

# ONLINE BUSINESS

(Skill Development Course)

SECOND YEAR B.Com. / BBA Programme

Semester – 3

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**B.Com . / BBA SECOND YEAR Semester - 3**

**Skill Development Course : ONLINE BUSINESS**

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## FOREWORD

Since its establishment in 1976, Acharya Nagarjuna University has been forging ahead in the path of progress and dynamism, offering a variety of courses and research contributions. I am extremely happy that by gaining a 'A' Grade from the NAAC in the year 2014, the Acharya Nagarjuna University is offering educational opportunities at the UG, PG levels apart from research degrees to students from over 285 affiliated colleges spread over the two districts of Guntur and Prakasam.

The University has also started the Centre for Distance Education with the aim to bring higher education within reach of all. The centre will be a great help to those who cannot join in colleges, those who cannot afford the exorbitant fees as regular students, and even housewives desirous of pursuing higher studies. With the goal of bringing education in the door step of all such people. Acharya Nagarjuna University has started offering B.A, and B, Com courses at the Degree level and M.A, M.Com., L.L.M., courses at the PG level from the academic year 2021-22 on the basis of Semester system.

To facilitate easier understanding by students studying through the distance mode, these self-instruction materials have been prepared by eminent and experienced teachers. The lessons have been drafted with great care and expertise in the stipulated time by these teachers. Constructive ideas and scholarly suggestions are welcome from students and teachers invited respectively. Such ideas will be incorporated for the greater efficacy of this distance mode of education. For clarification of doubts and feedback, weekly classes and contact classes will be arranged at the UG and PG levels respectively.

It is aim that students getting higher education through the Centre for Distance Education should improve their qualification, have better employment opportunities and in turn facilitate the country's progress. It is my fond desire that in the years to come, the Centre for Distance Education will go from strength to strength in the form of new courses and by catering to larger number of people. My congratulations to all the Directors, Coordinators, Editors and Lesson -writers of the Centre who have helped in these endeavours.

**Prof. P.Rajasekhar**  
**Vice –Chancellor,**  
**Acharya Nagarjuna University**

**AP State Council of Higher Education**  
**B. A., B. Com and B. Sc Programmes Revised CBCS w. e. f. 2020-21**  
**SKILL DEVELOPMENT COURSES - COMMERCE STREAM**  
**Syllabus of 305SDD21- ONLINE BUSINESS**  
**Total 30hrs (2hrs/wk) 02 credits & Maximum 50 Marks**

**Learning Outcomes :**

After successful completion of this course, the students will be able to :

1. Understand the online business and its advantages and disadvantages
2. Recognize new channels of marketing, their scope and steps involved
3. Analyze the procurement, payment process, security and shipping in online business
4. Create new marketing tools for online business
5. Define search engine, payment gateways and SEO techniques.

**Syllabus :**

Unit – I : 06 Hrs

Introduction to Online-business-Definition-Characteristics-Advantages of Online Business- Challenges- Differences between off-line business, e-commerce and Online Business.

Unit – II : 10 Hrs

Online-business Strategies-Strategic Planning Process- Procurement -Logistics & Supply Chain Management- Customer Relationship management.

Unit – III : 10 Hrs

Designing Online Business Website Policies - Security & Legal Issues - Online Advertisements - Payment Gateways - Case Study.

**Co-curricular activities Suggested : 04 Hrs**

1. Assignments, Group discussion, Quiz etc.
2. Short practical training in computer lab.
3. Identifying online business firms through internet.
4. Invited Lectures by e-commerce operators.

5. Working with Google and HTML advertisements.
6. Visit to a local online business firm.

**Reference books and Websites :**

1. David Whiteley, "E-Commerce", Tata Mc Graw Hill, 2000.
2. E Business by Jonathan Reynolds from Oxford University Press.
3. Soka, From EDI to Electronic Commerce, McGraw Hill.
4. Websites on Online business.

**MODEL QUESTION PAPER**  
**SECOND YEAR B.Com. / BBA Programme**  
**Semester – 3**  
**ONLINE BUSINESS**  
**(Skill Development Course)**

**Time: 1 1/2 hrs (90 Minutes)**

**Max. Marks: 50**

**SECTION A**

**( 4 x 5 = 20 Marks)**

Answer any **FOUR** of the following questions.

1. Characteristics of Online Business.
2. E – Commerce.
3. Challenges of Online Business.
4. Supply Chain Management.
5. Procurement.
6. Online Business website.
7. Online Business Advertisements.
8. Concept of Logistics.

**SECTION B**

**(3 x 10 = 30 Marks)**

Answer any **THREE** of the following questions.

9. Difference between Offline Business and Online Business.
10. Describe the advantages of questions Online Business.
11. Write about Customers Relationship Management.
12. What are the Strategies and Strategic Planning process in Online Business?
13. Elucidate the different types of payment Gateways in E – Commerce.
14. Discuss the Security and legal issues of Online Business.

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**LESSON - 1**  
**INTRODUCTION TO ONLINE BUSINESS**

**OBJECTIVES OF THE LESSON :**

- ✓ To Discuss the Brief History of E-commerce
- ✓ To Design characteristics of E-commerce
- ✓ To Study the steps to run a successful business
- ✓ To Learn how to start an online Business

**STRUCTURE OF THE LESSON :**

- 1.1 Introduction
- 1.2 Meaning of E-Business
- 1.3 Meaning of E-Commerce
- 1.4 A brief history of E-Commerce
- 1.5 Electronic Fund Transfer
- 1.6 Characteristics of E-Commerce
  - 1.6.1 Ubiquity
  - 1.6.2 Global reach
  - 1.6.3 Universal Standards
  - 1.6.4 Information Richness
  - 1.6.5 Interactivity
- 1.7 Five steps to run a successful business
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  - 1.7.4 Know your competition
  - 1.7.5 Online payment
- 1.8 How to start an online business for dummies
- 1.9 Do proper research
- 1.10 Choose the proper platform
- 1.11 Selection of team
- 1.12 How to start an online business
- 1.13 Using the internet to run your business
- 1.14 How to start an online business in .....



- 1.15 Online business
  - 1.15.1 Find a need
  - 1.15.2 Conduct market research
  - 1.15.3 Online Business Ideas for beginners
- 1.16 How to start an IT online business?
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- 1.18 Do Research
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## 1.1 INTRODUCTION :

E-business, is the application of Information and Communication Technologies (ICT) in support of all the activities of business. Commerce constitutes the exchange of products and services between businesses, groups and individuals and can be seen as one of the essential activities of any business. Electronic commerce focuses on the use of ICT(Information and Communication Technologies) to enable the external activities and relationships of the business with individuals, groups and other businesses or e business refers to business with help of internet (i.e.) doing business with the help of internet network. The term "E-Business" was coined by IBM's marketing and Internet teams in 1996.

In 1997, IBM marketing, with its agency Ogilvy & Mather began to use its foundation in IT solutions and expertise to market itself as a leader of conducting business on the Internet through the term "e-business." Then CEO Louis V. Gerstner, Jr. was prepared to invest \$1 billion to market this new brand.

After conducting worldwide market research, in October 1997, IBM began with an eight-page piece in the Wall Street Journal that would introduce the concept of "e-business" and advertise IBM's expertise in this new field. IBM decided not to trademark the term "e-business" in the hopes that other companies would use the term and create an entire new industry. However, this proved to be too successful and by 2000, to differentiate itself, IBM launched a \$300 million campaign about its "e-business infrastructure" capabilities. Since that time, however, the terms, "e-business" and "E-Commerce" have been loosely interchangeable and have become a part of the common vernacular

E-business includes E-Commerce, but also covers internal processes such as production, inventory management, product development, risk management, finance, knowledge management and human resources. E-business strategy is more complex, more focused on

internal processes, and aimed at cost savings and improvements in efficiency, productivity and cost savings.

## **1.2 MEANING OF E-BUSINESS :**

E-Business is the conduct of business on the Internet, not only buying and selling, but also servicing the customers and collaborating with the business partners. E-Business includes customer service (e-service) and intra-business tasks.

Example of E-Business :

- An online system that tracks the inventory and triggers alerts at specific levels is E-Business Inventory Management is a business process. When it is facilitated electronically, it becomes part of E-Business.
- An online induction program for new employees automates part or whole of its offline counterpart.

## **1.3 MEANING OF E-COMMERCE :**

(a) E-Commerce is defined as those commercial transactions carried out using the electronic means, in which goods or services are delivered either electronically or in their tangible or intangible form.

**Examples of E-Commerce :**

### **(a) Online shopping :**

Buying and selling goods on the internet is one of the most popular examples of ECommerce .

### **(b) Electronic payments :**

When we are buying goods online, there needs to be a mechanism to pay online too. That is where the payment processors and payment gateways come into the picture. Electronic payments reduce the inefficiency associated with writing the Cheque books. It also does away with many of the safety issues that arise due to the payments made in currency notes.

## **1.4 A BRIEF HISTORY OF E-COMMERCE :**

(1) 1887: US statistician Herman Hollerith (1860–1929) sets up the forerunner of IBM(International Business Machines), a company that will pioneer electronic forms of doing business in the decades that follow.

(2) 1950s–1960s: IBM pioneers online transaction processing (OLTP): a way of handling money transactions instantly (in "real-time") using sophisticated computerized systems. With American Airlines, IBM develops an OLTP system called SABRE (Semi Automatic Business Research Environment) that revolutionizes airline reservations. In 1969, IBM's transaction-processing software evolves into CICS (Customer Information Control System), one of its least-known but

- (3) 1970: US company Docutel invents the ATM (automated teller machine, also known as the "cash point"), which works using online transactions made through bank computers. The popularity of ATMs leads to even more sophisticated forms of transaction processing.
- (4) 1980s: CompuServe, Prodigy, and AOL (America Online) let people shop from home using their computers and telephone lines.
- (5) 1989: Tim Berners-Lee (1955–) invents the World Wide Web, unwittingly laying the foundations for an explosive growth of E-Commerce in the years that follow.
- (6) 1994: Jeff Bezos (1964–) founds Amazon.com, the iconic e-store.
- (7) 1994: Marc Andreessen (1971–) develops the Netscape Navigator web browser, which ships with a feature called SSL (Secure Sockets Layer): built-in encryption that allows credit card transactions to be carried out securely online. There is a huge explosion in online shopping and business and the dot.com phenomenon begins.
- (8) 2000/2001: The dot.com bubble bursts and over 750 online businesses go to the wall. At one point, Amazon.com's share price plunges to less than 10 percent of its original value.
- (9) 2008: E-Commerce represents about 3.4 percent of total sales.
- (10) 2012: The US Census Bureau reports that US E-Commerce retail sales for the second quarter of 2012 are \$51.2 billion (adjusted for seasonal variation). In 2Q 2012, Ecommerce represents about 4.7 percent of total sales (up from 4.2 percent one year before).

