Internet.

##### 1.2 List some benefits of e-business.

Benefits of e-business include global reach, personalization, interactivity, right-time and integrated marketing, and cost savings for both buyers and sellers.

#### 2 Distinguish between a corporate Web site and a marketing Web site.

Virtually all businesses have Web sites. Generally, these sites can be classified as either corporate Web sites or marketing Web sites. Corporate Web sites are

designed to increase the firm's visibility, promote their offerings, and provide information to interested parties. Marketing Web sites are also designed to communicate information and build customer relationships, but the main purpose of marketing Web sites is to increase purchases by site visitors.

### Assessment Check Answers

#### 2.1 Briefly identify the differences between a corporate Web site and a marketing Web site.

A corporate Web site is designed to increase a firm's visibility, promote its offerings, and provide information for interested parties. A marketing Web site generally includes the same information found on a corporate Web site but is also designed to increase sales to site visitors.

#### 2.2 Visit the Specialized Web site (<http://www.specialized.com>). Is this site a corporate Web site or a marketing Web site?

Specialized.com is a marketing Web site. It includes an online store where visitors can purchase Specialized products.

#### 3 List the major forms of business-to-business (B2B) e-business.

Electronic data interchange was an early use of technology to conduct business transactions. E-business is the process of selling goods and services through Internet-based exchanges of data. It includes product information; ordering, invoicing, and payment processes; and customer service. In a B2B context, e-business uses Internet technology to conduct transactions between two organizations via extranets, private exchanges, electronic exchanges, and e-procurement.

### Assessment Check Answers

#### 3.1 What is B2B e-business? How large is it relative to B2C e-business?

B2B e-business is the use of the Internet for business transactions between organizations. By some estimates, around 80 percent of all e-business activity consists of B2B e-business.

#### 3.2 What is an EDI? An extranet? A private exchange?

An EDI is a computer-to-computer exchange of invoices, purchase orders, price quotations, and other sales information between buyers and sellers. An extra-

net is a secure network accessible through a firm's Web site by authorized users. A private network is a secure Web site at which a company and its suppliers share all types of data from product design to the delivery of orders.

#### 3.3 Briefly explain how e-procurement works.

E-procurement consists of Web-based systems that enable all types of organizations to improve the efficiency of their procurement processes.

#### 4 Explain business-to-consumer (B2C) e-business and identify the products most often sold online.

After a rocky start, business-to-consumer (B2C) e-business is maturing. B2C uses the Internet to connect companies directly with consumers. E-tailing and electronic storefronts are the major forms of online sales to consumers. Online shoppers are young, highly educated, affluent, and urban. However, in the coming years, online consumers will begin to look more like offline shoppers, and the kinds of products sold online will change as well. Benefits of B2C e-business include lower prices, increased convenience, and personalization. Payment methods include electronic cash, electronic wallets, and online transfers of cash.

### Assessment Check Answers

#### 4.1 Outline the differences between shopping Web sites and informational sites. Visit the Web site of Cross pens (<http://www.cross.com>). Is this site a shopping or informational B2C Web site?

An informational site provides product information, technical support, and links to local retailers. A shopping Web site allows visitors to buy a firm's products. The Cross Web site is a shopping site.

#### 4.2 Discuss the characteristics of the typical online buyer, how those characteristics are changing, and the potential impact on the types of products sold online.

While the typical online buyer is still relatively urban, young, and affluent, growing evidence shows that online shoppers are beginning to look more like offline shoppers. As these trends continue, the types of products sold online will likely change. For instance, as online shoppers get older, online sales of pharmaceuticals will likely increase. As the number of

female online shoppers has increased, so too have online sales of shoes, clothing, and kitchen products.

#### **4.3 List some ways online merchants try to ensure secure payment systems.**

Online shopping sites use encryption—the process of encoding data for security purposes. Major firms involved in all aspects of e-business use Secure Sockets Layer (SSL) technology, an industry-wide standard for secure Internet payment transactions. Electronic wallets are secure data files at Web sites that contain customer information so customers don't have to retype personal information each time they make a purchase.