## **1.5 ELECTRONIC FUND TRANSFER :**

It is a very popular electronic payment method to transfer money from one bank account to another bank account. Accounts can be in same bank or different bank. Fund transfer can be done using ATM (Automated Teller Machine) or using computer. Now a day, internet based EFT is getting popularity. In this case, customer uses website provided by the bank. Customer logs in to the bank's website and registers another bank account. He/she then places a request to transfer certain amount to that account. Customer's bank transfers amount to other account if it is in same bank otherwise transfer request is forwarded to ACH (Automated Clearing House) to transfer amount to other account and amount is deducted from customer's account. Once amount is transferred to other account, customer is notified of the fund transfer by the bank.

## **1.6 CHARACTERISTICS OF E-COMMERCE :**

### **1.6.1 Ubiquity :**

Ubiquity of E-Commerce means E-Commerce technological features are available anywhere and, we can connect to the Internet at any time, because they are web-based. It makes it possible to shop from homes, offices, video game systems with an Internet connection and mobile phone

devices. The result is called a market space (i.e.) a market place which is able to extend its traditional geographic boundaries and operating hours. Example: An example includes the ability to access the Internet wherever there is a Wi-Fi hotspot, such as a cafe or airport. Moreover, individuals who have cell phones with data capabilities can access the Internet without a Wi-Fi connection. From the customer's point of view, ubiquity reduces the transaction costs(i.e.) the cost of participating in the market. In order to transact, it is no longer necessary that we spend both time and money, by travelling to a market. At a broader level, the ubiquity of E-Commerce lowers the cognitive energy required to transact in a market space. Cognitive energy refers to the mental effort required to complete a task. Humans generally seek to reduce cognitive energy outlays. When given a choice, humans will choose the most convenient path, requiring the least effort.

### **1.6.2 Global Reach :**

Technologies within ecommerce seamlessly stretch across traditional cultural and national boundaries and enable worldwide access. Pearson Education states that instead of just offering goods and services to a population within a specific boundary, businesses can market to and serve an international audience. The Internet and multilingual Web sites, as well as the ability to translate a Web page, allows international visitors all over the globe to access company Web sites, purchase products and make business interactions. Pearson Education is a British-owned education publishing and assessment service to schools and corporations, as well as directly to students. Pearson owns educational media brands including Addison–Wesley, BBC Active, Bug Club, e-College, Fronter, Longman, My English Lab, Penguin Readers, Prentice Hall, Poptropica and Financial Times Press.

### **1.6.3 Universal Standards :**

Individuals, businesses and governments use one set of technological, media and Internet standards to use ecommerce features. Consequently, universal standards help to simplify the interactions. An individual can see these standards while shopping online, as the process to purchase items is similar on Web sites that use ecommerce technologies. Similarly, when an individual creates an online account, the site generally requires an individual to create a username and password so he can access his account.

This universal technical standards of E-Commerce, greatly reduce the market entry costs. For the customers, it reduce the “search costs (i.e.) the efforts required to find suitable products. And by creating a single, one world market space, where the prices and the product descriptions can be inexpensively displayed to all to see, and so, the price discovery becomes simpler, faster and more accurate. With the E-Commerce technologies, it is possible for the first time in the history, to easily find all the suppliers, prices and delivery terms of a specific product, anywhere in the world.

#### **1.6.4 Information Richness :**

Information provided on the web can be made rich, by adding color to the textual information, and adding audio and video clips. Users can access and utilize text messages and visual and audio components to send and receive the information. Pearson Education states that such aspects provide a rich informational experience in regards to marketing and the consumer experience. An individual may see information richness on a company's blog, if a post contains a video, which is related to a product and hyperlinks that allow him to look at or purchase the product and send information about the post via text message or email. Users can access and utilize text messages and visual and audio components to send and receive the information.

#### **1.6.5 Interactivity :**

E-Commerce technologies are interactive means it allows for two way communication between the merchant and the customer. Technologies used in ecommerce require consumer interactions in order to make an individual feel as though he is an active participant in the transaction process. As a result, ecommerce technologies can adjust to each individual's experience. For example, while shopping online, an individual is able to view different angles of some items, add products into a virtual shopping cart, checkout by inputting his payment information and then submit the order.

#### **1.6.6 Information Density :**

Information density means the total amount and quality of information available to all the market participants, consumers and merchants alike. The use of ecommerce reduces the cost to store, process and communicate information, according to Pearson Education. At the same time, accuracy and timeliness increase; thus, making information accurate, inexpensive much more about the consumers and plentiful. For example, the online shopping process allows a company to receive personal, shipping, billing and payment information from a customer, all at once and sends the customer's information to the appropriate departments in a matter of seconds.

A number of business consequences are resulting because of the growth in the information density. In E-Commerce markets, prices and costs become more transparent. Price transparency refers to the ease with which the consumers can in out the variety of prices in a market. Cost transparency refers to the ability of the consumers to discover the actual costs, by which the merchants are paying for their products.

Also, there are advantages for the merchants as well. Online merchants can discover much more about the various consumers, and this allows the merchants to segment the market into groups, and permits them to engage in price discrimination(i.e.) selling the same goods, or nearly the same goods to different targeted groups with different prices.

### **1.6.7 Personalization / Customization :**

Technologies within E-Commerce allow for the personalization and customization of marketing messages groups or individuals receives. Pearson Education states that companies can base such messages on individual characteristics of a consumer. An example of personalization includes product recommendations based on a user's search history on a Web site that allows individuals to create an account. Merchants can target their marketing messages to specific individuals by adjusting those messages.

The technology also permits customization. Changing the deliver product or service based, based on a user's preferences or prior behavior. Given the interactive nature of Ecommerce technology, a great deal of information, about the consumer can be gathered in the marketplace, at the moment of purchase.

With the increase in the information density, a great deal of information about the consumer's past purchases and behavior can be stored and used by the online merchants. The result is a level of personalization and customization, which is unthinkable with the existing commerce technologies. For example, we may be able to shape what we see on a television by selecting a channel, but, we cannot change the contents of the channel, which we have already chosen.

## **1.7 FIVE STEPS TO RUN A SUCCESSFUL BUSINESS :**

### **1.7.1 Decide business idea :**

There are millions of suggestions for online business. Keeping in mind your capabilities and market demand, choose one for you.

### **1.7.2 Set up a website :**

Your website should include descriptions, audios, videos, images, and pricing regarding your business. Make sure it is easy to use for everyone.

### **1.7.3 Create Traffic :**

Marketing is an essential step to run your business. Use video, content and email marketing, and online advertisements. Validate the fact that you use keywords people type most.

### **1.7.4 Know your competition :**

Keep a check on your competitor's services, product, and marketing strategies.

### **1.7.5. Online payment**

Ensuring that you offer people online payment methods helps boost your buyer volume.

**Pros and Cons :**

In recent times, I have seen people procuring maximal and supreme success via online business. In order to establish a victorious online business, a number of steps must be obeyed.

1. Commence with a business that satisfies an individual's needs.
2. Narrate your product luxuriously.
3. Make sure to model a convenient and trouble-free website.
4. Utilize web browsers to catch the maximum response.
5. Try to maintain the utmost image of your online business site.
6. Make use of email to stay connected to your clients and customers, it helps to build a professional impression.

**Chase loyal and long-term customers and buyers.**

Promote your brand on social platforms and sponsor it through different sites, it helps in spreading and growing one's business swiftly. Mentioned above are some very basic points that must be considered when kicking off an online business. The most essential part is to gain customers that are loyal to your brand and speak silver about it.



A fine marketing strategy is always the basic reason behind as hiring business. Leveraging customers through sales and rewarding customers for shopping from your site always leave an impressive impact on them. Show casing products that are related to people's purchases, offering them a discount on their next order from your page, and recommending related products after they successfully place their orders, on your thank-you page are some of the techniques that are ultimately appealing for the customers. Emerging an online business can sometimes be very challenging but it could always be made easy with the help of great marketing and working strategy and of course strong determination, as it is said that,

## **1.8 HOW TO START AN ONLINE BUSINESS FOR DUMMIES :**

In this digital world, every single person seems to have a question like how to start an online business? No doubt, you also have this question in your mind if you know about the importance of this market. Without wasting any time, let's go through some points you have to know about business in the online market.

## **1.9 DO PROPER RESEARCH :**

Either you have selected a business plan or not, you have to do some research before investing in any market. You can do this research on your own or hire a person for this task. By doing this, you will get the exact idea in which field you have to invest for prominent profit.

## **1.10 CHOOSE THE PROPER PLATFORM :**

After doing comprehensive research, you have to look at different platforms for investment. There are several platforms where you can start your business. For example, if you want to sell some products, you have to look for Amazon, eBay, and other stores like them. But if you want to start your website or selling platform, then Google is the best for you. In this way, it depends on your business nature which platform suits your investment.

## **1.11 SELECTION OF TEAM :**

Online business has many integral parts that a single person can never cover completely. Every person is special in a single field of business. For other fields, you have to hire some particular and concerned persons in that field. For instance, social media has become a powerful tool for making a business successful. So, you have to look for a social media marketing team to provide your online business a prominent and right way towards success.

## **1.12 HOW TO START AN ONLINE BUSINESS :**

If you are thinking about starting an online business, then you have landed on the right site. Here, we walk you through all the best practices to get your online business up and running, you need to take steps to legitimize your business, and maybe we can get some business ideas for you at that time.

## **1.13 USING THE INTERNET TO RUN YOUR BUSINESS :**

Building the World Wide Web is actually one of the best things to happen for us. It has changed the way we live, how we get recommendations (online reviews vs. word of mouth) from around us (Google Maps vs. traditional maps + asking for directions). It has made running an online business easier than before. With the availability of high-speed broadband in Bangladesh, we are free to operate our business from the comfort of our own homes, or even while sleeping Mai-Tas in the tropical paradise of Penang (as long as Wi-Fi courses are available).



One of the most beautiful things about online businesses is that your market is not limited to Malaysia. Think big with the power of the Internet, you are able to sell your products globally

#### **1.14 HOW TO START AN ONLINE BUSINESS IN .....**

- Step 1: Provide solutions to existing problems
- Step 2: Write to sell
- Step 3: Create a premium looking site
- Step 4: Leverage on Email Marketing

How to Start an Online Business – Steps that you should follow

Technology has changed the way we work. Nowadays, online businesses are even more profitable than physical ones. In a physical business, you have to invest lots of money in either buying a commercial place or paying lots of amount as rent. I and people like me, like online businesses as these require less investment and big output. If you are one of those who search how to start an online business then you are on the right page.

The following are some important steps to consider for successful business establishment.

- i. Create an Idea
- ii. Do Paper Work
- iii. Ask for Opinion
- iv. Read the story of a successful man in that field
- v. Start Action
- vi. Buy Domain and Hosting
- vii. Create Attractive Site
- viii. List your Products/Services
- ix. Start Marketing Campaigns
- x. Keep the Audience Attached.

#### **1.15 ONLINE BUSINESS :**

Creating an online business has never been easier, and the truth is that much is due to the high number of tools and technological devices available in a constantly evolving market. Besides, if you're ready to take charge of your life and finances, but don't have the capital to buy a franchise or open a physical store, an online business could be the perfect launching pad! This type of business allows reaching millions of customers with the most diverse characteristics and, as such, potentially increasing the target audience of this new entrepreneurial adventure. Here are some steps on how to start an online business.

**1.15.1 Find a need :**

To increase your chances of success, and if you have no millionaire idea, start by finding a market niche that you need to fill, either by selling products or providing services. To do this, you can search the internet and visit online forums to understand better what is missing and what problems people are most looking to see resolved.

**1.15.2 Conduct market research :**

Assess whether the product or service of your online business is in demand. To do this, search on a search engine for the leading market trends. There may even be several companies that respond to the needs you have found, but there is still the possibility of exceeding the expectations of the target audience. The important thing is to define strategies guided by concrete objectives.

**1.15.3 Online Business Ideas for beginners :**

Eager to start an online business or want to make money online, but not sure where to start? With improving technology, including excellent online tools and lower costs, there has never been an easier time to earn money online and start making money.

Whether you're looking to just start a business online and make some extra money fast, whether you completely want to replace your income with online business opportunities, you can quickly and easily get your idea off the ground, establish a web presence, start driving traffic to your website and generating sales in short order.

**1.16 HOW TO START AN IT ONLINE BUSINESS ?**

You might be worried about expenses and constantly thinking about setting up a new business and generating sales and profits. People spend many free hours thinking "How to start an online business". So here we have covered everything you need to know: Now, you're living in a smart world and many of us don't even know how much money the online market has to offer us. You can make up to 100 to \$200 dollars if you learn the correct way to earn online. Exciting! no? There are many opportunities to earn real money on the internet. I will split them here for you one by one so you can choose the one that fits you best.

First, we will talk about the most popular one that is "Freelancing". Freelancing is the offering of your services to the people over the internet sharing the same platform. But it has exceptions! You should have some skills to offer and that should be of professional quality.

**1.17 ONLINE BUSINESS PLAN DEFINITION :**

Each entrepreneur has a different story as to why he decided to start a business. Some knew from the start that they wanted to work for themselves and others discovered it while they

were working for someone else and finally decided to take the entrepreneurial step. There are countless reasons for this, and each entrepreneur will also have their own personal reasons. We all know that the web is like a vast ocean full of possibilities. Thinking of diving into it by launching your online business, but which one to choose? In order to ride the wave of success and keep the momentum.

### **1.18 DO RESEARCH :**

As in any business, whether physical or virtual, you have to take it seriously, and market research is a must. It's up to you to analyze the competition and see what is already offered. Use your imagination to offer that little extra that would set you apart from the competition, for a good thing, and which would allow good retention of your customers.

Also, working online means you have to be your own boss. Once you've worked for yourself, you begin to understand and most importantly boost your own self-esteem. Seeing the fruits of all these hours of hard work begins to gain ground : you have built something, you have achieved something, you are worth something. Often when you are employed, in many cases you are underestimated and your efforts go unnoticed. When you can directly experience the reward for your efforts, you feel a sense of personal fulfillment and accomplishment that can never be fully felt when working for someone else.

### **1.19 ONLINE BUSINESS PLAN FREE :**

With the modern era becoming more and more technology-oriented, conducting businesses on an online basis is no secret a need of the hour. If you are one of those people who is looking forward to investing in online business or perhaps considering to shift your business status and dealings to an online business.

This guide will not only help you in starting an online business – from requirements to finishing details, but will also help you improve your online business, in case your business is already up online and running.

These are the very basic number of steps every individual needs to follow to ensure his prosperity and effectiveness in starting or continuing an online business:

1. Evaluating your online business.
2. Designing and hosting a simple website for your business needs.
3. Using SEO software to gather traffic on your website.
4. Finding yourself an assistant to handle your online needs.
5. Following up with your customers with proper feedback or communicating through email.

6. Having deals on your website that attract users in order to maximize traffic and profits.
7. Marketing your online business on different platforms.

To gain benefit from these simple steps, you do not even need to be an expert at all! Everybody starts small. Therefore, if you are a beginner – do not worry! We will guide you, from the basic to advanced steps – and in no time you will be ready to handle your online business

### **1.20 SUMMARY :**

Starting a business is a dream for many aspiring entrepreneurs, but finding an idea and launching your endeavor can be challenging. In the digital age, selling online — both products and services — can present unique, affordable startup options for aspiring entrepreneurs. The key is matching your interests, strengths and skills to a profitable online business niche.

Whether you want to become a full-time entrepreneur or start a part-time online business to generate side income, your product or service should fulfill a specific consumer need. We've compiled a list of potentially profitable online businesses with minimal startup costs that you can get up and running quickly

### **1.21 KEY WORDS :**

#### **E-business :**

E-business, is the application of Information and Communication Technologies (ICT) in support of all the activities of business

#### **E-Commerce :**

E-Commerce is defined as those commercial transactions carried out using the electronic means, in which goods or services are delivered either electronically or in their tangible or intangible form.

#### **Information Density :**

Information density means the total amount and quality of information available to all the market participants, consumers and merchants alike

#### **Ubiquity :**

Ubiquity of E-Commerce means E-Commerce technological features are available anywhere and, we can connect to the Internet at any time, because they are web-based.

### **1.22 SELF ASSESSMENT QUESTIONS :**

1. Discuss the Brief History of E-commerce
2. Explain the Characteristics of E-commerce

3. Design the Steps to run the successful Business
4. Examine how to start an online Business

### **1.23 SUGGESTED READINGS :**

1. Teresa Pineiro-Otero and Xabier Martinez-Rolan (2009) Understanding Digital Marketing- Basics and Actions Springer International Publishing.
2. Damian Ryan(2014) Understanding Digital Marketing: Marketing Strategies for Engaging the Digital Generation 3<sup>rd</sup> Edition Kogan Page Publications.
3. Dave Chaffey (2016) Digital Marketing: Strategy, Implementation and practice Pearson Publications.
4. Francesca James, Hannan Durham(2016) Fifty Shades of Digital Marketing Book Boon Publications.

*Dr. V. Naga Nirmala*

## **LESSON - 2**

# **ADVANTAGES AND CHALLENGES OF ONLINE BUSINESS**

### **OBJECTIVES OF THE LESSON :**

- ✓ To study the Online Business Options
- ✓ To Learn the Emerging Trends on E-Commerce
- ✓ To Understand the advantages of Online Business
- ✓ To Outline Advantage of e-commerce to consumers
- ✓ To Deliberate the Benefits of E-Commerce to Society
- ✓ To Identify the Challenges of Online Business

### **STRUCTURE OF THE LESSON :**

- 2.1 Introduction
- 2.2 Online Business options
  - 2.2.1 Local listings and classifieds
  - 2.2.2 Search advertising
  - 2.2.3 Contextual ads
  - 2.2.4 Display ads
  - 2.2.5 Geo-targeting
  - 2.2.6 Group buying
  - 2.2.7 Mobile marketing
  - 2.2.8 Social networking sites
  - 2.2.9 Affiliate marketing
  - 2.2.10 Online videos
- 2.3 Measuring Your Results
  - 2.3.1 Website analytics
  - 2.3.2 Conversions
  - 2.3.3 Phone Number Tracking
  - 2.3.4 Landing pages
- 2.4 Emerging trends in E-Commerce
  - 2.4.1 Using Mobiles and Android Apps for Transaction

- 2.4.2 Using Mobiles and Android Apps for Transaction
- 2.4.3 Multi-channel
- 2.4.4 Big Data
- 2.4.5 Customization and Personalization
- 2.4.6 Valuing Customer Engagements than Conversion Ratio
- 2.4.7 Push Notifications
- 2.4.8 Social Networking Sites
- 2.4.9 Mobile POS and Accessing Via Mobile
- 2.4.10 Retailers Support to Omni-Channel Consumers
- 2.5 Advantages of Online Business
  - 2.5.1 Benefits of E-Commerce to Businesses:
  - 2.5.2 New Customers With Search Engine Visibility
  - 2.5.3 Reduction in Inventories
  - 2.5.5 No Middlemen
  - 2.5.6 Reduced Production lead Time
  - 2.5.7 Improved Customer relationship
  - 2.5.8 Lower Sale and Marketing Costs
  - 2.5.9 Lower Telecommunication Costs
  - 2.5.10 New Found Business Partners
  - 2.5.11 Increased supply chain efficiencies
- 2.6 Advantages of E-Commerce to Consumers
  - 2.6.1 Increase in variety of goods
  - 2.6.2 Convenience of Shopping at Home
  - 2.6.3 Ensure Secrecy
  - 2.6.4 Access to Greater Amounts of Information on Demand
  - 2.6.5 Time compression
  - 2.6.6 Quick Delivery of Digitized Products/Services
  - 2.6.7 Provide Comparison Shopping
  - 2.6.8 E-payment system
- 2.7 Benefits of E-Commerce to Society
  - 2.7.1 Enables More Flexible Working Practices

- 2.7.2 Connects People
- 2.8 Disadvantages of Online Business
  - 2.8.1 Lacks That Personal Touch
  - 2.8.2 System and data integrity
  - 2.8.3 E-Commerce Delays Goods
  - 2.8.4 System scalability
  - 2.8.5 E-Com Dependent on internet
  - 2.8.6 Many Goods Cannot Be Purchased Online
  - 2.8.7 Products people won't buy online
- 2.9 Challenges
  - 2.9.1 Indian customers return much of the merchandise they purchase online
  - 2.9.2 Cash on delivery is the preferred payment mode
  - 2.9.3 Payment gateways have a high failure rate
  - 2.9.4 Internet penetration is low
- 2.10 Feature phones still rule the roost
- 2.11 Postal addresses are not standardized
- 2.12 Logistics is a problem in thousands of Indian towns
- 2.13 Overfunded competitors are driving up cost of customer acquisition
- 2.14 Summary
- 2.15 Key words
- 2.16 Self Assessment Questions
- 2.17 Suggested readings

## **2.1 INTRODUCTION :**

From affiliate marketing to online classifieds, there are many ways to build your business online. Here's a look at ten popular online marketing options :

## **2.2 ONLINE BUSINESS OPTIONS :**

### **2.2.1 Local listings and classifieds :**

Create your business listing on listing sites such as City search to ensure that consumers searching for nearby businesses find yours. Some listings allow you to promote offers such as sales and new products. Customer review sites are basically local directories like Yelp that allow users to express their opinions about businesses.