#### **5 Describe some of the challenges associated with e-business.**

The growth of e-business has been hampered by consumer security and privacy concerns, fraud, and system overload. In addition, poor Web design and service, unreliability of delivery and returns, and lack of retail expertise has limited e-business success. The Internet can also generate conflict among buyers and sellers.

### Assessment Check Answers

#### **5.1 List the major challenges to e-business.**

Challenges to e-business include protecting consumer privacy, fraud, unreliable and hard-to-use Web sites, problems with deliveries and returns, and potential channel conflicts.

#### **5.2 Most cases of Internet-related fraud come from what category of online activity?**

The largest number of cases of Internet-related fraud come from online auctions.

#### **5.3 What is a channel conflict?**

A channel conflict is a dispute between a producer, wholesaler, and/or retailer.

#### **6 Discuss how organizations use the communication functions of the Internet to advance their objectives.**

Communication remains the most popular function of the Internet. Companies have long used e-mail to communicate with customers, suppliers, and other partners. Online communities are groups of people who share common interests. Companies use online communities such as forums and electronic bulletin boards to communicate with and obtain feedback from customers and other partners. Blogs are online journals

that have gained popularity in recent years. Companies have just begun to explore the potential of blogs. Web-based promotions include advertising on other Web sites, search marketing, and online coupons.

### Assessment Check Answers

#### **6.1 What are online communities? Explain how online communities can help companies market their products and improve customer service.**

Online communities can take several forms and include Internet discussion groups and electronic bulletin boards. Users log in and participate by sending comments and questions, or receiving information from other forum members. Companies use online communities to ask questions and exchange information with customers.

#### **6.2 What is a blog? A wiki? A podcast?**

A blog, short for a *Web log*, and is Web page that serves as a publicly accessible journal for an individual or organization. A wiki is a Web page that anyone can edit, and a podcast is a video blog.

#### **6.3 Explain the difference between a banner ad, a pop-up ad, and search marketing.**

Banner ads are small messages placed in high-visibility areas of frequently visited Web sites. A pop-up ad is a separate window that pops up containing an advertising message. Search marketing is an arrangement by which a firm pays a search engine—such as Google—a fee to make sure that the firm's listing appears toward the top of the search results.

#### **7 List the steps involved in developing successful Web sites and identify methods for measuring Web site effectiveness.**

Businesses establish Web sites to expand their customer bases, increase buyer awareness of their products, improve consumer communications, and provide better service. Before designing a Web site, a company's decision makers must first determine what they want to achieve with the site. Other important decisions include who should create, host, and manage the site; how to promote it; and how much funding to allocate. Successful Web sites contain informative, up-to-date, and visually appealing content. Sites should also download quickly and be easy to use. Finally, management must develop ways to measure how well a site accomplishes its objectives.

## Assessment Check Answers

### 7.1 What are the first three questions a company should ask itself when planning a Web site?

The first question deals with the purpose of the Web site. The second deals with whether the firm should develop the site itself or outsource it to a specialized firm. The third question is determining the name of the site.

### 7.2 How does the type of Web site affect measures of effectiveness?

For a shopping site, profitability is an important measure of effectiveness, though profitability can be difficult to measure given the presence of so-called Web-to-store shoppers. For company Web sites, online success is measured by increased brand awareness and loyalty, which presumably translates into greater profitability through offline transactions.

### 7.3 Explain the difference between click-through and conversion rates.

The click-through rate is the percentage of viewers who, when presented with a banner ad, click on it. The conversion rate is the percentage of Web site visitors who actually make purchases.

### 8 Explain the global scope of e-business.

Technology allows companies to compete in the global market and workplace. Even the smallest firms can sell products and find new vendors in international markets. Through its own Web site, a company can immediately reach customers all over the world. Improved communications among employees in different locations create new ways to collaborate on projects.

## Assessment Check Answers

### 8.1 How do language differences affect global e-business?

Most Web pages, including e-business sites, are still in English, which inhibits the growth of e-business in other countries. Also, online retailers need to be sensitive to cultural differences.