### **2.2.2 Search advertising :**

Search advertising is a method of placing online ads on Web pages near search engine results. With Ad Words ([www.google.com/adwords](http://www.google.com/adwords)), you can deliver your message at the moment someone is searching for the type of product or service you offer. Choose keywords that relate as closely as possible to your offerings so you receive the most likely prospects. For CPC ads, you pay only when someone clicks on your ad.

### **2.2.3 Contextual ads :**

Contextual advertising takes display ads to the next level, by placing them on sites related to your offerings; for example, if you sell sporting goods, your ad may perform better on sports-related sites. Services are available that automatically distribute ads to sites based on the content of those sites.

### **2.2.4 Display ads :**

You've probably seen the dancing aliens; that's a display, or banner, ad. Do-it-yourself display ad builders, including Google's Ad Words display ad builder ([www.google.com/displaynetwork](http://www.google.com/displaynetwork)) can help design your ad. You can also distribute your display ad via ad networks and ad management systems.

### **2.2.5 Geo targeting :**

Geo targeting simply means advertising to prospects in specific locations –which could be very useful, for example, if you sell dresses only in Dallas. One way to get started is to create a listing on Google Places

### **2.2.6 Group buying :**

Connect with new customers through programs that offer multiple buyers collective purchasing deals. There are many popular group buying sites available to use.

### **2.2.7 Mobile marketing :**

Many smart phones and mobile devices provide web browsing, GPS, cameras and video capabilities. This means you can develop creative promotions with text messages and location-based social networks.

### **2.2.8 Social networking sites :**

Cultivate new business through social networking sites where members share stories and recommend products and services.

### **2.2.9 Affiliate marketing**

Affiliate marketing lets you get other businesses to drive prospects to your website. Some affiliates may allow you to set up a store on their domains, such as comparison shopping sites.

### **2.2.10 Online videos :**

Reach new audiences by posting videos on video-sharing sites. The best videos tend to be short (less than three minutes) and have an offer, such as a free copy of a report or a product discount, to motivate viewers to take action. Mobile Demand is one of many small businesses with a YouTube channel to help spread company news and information.

## **2.3 MEASURING YOUR RESULTS :**

Online marketing generates a wealth of data to let you assess and refine your marketing programs. Start with these easy-to-track performance measures:

### **2.3.1 Website analytics :**

Dig into your visitor data to see where your most promising leads come from. The quality of your traffic usually trumps quantity – for example, a referral site that delivers four buying customers may be worth more than one that delivers 50 window shoppers. Google Analytics ([www.google.com/analytics](http://www.google.com/analytics)) is a great place to start, and it's free. Click through. The basic measure of an online ad's impact is how many people click on it to visit your site. Click through rates are often strongest with a compelling visual, message or offer, combined with placement on the right sites.

### **2.3.2 Conversions :**

How many people who see your ads “convert” into buyers or take a specific action, such as subscribing to your newsletter? Take a look at your conversion rates to help determine which outreach efforts are most cost-effective.

### **2.3.3 Phone Number Tracking :**

Using a unique phone number in your ads lets you see exactly how many calls your campaign has generated. Platforms like Ad Words Call Metrics ([www.google.com/ads/innovations/callmetrics.html](http://www.google.com/ads/innovations/callmetrics.html)) make this easy by assigning a different number to each campaign. This feature, which lets you track calls by ad and shift your spending, provides clear evidence that online marketing can lead to real leads, customers and offline success.

### **2.3.4 Landing pages :**

A landing page is any page on your website where traffics sent specifically to prompt an action. For example, you might create different landing pages for different display ads. Landing pages let you customize your message and track program performance accurately. Keep the landing page simple — if you want visitors to buy, make that the focus of the page; don't distract them with newsletter links, webcasts, blogs, Facebook links or cute puppy videos.

## **2.4 EMERGING TRENDS IN E-COMMERCE :**

Online businesses have picked up momentum lately, and now people are no more skeptical about shopping online. And why it should be, not like this? E-Commerce sites have given you access to the unfathomable market, they do not tax your patience, and they let you save time in traveling. In this collaborative world, here are the 10 rising trend related to E-Commerce technology.

### **2.4.1 Real-time Shopping Experience at Online Shopping :**

There is no doubt the people prefer to talk to real sales person and hold the product in their hand! But do not think that E-Commerce sites cannot offer you such pleasure. Most online retailers have facilities to chat online, get suggestions and answer all your queries. Online subscription even allow you to hold the product and touch it (i.e. Style mint, Birch box), and some even lets you chat all along while you are shopping with Catalog.

### **2.4.2 Using Mobiles and Android Apps for Transaction :**

With the mobile devices outnumbering the desktops, the use of these devices for buying will increase in the near future. Additionally the websites must act like any app and must be very responsive in terms of design. We have many kinds of apps now that assist consumers to check out on his own, use payment wallet, store coupon codes like India plaza coupons loyalties, card numbers and have GPS for proper advertisement of companies. There are also apps that will let you compare the prices of the same product at different outlets.

### **2.4.3 Multi-channel :**

Consumers these days expect a very effortless transaction, and they expect that a commodity added to the cart will be available if one calls the customer care or land up in the store. This will encourage the IT directors to invest in commerce packages, E-Commerce POS systems and CRM systems.

#### **2.4.4 Big Data :**

Big Data or Hadoop methodology is handling a lot of data. This has been a concept that has been drawing the interest of the E-Commerce site owners, and it is here to stay. It is synching offline data and online data together so that the retailers' decision making capacity may be enhanced. In a nutshell, it allows retailers to understand the hidden consumer patterns.

#### **2.4.5 Customization and Personalization :**

In an extremely volatile market one must be ready for change all times- not otherwise but for personalization. Personalized recommendations will find more prominence in the market.

#### **2.4.6 Valuing Customer Engagements than Conversion Ratio :**

Till date the conversion rates were given the most priority but with the rise in E-Commerce sites, gathering new customers will be very tough. So naturally retailers will depend on holding on to the existing customers. Customer engagement will ensure people develop a liking for your site and follow you regularly.

#### **2.4.7 Push Notifications :**

Pull browsing is the latest trend now, but it is not far when push browsing will overtake it. Messaging notifications, basket notifications for selective items on your home page- are all going to catch up momentum.

#### **2.4.8 Social Networking Sites :**

As the social networking sites increase in popularity, retailers must be using this platform for marketing and selling their products! Facebook, Twitter, LinkedIn will be the platforms where you will get data about the latest discounts and offers.

#### **2.4.9 Mobile POS and Accessing Via Mobile :**

The idea of Mobile POS to make each and every employee work and allow the customer transact without being to the billing counter. Thanks to the Android 4.2 Jellybean and iOS 6 that allows apps that lets the customer do endless jobs with such apps.

#### **2.4.10 Retailers Support to Omni-Channel Consumers :**

Now that mobile apps are there in the market that lets you compare prices, check the reviews online and share the product with friends, retailers will be integrating their separate channels into one for offering support to the consumers.

## **2.5 ADVANTAGES OF ONLINE BUSINESS :**

Online Business has revolutionized the concept of conducting business by providing equal chance to all the business to mark their global presence. It has also eased the customers with online shopping and easy transactions. With the introduction of E-Commerce business, communication has become effortless and has also changed a lot in recent years for the better. Still, there are people who think that conventional business practices are far better than the E-Commerce business. The benefits of Electronic commerce is Classified in to three categories those are:

- (a) Benefits of E-Commerce to Businesses
- (b) Benefits of E-Commerce to Consumers
- (c) Benefits of E-Commerce to Society

Its brief explanation is as follows:

### **2.5.1 Benefits of E-Commerce to Businesses :**

It helps to reach Global: E-Commerce enabled business now have access to people all around the world. In effect all E-Commerce businesses have become virtual multinational corporations. E-Commerce expands the market place to national and international markets. Internal and web based E-Commerce helps to reach a more geographically dispersed customer base and more business partners as compared to the traditional business methods.

### **2.5.1 Cost effective :**

E-Commerce is proved to be highly cost effective for business concerns as it cuts down the cost of marketing, processing, inventory management, customer care etc. It also reduces the burden of infrastructure required for conducting business. It can also collect and manage the information related to the customers efficiently which in turn will assist the consumer in developing efficient promotional strategy.

### **2.5.2 New Customers With Search Engine Visibility :**

Physical retail is driven by branding and relationships. In addition to these two drivers, online retail is also driven by traffic from search engines. It is not unusual for customers to follow a link in search engine results and land up on an ecommerce website that they have never heard of. This additional source of traffic can be the tipping point for some ecommerce businesses. It Reduces the Paper Costs: E-Commerce decreases the cost of creating, processing, distributing, storing and retrieving information through the use of FDI systems. This greatly cuts on the cost of paper work in terms of the time taken and the man power required. Also the date is more secure from theft and destruction.

### **2.5.3 Reduction in Inventories :**

A reduction in inventory is desirable to enable reduction in storage, handling, insurance and administrative costs. Internet E-Commerce can help firms to reduce inventories by electronically linking the suppliers and buyers. The process starts from the customer orders and uses just-in-time manufacturing. Information on inventory levels and production rate is shared between manufacturers and their suppliers. Using such information, the delivery schedules are “fine tuned” for just in time manufacturing, rather than maintaining large inventories.

### **2.5.4 Mass Customization and Competitive advantage :**

The web based interactive Ecommerce enables the customization of products/services as per the customer needs. This provides a great competitive advantage to businesses. For example, an online travel agency may customize the itinerary for a customer who wishes to travel abroad or a computer manufacturer may be able to supply a customized PC to a user.

### **2.5.5 No Middlemen :**

There is a direct contract with customers in E-Commerce through internet without any intermediation. Companies can now focus more on specific customers by adapting different one-to-one marketing strategy.

### **2.5.6 Reduced Production lead Time :**

The production cycle time is the time taken by a business to build a product, beginning with the design phase and ending with the completed product. The internet based E-Commerce enables the reduction of this cycle time by allowing the production teams to electronically share design specifications and refinement processes. The reduction in the production cycle time helps to reduce the fixed overheads associated with each unit produced. This saving in the cost of production can be passed onto the customer or may be used to achieve higher profits.

### **2.5.7 Improved Customer relationship :**

Customer service can be enhanced using the internet based E-Commerce by helping the customer to access information before, during and after a sale. Customers may need to retrieve information on product specifications and pricing. On the status of an order or may need online help in the installation or use of a product he has purchased. A prompt customer support service can help businesses to earn goodwill of customers in the long run.

### **2.5.8 Lower Sale and Marketing Costs :**

The internet allows businesses to reach many customers globally at lower costs. Thus by shifting the sale and marketing functions to the electronic processes, the organizations can bring down greatly the marketing overheads. For example, advertisements on the internet can cut down

the cost of printing and mailing the pamphlets or brochure. Any charge in product specifications in the case of paper- based advertisements may mean re-printing, how-ever in web based advertisement it may mean changes only in the web site.

### **2.5.9 Lower Telecommunication Costs :**

The Internet is much cheaper than value added networks (VANs) which were based on leasing telephone lines for the sole use of the organization and its authorized partners. It is also cheaper to send a fax or e-mail via the Internet than direct dialing before the coming internet, only few organizations were using the private networks and VANs for their EDI. The cost of installation and running these systems was very high and beneficial only to the larger firms and enough business volumes to justify the cost.

### **2.5.10 New Found Business Partners :**

Internet based E-Commerce enables businesses to find new business partners globally on the web, thus not restricting themselves to a specific choice of suppliers.

### **2.5.11 Increased supply chain efficiencies :**

E-Commerce minimizes supply chain inefficiencies, reduces inventories, reduces delivery delays. Digitization of Products and Processes: Particularly in the case of software and music/video products, this can be downloaded or e-mailed directly to customers via the Internet in digital or electronic format. The internet helps to expedite access to remote information, thus adding speed to transactions and processes. Information sharing: It takes only few seconds to share information over the internet. A firm can e-mail its customers relating new products and new offers and can solve their product related quires and welcome suggestions.

## **2.6 ADVANTAGES OF E-COMMERCE TO CONSUMERS :**

Gives freedom to make choices : It also gives customers an opportunity to look for cheaper and better quality products. With E-Commerce, consumers can search the specific product or service they require and can even find the direct manufacturer from where they can purchase products at comparatively less price. Shopping online is time saving and convenient. In addition to it, consumers also get to see the reviews of other consumers that will help in making beneficial purchase decision.

### **2.6.1 Increase in variety of goods :**

As the market will expand the variety of goods available will also expand. Wide variety of goods are available than ever before. It gives more choice and alternatives: E-Commerce provides more choice and alternatives to customers that will increase the choice of vendors or products because they are no longer geographically constrained to reach a vendor or a product. A large number of vendors/manufacturers are marketing and selling their products/services on the

internet. Virtual shops (e.g.Homeshop18, snap deal, flipkart) can offer the consumers a large number of products/services at a single site.

### **2.6.2 Convenience of Shopping at Home :**

IT allows the consumers to shop when it is convenient for them not strictly during store hours. Also for handicapped or ill consumers, home shopping on the internet provides a lot of opportunity and convenience.

### **2.6.3 Ensure Secrecy :**

The various security measures that are in built are used in Ecommerce transactions to prevent any unauthorised access to information on the internet for ensure secrecy they maintain encoding, encryption and passwords. More Competitive Prices and Increased Price comparison capabilities: The large amount of information available on the internet is giving more and more power to the consumers. Consumers can make comparison shopping. There are several online services that allow customers to browse multiple ecommerce merchants and find the best prices.

### **2.6.4 Access to Greater Amounts of Information on Demand :**

Consumers can have access to large amount of information online on products and services, their features and prices. This further translates into more choice to customers in shopping and greater price comparison opportunities.

### **2.6.5 Time compression :**

Time is not a factor with Internet communication between firms and their stakeholders. Online stores can be open 24/7; people can communicate as their schedules permit; time zones disappear for managers collaborating with partners on other continents.

### **2.6.6 Quick Delivery of Digitized Products/Services :**

E-Commerce allows quick delivery in the case of digitized products such as music, software etc.

### **2.6.7 Provide Comparison Shopping :**

Economic facilitates comparison shopping. There are several online services that allow customers to browse multiple ecommerce merchants and find the best prices.

### **2.6.8 E-payment system :**

The electronic payment system on the internet is facilitated by payment gateways or intermediary between the business firm and customers and between the business firms for assuring the payments from the customers.



## **2.7 BENEFITS OF E-COMMERCE TO SOCIETY :**

### **2.7.1 Enables More Flexible Working Practices :**

Which enhances the quality of life for a whole host of people in society, enabling them to work from home? Not only is this more convenient and provides happier and less stressful working environments. It also potentially reduces environmental pollution a fewer people have to travel to work regularly.

### **2.7.2 Connects People :**

Enables people in developing countries and rural areas to enjoy and access products, services, information and other people which otherwise would not be easily available to them. Facilitates Delivery of Public Services : The health services available over the Internet on-line consultation with doctors or nurses, filing taxes over the Internet through the Inland Revenue website.

## **2.8 DISADVANTAGES OF ONLINE BUSINESS :**

The following are the important drawback/disadvantages of electronic commerce: Ecommerce

### **2.8.1 Lacks That Personal Touch :**

Not that all physical retailers have a personal approach, but we do know of several retailers who value human relationship. As a result, shopping at those retail outlets is reassuring and refreshing. Clicking on “Buy Now”, and piling up products in virtual shopping carts.

### **2.8.2 System and data integrity :**

A computer virus is a program that clones itself when an injected piece of program code is executed. it is malicious program. data protection from the viruses that causes unnecessary delays and can clean up all stored information must. In order to create cost effective response to the varied technical and human threats to web site security.

### **2.8.3 E-Commerce Delays Goods :**

Ecommerce websites deliver to take a lot longer to get the goods into consumer hands. Even with express shipping the earliest consumer get goods in next day. An exception to this rule is in the case of digital goods an e-book or a music file. In this case, ecommerce might actually be faster than purchasing goods from a physical store.

### **2.8.4 System scalability :**

It means regular up graduation of the website is required when the number of website users increase over period of time or during busy seasons. As a result of rush of enquiries on the

companies site, it might cause slow down of the system performance and eventually loss of customers.

### **2.8.5 E-Com Dependent on internet :**

E-Commerce is dependent on internet. Mechanical failures in the system can cause unpredictable effects on the total processes. Furthermore, there are many hackers who look for opportunities, and thus an ecommerce site, service, payment gateways; all are always prone to attack. Things such as viruses could mean losing the site or affecting the customer's computers while on purchasing from the website.

### **2.8.6 Many Goods Cannot Be Purchased Online :**

Despite its many conveniences, there are goods that consumer cannot buy online. Most of these would be in the categories of "perishable" or "odd-sized". It could order both of them online, but consider the inconvenience. The Popsicle would have to be transported in refrigerated trucks. Unless the seller was willing to make a huge loss, the cost of shipping that Popsicle would far exceed the cost of the Popsicle.

### **2.8.7 Products people won't buy online :**

There are various products which the customers would like to first touch and feel and then buy it. For example: Furniture users want to touch and they want to sit on it, feel the texture of the fabric.

## **2.9 CHALLENGES :**

The growth of ecommerce volumes in India is attracting the attention of players around the world. Despite lower per-capita purchasing power, the population still makes India one of the most attractive emerging markets for ecommerce. But India is far from being a bed of roses.

Here are the top 8 challenges that ecommerce businesses face in India.

### **2.9.1 Indian customers return much of the merchandise they purchase online :**

Indian customers return much of the commodities they purchase online. E business in India has many first time buyers. This means that they have not yet made up their mind about what to expect from e-business websites. As a result, buyers sometimes fall prey to hard sell. But by the time the product is actually delivered, they regret and return the goods. Returns are expensive for e-business companies, as reverse logistics presents unique challenges. This becomes all the more complex in cross border e-business.

**2.9.2 Cash on delivery is the preferred payment mode :**

Cash on delivery is the preferred payment mode. Low credit card access and low trust in online transactions has led to cash on delivery being the preferred payment choice in India. Unlike electronic payments, manual cash collection is painstaking, risky, and expensive.

**2.9.3 Payment gateways have a high failure rate :**

Indian payment gateways have an unusually high failure rate by global standards. E-business companies using Indian payment gateways are losing out on business, as several customers do not attempt making payment again after a transaction fails.

**2.9.4 Internet penetration is low :**

Internet penetration is low. Internet penetration in India is still a small fraction of what is there in a number of western countries. The quality of connectivity is poor in several regions. But both these problems are on their last legs. The day is not far when connectivity issues would not feature in a list of challenges to e-business in India.

**2.10 FEATURE PHONES STILL RULE THE ROOST :**

Though the total number of mobile phone users in India is very high, a significant majority still use feature phones, and not smart phones. As a result this consumer group is unable to make e-business purchases on the move. Though India is still a couple of years away from the scales tipping in favour of smart phones, the rapid downward spiral in the price of entry-level smart phones is an encouraging indication.