### 8.2 How does e-business heighten global competition?

In the virtual global marketplace, companies can search online catalogs to find the lowest-priced goods and services. The Internet is also a valuable tool for expanding a company's reach, especially for smaller businesses that would otherwise have difficulty finding overseas customers.

## Business Terms You Need to Know

electronic business (e-business) 215  
corporate Web site 217  
marketing Web site 218  
business-to-business (B2B)  
e-business 219

business-to-consumer (B2C)  
e-business 221  
electronic storefront 222  
phishing 228  
spam 231

blog 231  
search marketing 234  
click-through rate 237  
conversion rate 238

## Other Important Business Terms

electronic data interchange  
(EDI) 219  
quick response 219  
extranet 220  
private exchange 220  
electronic exchange 220  
e-procurement 221  
electronic shopping cart 222

bot 224  
encryption 225  
Secure Sockets Layer (SSL) 225  
electronic wallet 225  
electronic signatures 226  
firewall 228  
channel conflict 230  
electronic bulletin board 231

wiki 232  
podcast 232  
banner ad 233  
pop-up ad 233  
Web host 236  
Web-to-store 237



## Review Questions

1. List the five e-business categories.
2. Explain how a Web presence can improve the performance of traditional brick-and-mortar operations.
3. Describe the type and purpose of information found on a corporate Web site.
4. Which is larger, B2B or B2C e-business?
5. Explain how an electronic data interchange operates. What is rapid response?
6. What is an electronic exchange? Why have they proven to be less successful than many originally projected?
7. What is a bot and how do consumers use it to find the lowest price for a product online?
8. Define encryption and Secure Sockets Layer technology.
9. Describe some of the privacy concerns of online shoppers.
10. What is phishing?
11. Discuss how companies can use blogs.
12. Assume a company spends \$100,000 to attract 25,000 visitors to its Web site. If the conversion rate is 5 percent, how much did the company spend to acquire each customer?
13. What are the challenges and benefits of e-commerce in the global business environment?

## Projects and Teamwork Applications

1. Discuss how the profile of online buyers and sellers is changing. What are some of the implications of these trends for B2C e-business?
2. Communication is still the most popular Web function; team up with a partner and describe how a travel company could take advantage of online communication to market its travel services.
3. Compared with brick-and-mortar retailers, what are the advantages and disadvantages of so-called pure-play e-business companies? Why have so many pure-play e-business companies failed?
4. Assume the role of an online shopper who wishes to purchase a pair of jeans over the Internet. Two leading online clothing retailers are Old Navy (<http://www.oldnavy.com>) and Eddie Bauer (<http://www.eddiebauer.com>). Visit both sites and learn enough so that you can describe each to your class, including which of the two you'd be most likely to purchase from and why.
5. Identify a local company that has a significant online presence. Arrange to interview the person in charge of the company's Web site. Ask the following questions:
  - a. How was the Web site developed?
  - b. Did the company develop the site in-house or did it outsource the task?
  - c. How often does the company make changes to the site?
  - d. In the opinion of your respondent, what are the advantages and disadvantages of going online?
6. Many consumers are reluctant to purchase online products that are perishable or that consumers typically like to touch, feel, or smell before buying. Working in a small group, suggest ways an e-business company might be able to reduce this reluctance.
7. Identify a local company that operates with little or no online presence. Outline a proposal that explains the benefits to the firm of either going online or significantly expanding its online presence. Sketch out what the firm's Web site should look like and the functions it should perform.
8. Choose one of the following types of companies and describe how it could take advantage of the communication power of the Internet to market its products:
  - a. a travel agency that specializes in adventure travel.