**2.11 POSTAL ADDRESSES ARE NOT STANDARDIZED :**

If an online order is placed in India, it is quite likely get a call from the logistics company to ask about exact location. Clearly address is not enough. This is because there is little standardization in the way postal addresses are written.

**2.12 LOGISTICS IS A PROBLEM IN THOUSANDS OF INDIAN TOWNS :**

Given the large size of the country, there are thousands of towns that are not easily accessible. The problem with logistics is compounded by the fact that cash on delivery is the preferred payment option in India. International logistics providers, private Indian companies, and the government-owned postal services are making a valiant effort to solve the logistics problem.

**2.13 OVERFUNDED COMPETITORS ARE DRIVING UP COST OF CUSTOMER ACQUISITION :**

The long-term prospects for ecommerce companies are so exciting that some investors are willing to spend irrationally high amounts of money to acquire market share today. Naturally the Indian consumer is spoiled for choice.

## **2.14 SUMMARY :**

There is no one commonly agreed definition of E-Commerce. E-commerce has an impact on three major stakeholders, namely society, organizations and customers. There are a number of advantages, which include cost savings, increased efficiency, customization and global marketplaces. There are also limitations arising from E-Commerce which apply to each of the stakeholders. These include information overload, reliability and security issues, cost of access, social divisions and difficulties in policing the Internet. In order to aid general understanding of E-Commerce a number of frameworks have been introduced to explore it from different perspectives. These frameworks help identify the elements of E-Commerce and how businesses can better understand E-Commerce and its practical applicability.

## **2.15 KEY WORDS :**

### **Search advertising :**

Search advertising is a method of placing online ads on Web pages near search engine results.

### **Contextual ads :**

Contextual advertising takes display ads to the next level, by placing them onsite related to your offerings .

### **Geo-targeting**

– simply means advertising to prospects in specific locations –which could be very useful

### **Affiliate marketing :**

Affiliate marketing lets you get other businesses to drive prospects to your website. Some affiliates may allow you to set up a store on their domains, such as comparison shopping sites

### **Website analytics :**

Dig into your visitor data to see where your most promising leads come from. The quality of your traffic usually trumps quantity

### **Landing Page :**

A landing page is any page on your website where traffic is sent specifically to prompt an action

### **Social Networking Sites :**

As the social networking sites increase in popularity, retailers must be using this platform for marketing and selling their products

**2.16 SELF ASSESSMENT QUESTIONS :**

1. Define Online Business? Discuss the Online Business Options
2. Briefly explain the Emerging Trends in E-commerce
3. Explain the Advantages of Online Business
4. Outline the Benefits and Challenges of Online Business

**2.17 SUGGESTED READING :**

1. Suresh Babu (2015) A step-by-step Guide to Modern Digital Marketing Web Marketing Academy.
2. Dan Morley(2016) Netmark's 2016 Guide to the 6 fundamentals of Digital Marketing Netmark Publishers.
3. Rob Stokes(2017) The Essential Guide to Marketing in a digital World Quirk e-Marketing Publishers.
4. Alex Trengove Jones, Anna Malczyk and Justin Beneke (2020) Internet Marketing A highly practical guide to every aspect of internet marketing GetSmarte Publishers.

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## LESSON - 3

# DIFFERENCE BETWEEN ONLINE AND OFFLINE BUSINESS

### OBJECTIVES OF THE LESSON :

- ✓ To study the Factors affecting Online shopping
- ✓ To Learn the Factors affecting Offline shopping
- ✓ To Understand the Online Business Advantages and Disadvantages
- ✓ To Elaborate the Offline Business Advantages and Disadvantages

### STRUCTURE OF THE LESSON :

- 3.1 Introduction
- 3.2 Factors Affecting Online Shopping
  - 3.2.1 Risk
  - 3.2.2 Convenience
  - 3.2.3 Anxiety
  - 3.2.4 Previous online experience
  - 3.2.5 Pricing Policy
  - 3.2.6 Quality
  - 3.2.7 Online trust
  - 3.2.8 Tangibility of the product
  - 3.2.9 Delivery time
  - 3.2.10 Income
  - 3.2.11 Taste and preference
  - 3.2.12 Information
  - 3.2.13 Variety
  - 3.2.14 Discreet shopping
  - 3.2.15 Offers
  - 3.2.16 Instant gratification
- 3.3 Factors Affecting Offline Shopping
  - 3.3.1 Less number of choices
  - 3.3.2 Time consuming

- 3.3.3 Information
- 3.3.4 Authenticity
- 3.3.5 Taste and preference
- 3.3.6 Bargaining
- 3.4 Online Business Advantages
- 3.5 Offline Business in India Advantages
- 3.6 Online Business Disadvantages
- 3.7 Offline Business Disadvantages
- 3.8 Summary
- 3.9 Key words
- 3.10 Self assessment Question
- 3.11 Suggested Readings

### **3.1 INTRODUCTION :**

The increase in technology provides good opportunities to the seller to reach the customer in much faster, easier and in economic way. Online shopping is emerging very fast in recent years. Now a day the internet holds the attention of retail market. Millions and millions of people shop online. On the other hand the purchasing of product from traditional market is continuing since years. Many customers go for purchasing offline so as to examine the product and hold the possession of the product just after the payment for the product. In this contemporary world customer's loyalty depends upon the consistent ability to deliver quality, value and satisfaction. Some go for offline shopping, some for online and many go for both kind of shopping.

However online shopping is easier for the people and less price than the offline shopping. While making any purchase decision consumer should know the medium to purchase whether online shopping or the offline shopping. Consumer should decide the channel for them which can best suit to their need and wants and which can satisfy them. In this competitive world how consumer can decide the particular medium for their purchase of goods is very important to understand in a managerial point of view. (Laing and Lai, 2000) said that the internet shopping is the third best and most popular activity over internet after online shopping next comes the e-mail using, instant messaging and web browsing.

These are even more important than watching or getting entertain by the internet or getting any information or news, this are the two very common thought which comes to the people's mind when considering the internet users do when they are online. The behaviour of online shopping is also known as online buying behaviour and internet shopping. Buying behaviour means the purchase of good over internet using web browser. Online shopping also consist the same five steps which is related to traditional shopping behaviour. (Chiang and Dholskia, 2003; Lynch, Kent, and Srinivasan 2001) they said that in the typical way of online

shopping when the consumer need some product or service they go through the internet and browse or search the things they need and their information. But rather than searching actively, many a times potential consumers are attracted by the information about the product they want. They see many products online and choose the best one which suits him/her.

Then they purchase that product and finally the transaction takes place and post sales service provided by the online sites. Online shopping attitude and behaviour are related to the consumer. Previous studied have focused on why the products of the online shopping is different from other products. Many studies have focused that the high touch products that the consumer feels when they need to touch, smell or try the product. It requires the offline shopping at the purchasing stage because it cannot be done in the online shopping. Even with the increase in the online shopping and the recognition that online shopping is more likely to impose the pressure on offline shopping or traditional shopping. The research is very limited in this area or field. Online or e-shopping is a kind of electronic shopping which allow the consumer to purchase goods over the internet directly from the seller using a web browser. There are some alternative names of online shopping those are as follow- e-web store, e-shop, e-store, internet shop, web-shop, web-store, online store, online store front and virtual store. Mobile commerce or m-commerce is described as purchasing from the online retailer by the mobile optimized online sites or application (app).

Tim Berners Lee is the one who created the first World Wide Web server in 1990. It was opened for a commercial purpose. There after many technological innovation emerged in 1994 like the online banking, the opening of online pizza shop by Pizza Hut, Netscape SSL v2 encryption standard for secure data transfer, and Intershop's first online shopping system. In 1994 the first secure transaction was over the web either by Net market or Internet shopping. Amazon was launched in 1995, it is the first online shopping site of the world and after that eBay was introduced in 1995. Today many countries are doing online shopping but still some countries are at the starting point of the experiment of online shopping. In 1987, the merchant account was launched that helped the software developers to sell their software online easily. Swreg was the name of first software and the oldest software that is still available. Future shop is a book for how new technology will change the way of shopping and what the customer buy. It was published in the year 1992. The book consists of the topic like what will happen in the future date of e-commerce and how the internet will take place in the society. 1994 is the mouth of year of online commerce and Yahoo is launched in this year. In 1995 approx. 12000 domain names were registered in the internet. In 1998 Google entered the world of e-commerce and yahoo launched yahoo store online. The customer of online shopping should have internet and a valid method of payment in order to purchase the products from the internet. Amazon, Myntra, flipkart are some of the examples of the successful online shopping sites that use less price of the items and large stocks to attract the consumer.

In general the population from high level of income and high level of learning are more favourable to do online shopping. The population who are more knowledgeable and more explored to the internet are more into online shopping. The increase in technology increases the online shopping by the consumer. The increase in technology creates a favourable attitude towards the consumer for online shopping.



### **3.2. FACTORS AFFECTING ONLINE SHOPPING :**

Online shopping becomes relevant in the last decade. The kind of business online retailer are doing is proof enough that they are providing some benefits to customer which offline shopping does not give to the customer. These are the factors affecting online shopping:

#### **3.2.1 Risk :**

When customer buy products from online shopping they do not touch or feel the product in a physical sense .Hence we understand that lot of risk is involve while buying an online product whether it will reach us on proper time or not is also a concern and also there may arise a risk of product size and colour as it may differ in real view or sense. Sometimes the product ordered is kind of damaged.

#### **3.2.2 Convenience :**

Online shopping is much more convenient than offline shopping. Instead of taking out your vehicle and visit shop to shop you can just sit at your home and do the shopping. It is convenient to sit at one place and shop the product of our choice without moving from place to place. Once you have decided on what you want to buy the payment process is seamless and the order is delivered to your place. Online shopping makes things more convenient. We can have a lot of choice over there in any kind of material we want to deal with that too without any fear of dealing with any dealer or distributors. Online shopping is convenient in its real sense as it do not carry any dealing with issues of asking for wanted items or issues of asking for desired kind of items which helps in avoiding the part of waiting, asking, questioning about the product.

#### **3.2.3 Anxiety :**

People's anxiety of exploring the sites and experimenting over them is also a matter of concern. Sometimes people those who are not very known to any sites like flip kart, myntra or any sites they just feel like it's a tough kind of activity over net and its complicated in there sense as they are not very fond of doing online shopping as it takes a time to even understand the product about its details. This particular activity makes them irritated and anxieties over any kind of fatal online dealing.

#### **3.2.4 Previous online experience :**

How has been a person's experience in past as far as online shopping is concerned is a major story of concern. Previous experience is what matters actually as its hamper or sometime it keep good view or mood of people. There are two experiences one is about good and another is about bad. Both has its own and different affect in the mind of buyers. So these factors also influence online shopping or e shopping.

#### **3.2.5 Pricing Policy :**

Online retailers gets an inherent advantage in pricing as they don't have to bear expenses like store rent, bills etc. They can pass their price directly to customer and generally offer a lower price to customer than offline market. Even when shipping charges are included than also it is better than the offline shopping. Hence, determines the level of online shopping. Lower the

price- higher the mood to demand, higher the price –lower the demand. Price of any commodity also influences the purchasing power of any specific buyer. Consumer generally prefer mild or normal price with good quality and do not want to spend or expense lot for any kind of stuff. So buying and selling both are simultaneously affected by the price of product.

### **3.2.6 Quality :**

The quality of product at online sites and offline stores vary a lot and then this determines the frequency of online shopping. Quality also carries good affecting nature over any kind of shopping. As consumer or buyer want to have a good quality of product as they spent their huge sum of money. In general, quality is a primary need over any kind of purchasing as it somewhat secure or give a good sense of buying or kind of guarantee about the product preferred.

### **3.2.7 Online trust :**

It depends on customer perception whether they trust a particular site and its product and services. Hence the frequency of online shopping also depends upon whether they trust a particular site or not. People are different in their nature and thoughts, some kind of people trust online dealing some kind of people are in fear of online dealing. Trust carry a lot of points examples- trust about the same product size quantity weight and security etc.

### **3.2.8 Tangibility of the product :**

At the store the customer gets to touch and feel the product they purchase before buying which help the customer to take the decision to buy the product or not whether the product will suit the customer need or not. Whether, we can and see feel a product is also a reason which determines whether a person's wants to go for shopping or not.

Tangibility of any product also determines the online shopping. Without touching the preferred or desired substance nobody can get its security about the worthiness or quality or sense of any preferred product.

### **3.2.9 Delivery time :**

The product ordered by the customer in online shopping takes a minimum of six to seven days to deliver the product to the customer. But in offline shopping the possession of the goods is immediately transferred to the buyer. So this is a major factor which affects the online shopping. People want a good delivery time; they prefer to get a product in a desired time or in short time of duration. Duration is the second major factor affecting the demand of product.

### **3.2.10 Income :**

The person whose income is more, do more online shopping as compared to the person whose income is less. Income plays a major role to purchase online products. Higher income people prefers to purchase online more than offline as it gives them reliability and convenient. Higher the income higher wills the purchasing of online product and vice-versa.

### **3.2.11 Taste and preference :**

The taste and preference of the customer vary from customer to customer and time to time, taste and preference also a factor which influences online shopping. Taste and preference of age group also matters in online shopping. Old people buy or purchase product for their kind of use. Young generation or teenagers use to purchase their taste of product. Taste and preference move in tend of ages and choices. Every customer or buyer choices are different in nature as per their ages.

### **3.2.12 Information :**

The information given in the site may not be correct or may not be appropriate information. The full information about the quality of the product may not reach to the customer. Hence it will affect the online buying of the customer. Information provided by the preferred sites may be not the same about the detail of the product. May be with the provided information and details customers are not very satisfied. Sometimes it happens that even many customers use to buy the product after their full knowledge of details as they prefers the detail are accurate and good in sense. Information related to product may vary in its real sense when it arrives or delivered to relevant customer.

### **3.2.13 Variety :**

The kind of variety that a customer gets online is hard to match any product purchased offline. The online retailer's stock products from the entire major brand and a customer can find any product in their listing no matter how hard to find it is in the off line store. Online and offline both shopping provide variety of range from various brands. Variety in it itself is the foremost dealing factor which influence the market. Larger the variety of product in shop higher the selling and vice-versa. People generally prefer to move where they get more variety of products.

### **3.2.14 Discreet shopping :**

While buying some products like lingerie customers don't feel comfortable to purchase it in offline store. Shopping online is discreet and some online portals also provide discreet shopping. Purchase of girly material are very convenient in offline shopping as it is not dealt with any kind of uncomfortable situation. There is no person to who is to ask for any kind of intimate product, customer can easily cope with offline as they can go and purchase their usable items without any kind of hesitations.

### **3.2.15 Offers :**

Apart from offering products at lower price most online shopping regularly come up with discount offers in association with bank, brand etc. Which entail customer to get additional saving while buying products online? Offline stores only give offer or discount during stock clearance or when the manufactures gives the discount on the products. Online shopping always provides offers at all the time and day. In every purchase we get some offer seven if there is no festival or carnivals. Offers are a great factor which attract customer to purchase online. Offer carry a great influence in shopping.

### **3.2.16 Instant gratification :**

Customer buying offline gets their products as soon as they pay for it but in online shopping customer have to wait for their product to get their product. Under normal circumstances waiting a day or two does not matter much but when a customer want to get the product instantly than offline shopping become necessary. Available product and services : Online shopping offer customers more benefit by providing more variety of goods and services that they can choose from. There are some goods which a customer can only find online.

## **3.3 FACTORS AFFECTING OFFLINE SHOPPING :**

Offline shopping has existence since the existence of mankind. Offline shopping gives different types of benefits to the customer. There are some factors which affect the shopping offline those are as follow:

### **3.3.1 Less number of choices :**

There are limited numbers of choices when it comes to offline shopping. The numbers of varieties are limited. The ranges of products available in the shops are limited. Sometimes, the stocks are old and are up for discount and sale. Basically in offline or any shop we get less numbers of choices as it consists of manual work. We have to choice in that less number of materials due to manual factor.

### **3.3.2 Time consuming :**

It takes a lot of time to go shopping to a store. Distance from home or workplace to the store is time consuming. It is also time consuming while trying out the outfits in a store or even going through other products. In off-line shopping customer move one place to another and one shop to another in search of their desired product.

### **3.3.3 Information :**

What generally happens is that the information provided by a shopkeeper isn't correct. Also this information doesn't always suit our needs. And we buy products according to what they say when we ourselves don't have adequate knowledge about the products. Such purchases are based on goodwill when we happen to know the shopkeepers.

### **3.3.4 Authenticity :**

Offline shopping is more authentic than online shopping. While buying the product we can feel the texture of it and know what it's like. We exactly know what we are buying while buying anything offline. But in online shopping, we don't always know what exactly we are buying. This is because what we see on the websites is not always what we buy when the product reaches us.

### **3.3.5 Taste and preference :**

The taste and preferences of the customer change from time to time. While buying any product from a store we have the flexibility and the choice to try out outfits. But while buying any product from a website we don't have this facility. Therefore, buying offline caters more to the changing taste and preferences of the customers.

### **3.3.6 Bargaining :**

In offline store a customer can do physical bargaining to the seller unlike shopping online. In online shopping a customer cannot do bargaining as the price of the product is fixed. Some of the customer purchased products depending upon bargaining so they do not go for online shopping as they feel shopping online is more costly than the market.

There is a lot of difference between online vs. offline business. For many, going the internet way may seem to be fraught with difficulties. It's because of this that some company owners aren't keen on making the leap to digital. However, there are businesses that operate completely online. Even though the fundamentals of conducting a company in both online and offline approaches are similar, there are certain advantages and disadvantages to each. In this article, you will learn about Online Business vs. Offline Business. You will be able to understand both benefits and disadvantages of each online business vs. offline business.

## **3.4 ONLINE BUSINESS ADVANTAGES :**

In e-commerce, there is no face-to-face contact. It indicates that a product or service is physically invisible to the buyer.

However, the customer gets the details from the app or website.

This is referred to as e-Commerce, and you may begin running an online company through Website Development and Online Company Registration.

To put it simply, e-commerce refers to online transactions in which products and services are bought and sold or cash is transferred using electronic networks, such as the internet.

E-commerce and e-business are sometimes used interchangeably.

## **3.5 OFFLINE BUSINESS IN INDIA ADVANTAGES :**

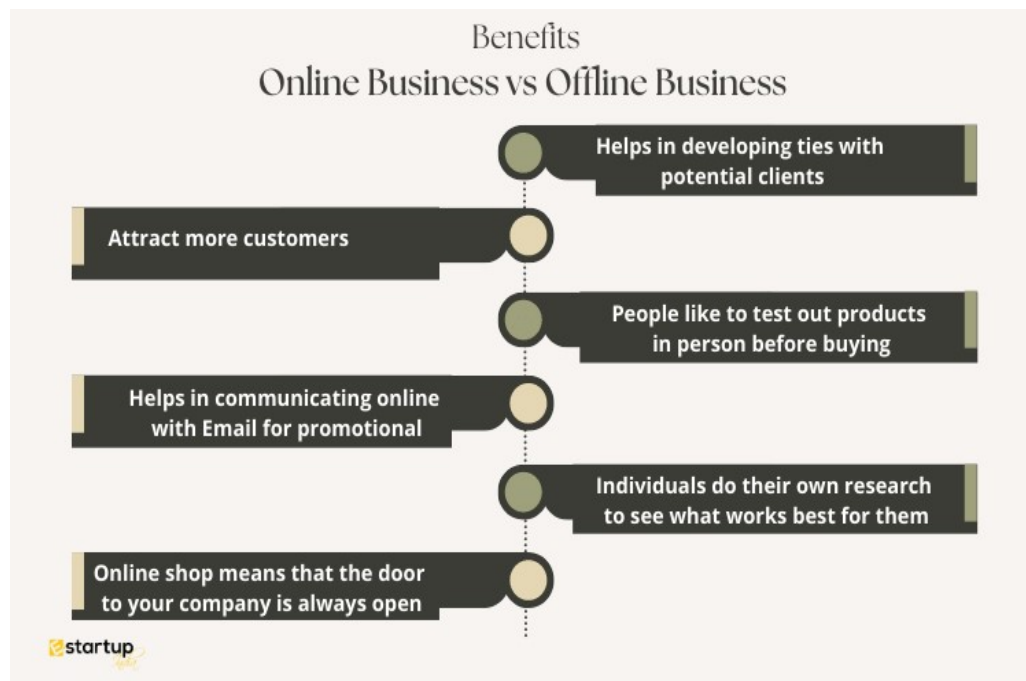
In a brick-and-mortar shop, a consumer may converse with a real person. Thus, buyers may get answers to their questions about the product or service straight from you.