- b. a real estate firm.
  - c. a firm that ships gourmet foods—such as lobster, cheeses, or exotic coffees—nationwide.
  - d. a minor-league hockey team.
9. IBM offers extensive consulting services, software, and hardware (such as servers) for organizations engaged in e-business. Working with a partner, assume you're entrepreneurs and you'd like to expand your presence in the B2B market. Visit the IBM e-business Web site (<http://www.ibm.com>). Read about the services offered and review some of the case studies in which IBM has assisted firms in their B2B activities. Prepare a report on what you have learned.
10. Using a search engine such as Google (<http://www.google.com>), identify two or three company-sponsored blogs. Read some of the recent entries and prepare a report summarizing the goals of each blog and your assessment of its effectiveness.

## Case 7.1

### eBay Backs Off a Price Hike

One of the most popular sites on the Internet, giant auctioneer eBay earns most of its profits by charging sellers modest fees for membership and collecting a small percentage of the final selling price of certain items. The formulas for these fees were usually seen as fair, and sellers prospered. Buyers paid only for their purchases. Then in early 2005 the company announced a new fee structure affecting sellers in the United States, Canada, Australia, and the United Kingdom. The basic monthly subscription fee that sellers would pay to list items on eBay Stores rose from \$9.95 to \$15.95; the fee for ten-day listings would double to 40 cents; and “Buy It Now” sellers would pay 8 to 16 percent of an item’s selling price, instead of a flat fee as before.

“We carefully evaluate the pricing structure and, from time to time, we’ll change prices when it’s the right thing to do to ensure the vibrancy of the marketplace,” an eBay spokesperson told a reporter. “We implement these changes to spur the market in certain categories.” Auction industry experts agree that eBay routinely uses its pricing power to draw profit from the features of the site that are most popular every year.

Sellers weren’t pleased. To some, the fee hikes—in particular the increase in “Buy It Now” charges—were an attempt to cash in on heavily used site features just to add to the company’s coffers at their expense. Loyal sellers bombarded eBay with e-mail protests, threatening to raise their own prices, which would drive

buyers away; close their e-stores; or switch to other auction sites such as Overstock.com, which trails eBay in transaction volume by a wide margin. But in a well-timed move, Overstock.com slashed its own fees following eBay’s announcement and saw a sharp spike in sales on its site.

One letter-writing campaign was led by a seller of historical costumes and bridal wear, who had never participated in eBay’s seller communities before. Others wondered whether it was time for the government to regulate what eBay could charge, especially to protect small sellers who stood to lose the most revenue from the new fees.

eBay responded quickly to its members’ unhappiness. “We’re listening to everything you have to say,” wrote eBay president Bill Cobb in a weekend e-mail sent to all the firm’s sellers less than a month later. “I’ve been taking it all in and thinking hard about how we can make sure eBay remains a fun, safe place to trade, and a prosperous home for our many dedicated sellers.”

Putting sentiments into action, the company announced it would issue a credit of \$15.95—the price of a one-month subscription—to all its eBay Stores small-business owners of record as of the preceding month. It also reduced the minimum fee for inexpensive auction items and replaced its automated customer service response system with live customer

service agents, who would answer questions in real time and for a broader population of sellers than had ever qualified for customer service support before. Some observers called the expanded support an important gesture that would go a long way toward offsetting the effect of price increases for small-business owners. But eBay held firm on the biggest increases.

Many still thought lessons could be learned from the firm's experience. "A price increase is always going to be painful," said one retail analyst. "Companies need to think strategically and communicate to their consumers the value and benefit of what they are getting in exchange for the price increases."

### Questions for Critical Thinking

1. Do you think eBay handled its price increase in the best possible way? Why or why not? What, if any-

thing, do you think eBay should do differently next time it needs to communicate price changes to its customers? Why?

2. Can improvements in customer service really offset price increases? Would you answer differently for a brick-and-mortar retailer than for an online retailer like eBay? Why or why not?

**Sources:** "eBay Eats Humble Pie on Fee Hikes," CBS News, accessed July 20, 2006, <http://www.cbsnews.com>; Jennifer LeClaire, "eBay Responds to Price Hike Outcry," *MacNewsWorld*, accessed July 20, 2006, <http://www.macnewsworld.com>; Tim Richardson, "eBay Backtracks as It Cuts Some Fees," *The Register*, accessed July 20, 2006, <http://www.theregister.co.uk>; Rick Aristotle Munarriz, "eBay, Hike, and Other 4-Letter Words," *Motley Fool*, accessed July 20, 2006, <http://www.fool.com>; Ryan Naraine, "eBay Flexes Pricing Muscle," *eWeek.com*, accessed July 20, 2006, <http://www.eweek.com>.

VIDEO

### Case 7.2

### Manifest Digital: Putting the User First

This video case appears on page 615. A recently filmed video, designed to expand and highlight the written case, is available for class use by instructors.

*The Second City*

Part 2 <sup>Case</sup>

## Second City: An Entrepreneurial Experience from Stage to Strategic Planning

Over the last 50 years, the entrepreneurial spirit of The Second City (SC) has been found in its stock-in-trade: its style of comedy. Its comedic and business philosophy is to *listen and react*. Much like true entrepreneurship, improvisational comedy requires vision, energy, self-confidence, creativity, accountability, a tolerance for ambiguity, and the boldness to plunge ahead in the face of failure.

When a hip group of University of Chicago students began performing comedy shows in 1959, they offered a satirical, uniquely subversive take on society. It was a society beginning to wake from a decade of political docility. Improvisation, an art form based on risk and off-the-cuff reaction, excited audiences of the day. Like the momentum of a good scene, Second City used its innovations in comedy to spawn an amazing variety of related business ventures. Student training centers, corporate training, TV shows, national touring companies, and theaters in Chicago, Toronto, Las Vegas, Detroit, and Denver are all successful extensions of Second City's entrepreneurial character.

The founding of Second City was a collaborative artistic effort. Using improvisation as an entrepreneurial technique, Second City continued to form partnerships on the-

atrical and corporate stages. Notably, SC's first producer, Bernard Sahlins, saw the groundbreaking nature of the SC style and offered the group a needed skill: the ability to balance a checkbook. SC's comedy spoke to a changing cultural climate. Sahlins claimed they "[violated] taboos up to the point of bad taste, without crossing it." Within eight months of opening, Second City grabbed national attention. Second City continued to refine its message and mission. By listening and reacting to public themes and material, their product, Second City comedy, began to take shape as a creative innovation worthy of more expansive entrepreneurial ventures.

Bernie Sahlins took the show to Toronto, where one of Second City's most significant partnerships was formed. After only a short, unsuccessful run in 1973, the Toronto cast arrived at their theater to see the doors padlocked shut. Without the legal ability to sell liquor in the theater, the show had gone bankrupt. The spirit of Second City comedy had, however, unknowingly met the heart of yet another entrepreneur, who faced this supposed "failure" with both confidence and business savvy. Andrew Alexander, a Canadian promoter, bought the Canadian rights to SC from Bernie

Sahlins—a monthly royalty deal was struck between the two men and was signed on a cocktail napkin. This turnaround strategy was risky but in step with the SC personality, and Alexander had prepared practical solutions for improvement. He borrowed money and beckoned a hesitant cast back to Toronto with one such solution—an acquired liquor license. The Toronto branch cultivated and exposed a new generation of talent that continues to be a commodity for SC today. Looking to cast a new sketch TV show, *Saturday Night Live*, Lorne Michaels picked talent right off the Toronto stage—thereby offering SC a new level of fame. In fact, when *Saturday Night Live (SNL)* started, Second City attendance boomed. Alumni such as John Candy, Dan Aykroyd, and Gilda Radner further cemented the Second City legacy.

Second City encountered a series of changes in the entertainment industry that tested its ability to listen and react, just like the comedic timing of its performers. As talent moved into the TV medium, co-owners Sahlins and Alexander felt a need to respond. Concerned that they would continue to lose talent to *SNL*, they decided to give television a try themselves. Andrew Alexander's business partner, Len

Stuart, provided the capital needed to launch SC from the stage to the screen. With only \$35,000 for seven episodes, the cast and producers used their underfinanced reality as a backdrop for the program. Self-referenced as a low-budget show, the inexperienced crews and performers became the theme. After an eight-year run, *SCTV* had earned two Emmys for writing, thirteen Emmy nominations, and a place in comedy history. *SCTV* spotlighted more future stars, including Harold Ramis, Rick Moranis, and Martin Short.

The art of improvisation now dominates the comedic world and integrates the artistic and entrepreneurial work of Second City. Its theaters promote innovation within the structure of the business. Second City now boasts training centers in Chicago, Los Angeles, New York, Toronto, and Detroit, offering students of all ages a curriculum based on listening and reacting, team building, communication, and the most subversive of Second City's techniques, humor.

The Second City is a corporation, owned by Andrew Alexander and Len Stuart, who bought SC from Bernie Sahlins in 1984. Today, Second City's senior management team continues to base the company's business ventures on the seemingly undisciplined attitude of improvisational comedy. Vice president Kelly Leonard says that The Second City remains "true to the core" of its lineage. According to

Leonard, "Second City is all about making the new—so entrepreneurship is at the core—both on a creative and business level. You can see that by the expansion of the business into new and lucrative areas of training, touring, education, television, radio, etc." With an abundance of creative proposed ventures to consider, Second City takes professional risks and picks interesting advancements over merely lucrative endeavors. SC's latest undertaking is a deal Leonard brokered with Norwegian Cruise Lines. Second City Theatricals has a select partnership with Norwegian, placing Second City's adventurous style of comedy on the bow of a new performance venue, accessing a new demographic of audience members.

Second City Communications is another branch of the company that other businesses seek out for help in fostering a creative corporate atmosphere. Using improvisational techniques such as confidence, teamwork, and relationship building, Second City Communications trains business professionals and contemporary entrepreneurs in a variety of business practices. SC listens to the needs of its clients and responds accordingly. Mock business encounters are set up in which professionals can learn and experience firsthand how to handle business situations. Corporate events feature customized comedic material. The tried-and-true methods of improvisational comedy

are taught, along with a few other secrets to Second City's charm.

Each of Second City's business and nonprofit ventures appears on its Web site. SC finds the greatest profit return in selling tickets to its theatrical revues. Other creative elements, including blogs and podcasts, are compelling features that routinely increase site traffic. According to Leonard, the trickiest aspect of managing <http://www.secondcity.com> seems to be making the electronic medium as funny as SC's live comedy.

While the lights come up on future ventures for The Second City, its visionaries will continue to look back on the principals of improv for guidance: *to listen and react*. They teach this method to an impressive variety of interested students from all backgrounds. Anyone can be inspired by the innovative approach of The Second City, but especially talented young actors destined for the footlights and courageous entrepreneurs entering the market.

## QUESTIONS

1. What challenges might Second City's entrepreneurial managers face as they continue to field proposals and generate business endeavors?
2. How are a comedic improviser and an entrepreneur similar?
3. How does collaboration and the forming of partnerships benefit the growth of Second City or any business?



## Part 2: Launching Your Entrepreneurial Career

In Part 2, “Starting and Growing Your Business,” you learned about the many ways that business owners have achieved their dreams of owning their own company and being their own boss. The part’s three chapters introduced you to the wide variety of entrepreneurial or small businesses; the forms they can take—sole proprietorship, partnership, corporation, or franchise and the reasons that some new ventures succeed and others fail. You learned that entrepreneurs are visionaries who build firms that create wealth and that they share traits such as vision and creativity, high energy, optimism, a strong need to achieve, and a tolerance for failure. Finally, you learned about the impact of computer technology in making e-business possible and about the importance of the Internet for business operations. By now you might be wondering how you can make all this information work for you. Here are some career ideas and opportunities in the small-business and e-business areas.

First, whatever field attracts you as a future business owner, try to acquire experience by working for someone else in the industry initially. The information and skills you pick up will be invaluable when you start out on your own. Lack of experience is often cited as a leading reason for small-business failure.<sup>1</sup>

Next, look for a good fit between your own skills, abilities, and characteristics and a market need or niche. For instance, the U.S. Department of Labor reports that opportunities in many healthcare fields are rising with the nation’s increased demand for health services.<sup>2</sup> As the population of older people rises, and as young families find themselves increasingly pressed for time, the need for child care and elder services will also increase—and so will the opportunities for new businesses in those areas. So keep your eyes on trends to find ideas that you can use or adapt.

Another way to look for market needs is to talk to current customers. Patrick Martucci, founder of United Asset Coverage (UAC), discovered that sometimes the best opportunities for

entrepreneurs are customers whose needs aren’t being met. As a sales representative for a firm that maintained only Rolm telephone equipment, Martucci realized that what his client, JCPenney, really needed was a firm to service its entire phone system. The \$1.5 million JCPenney contract would have been worth \$10 million if Martucci’s employer had offered the right service. Shortly after that, Martucci launched UAC, a network of technicians to offer maintenance and repair of any brand of office equipment, at any location. From its first contract covering a single copy machine at a TGI Friday’s in St. Louis, UAC has become the largest telecom-maintenance company in the world, with annual earnings of about \$40 million.<sup>3</sup>

Are you intrigued by the idea of being your own boss but worried about risking your savings to get a completely new and untried business off the ground? Then owning a franchise, such as Quiznos or Dunkin’ Donuts, might be for you. The Small Business Administration advises aspiring entrepreneurs that while franchising can be less risky than starting a new business from scratch, it still requires work and sacrifice. In addition, you need to completely understand both the resources to which you’ll be entitled and the responsibilities you’ll assume under the franchise agreement. Again, filling a market need is important for success. To find more information about franchising, access the Federal Trade Commission’s consumer guide to buying a franchise at <http://www.ftc.gov/bcp/online/pubs/invest/buyfran.htm>.

Are you skilled in a particular area of business, technology, or science? The consulting industry will be a rapidly growing area for several years, according to the Bureau of Labor Statistics.<sup>4</sup> Consulting firms offer their expertise to clients in private, government, not-for-profit, and even foreign business operations. Business consultants influence clients’ decisions in marketing, finance, manufacturing, information systems, e-commerce, human resources, and many other areas including corporate strategy and organization. Technology consultants support businesses

in all fields, with services ranging from setting up a secure Web site or training employees in the use of new software to managing an off-site help desk or planning for disaster recovery. Science consulting firms find plenty of work in the field of environmental consulting, helping businesses deal with pollution cleanup and control, habitat protection, and compliance with government's environmental regulations and standards.

But perhaps none of these areas appeal to you quite so much as tinkering with gears and machinery or with computer graphics and code. If you think you have the insight and creativity to invent something completely new, you need to make sure you're informed about patents, trademarks, and copyright laws to protect your ideas.<sup>5</sup> Each area offers different protections for your work, and none will guarantee success. Here again, hard work, persistence, and a little bit of luck will help you succeed.

### **Career Assessment Exercises in Entrepreneurship and Business Ownership**

1. Find out whether you have what it takes to be an entrepreneur. Review the material on the SBA's Web site [http://www.sba.gov/starting\\_business/startup/basics.html](http://www.sba.gov/starting_business/startup/basics.html) or take the Brigham

Young University's Entrepreneurial Test at <http://marriottschool.byu.edu/cfe/startingout/test.cfm>. Answer the questions there. After you've finished, use the scoring guides to determine how ready you are to strike out on your own. What weak areas did your results disclose? What can you do to strengthen them?

2. Find an independent business or franchise in your area, and make an appointment to talk to the owner about his or her start-up experience. Prepare a list of questions for a ten- to fifteen-minute interview, and remember to ask about details such as the number of hours worked per week, approximate start-up costs, goals of the business, available resources, lessons learned since opening, and rewards of owning the business. How different are the owner's answers from what you expected?
3. Search online for information about how to file for a patent, trademark, or copyright. (A good starting point is <http://www.firstgov.gov>.) Assume you have an invention you wish to protect. Find out what forms are required; what fees are necessary, if any; how much time is typically needed to complete the legal steps; and what rights and protections you will gain.