For instance, the shops located in your neighborhood and shopping mall is referred to as brick and mortar stores or offline enterprises.

Customers may also get a personal look at the brand via a business owner.

Meeting consumers in person at a physical location has the potential to simplify sales.

## Online Business vs Offline Business – Benefits



### Online Business Benefits :

Many online retailers are now providing consumers the option of customizing their purchases in order to draw in more customers. When purchasing online, the degree of customization a consumer receives makes them feel more special.

It's a huge benefit of launching an internet company to be able to alert your prospective consumers about impending specials, promotions, and discounts. You may send an email or text message to a customer after they've signed up for your e-store. It's a great strategy to get your subscribers to become loyal consumers by making them feel special.

Having an online shop means that the door to your company is always open. You don't have to reinvent the wheel in order to attract a worldwide audience. Brand identity can be built throughout the world, which increases your earning potential. You can also get ISO Certification to get brand recognition internationally.

Workers aren't required at each site, and health or security employees aren't required, which lowers the cost of conducting business online. Workers are just needed for sales, and the rest is done automatically.

### Offline Business Benefits :

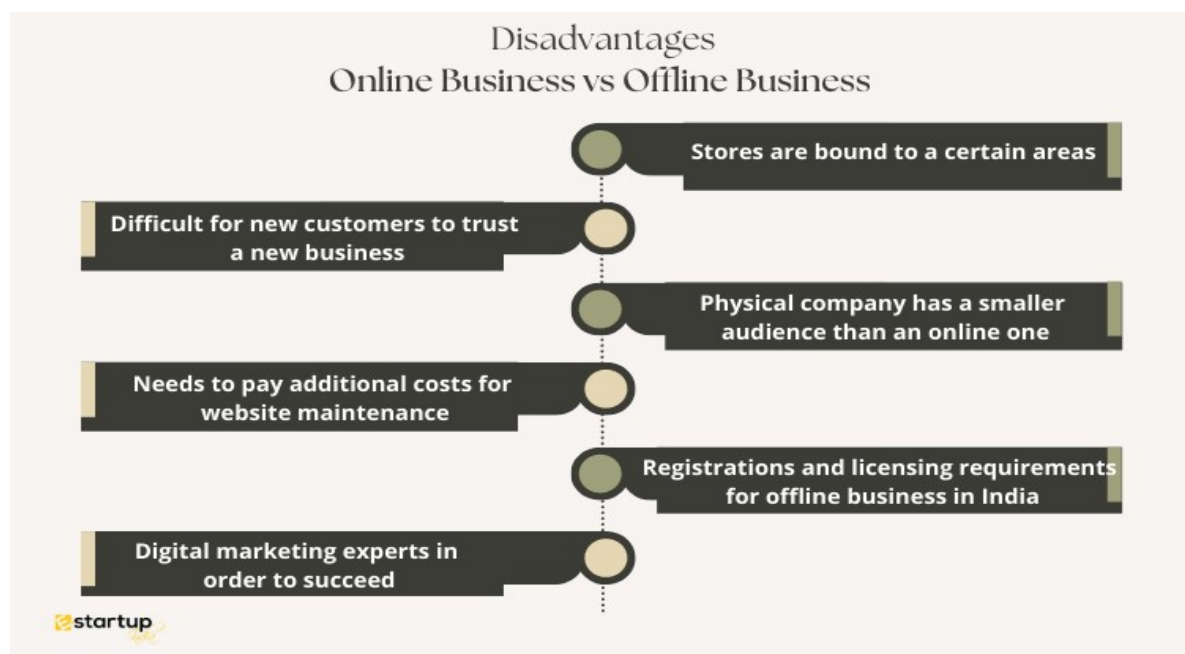
Possessing a shop for visiting consumers enables you to develop ties with potential employment. Additionally, you may meet with them in person, get to know them, and demonstrate to them personally how your brand can make their lives simpler. They may therefore be more inclined to stick around as a result.

Shopping at brick-and-mortar establishments offers several advantages for consumers. Many people like to test out products in person before making a final decision. An online-only shop can't recreate the customer experience.

When it comes to shopping at a store, individuals do their own research to see what works best for them. Refund rates are reduced as a direct consequence.

Customers who purchase from offline shops are less likely to be cheated, and they have a better chance of properly inspecting products before paying for them. Offline businesses don't usually have to fear losing sales because clients don't trust you, and you usually don't have to do anything else to make them trust you, either

### Online Business vs Offline Business – Disadvantages



### 3.6 ONLINE BUSINESS DISADVANTAGES :

It's more difficult for new customers to trust a new business if they don't know much about the person or company they're doing business with. It's fair to say that there are a lot of scam websites out there, and individuals do get ripped off every day.

You may need to hire digital marketing experts in order to succeed in an online business

### 3.7 OFFLINE BUSINESS DISADVANTAGES :

Brick-and-mortar stores are bound to a certain area, and you can't sell your brand beyond that. Scaling a conventional firm, on the other hand, maybe incredibly difficult since growth often requires the establishment of additional sites.

It has to pay additional costs for website maintenance or app maintenance in order to keep the business running.

E-commerce websites serve as worldwide storefronts for online enterprises, as opposed to traditional offline operations, which rent or create physical facilities for their clients to shop from there. Thus, a physical company has a smaller audience than an online one.

There are plenty of registrations and licensing requirements for offline business in India.

### **3.8 SUMMARY :**

Electronic business (or "Online Business" or "e-business") is any kind of business or commercial transaction that includes sharing information across the internet. Commerce constitutes the exchange of products and services between businesses, groups, and individuals and can be seen as one of the essential activities of any business. Electronic commerce focuses on the use of information and communication technology to enable the external activities and relationships of the business with individuals, groups, and other businesses, while e-business refers to business with help of the internet.

### **3.9 KEY WORDS :**

#### **Instant gratification :**

Customer buying offline gets their products as soon as they pay for it but in online shopping customer have to wait for their product to get their product.

#### **Offers :**

Apart from offering products at lower price most online shopping regularly come up with discount offers in association with bank, brand etc

#### **Discreet shopping :**

While buying some products like lingerie customers don't feel comfortable to purchase it in offline store. Shopping online is discreet and some online portals also provide discreet shopping.

### **3.10 SELF ASSESSMENT QUESTIONS :**

1. Define Online Shopping Describe the factors affecting Online shopping?
2. Define offline Shopping Describe the factors affecting Offline shopping
3. Describe the Online Business Advantages and Disadvantages
4. Briefly Elaborate the Offline Business Advantages and Disadvantages

### **3.11 SUGGESTED READINGS :**

1. Sorger, S. (2015). Marketing Analytics: Strategic Models and Metrics. Apress.
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## **LESSON - 4**

# **E-COMMERCE AND ONLINE BUSINESS**

### **OBJECTIVES OF THE LESSON :**

- ✓ To study the features of E-commerce
- ✓ To Understand the Benefits of E-commerce
- ✓ To Learn limitations of E-Commerce

### **STRUCTURE OF THE LESSON :**

- 4.1 Introduction
- 4.2 E-Commerce: Meaning
- 4.3 Examples of E-Commerce
- 4.4 E-Commerce Definitions
- 4.5 E-Commerce – Features
  - 4.5.1 Ubiquity
  - 4.5.2 Global reach
  - 4.5.3 Universal standards
  - 4.5.4 Richness
  - 4.5.5 Interactivity
  - 4.5.6 Personalization
  - 4.5.7 Information density
  - 4.5.8 Social technology
  - 4.5.9 User-Generated Content
  - 4.5.10 Growing opportunities
  - 4.5.11 Online Travel Segment
  - 4.5.12 E-Tailing
  - 4.5.13 Online Financial Services
  - 4.5.14 Classifieds
  - 4.5.15 Other online Services
- 4.6 Benefits and limitations of E-Commerce
  - 4.6.1 Benefits of E-Commerce

#### 4.6.2 Limitations of E-Commerce

#### 4.7 Summary

#### 4.8 Key words

#### 4.9 Self Assessment Questions

#### 4.10 Suggested Readings

### **4.1 INTRODUCTION :**

WE are living in e-century. The Internet and information and communications technologies (ICT) are central to economic growth and productivity. Internet-based technologies and networks can increase productivity, decrease costs and open new market opportunities. Now-a-days, using the Internet and email to conduct business is not uncommon. However, lack of technical and management skills in Information and Communications Technology is a barrier. There are a wide variety of resources available to help you to improve your e-commerce skills. Simply, decide what skills you need and identify the appropriate resources to help you to build those skills.

The skills that may be required range from basic abilities, like word processing and Internet navigation, to more complex capabilities such as designing and building websites and database management.

There are a range of resources to help you broaden your understanding of the e-commerce environment and develop your technical skills. These include online resources, books and magazines, seminars and training courses. Keeping this in mind, a summary on the background of Electronic Commerce is being provided.

### **4.2 E-COMMERCE - MEANING :**

E-Commerce or Electronics Commerce is a methodology of modern business which addresses the need of business organizations, vendors and customers to reduce cost and improve the quality of goods and services while increasing the speed of delivery. E-commerce refers to paperless exchange of business information using following ways.

Electronic Data Exchange (EDI)

Electronic Mail (e-mail)

Electronic Bulletin Boards

Electronic Fund Transfer (EFT)

Other Network-based technologies

The concept of e-commerce is all about using the internet to do business better and faster.

E-commerce is the process of buying and selling over the Internet, or conducting any transaction involving the transfer of ownership or rights to use goods or services through a computer-mediated network without using any paper document.

Electronic commerce or e-commerce refers to a wide range of online business activities for products and services. It also pertains to “any form of business transaction in which the parties interact electronically rather than by physical exchanges or direct physical contact.” Business transacted through the use of computers, telephones, fax machines, barcode readers, credit cards, automated teller machines (ATM) or other electronic appliances without the exchange of paper-based documents. It includes procurement, order entry, transaction processing, payment authentication, inventory control, and customer support.

E-commerce is subdivided into three categories: business to business or B2B (Cisco), business to consumer or B2C (Amazon), and consumer to consumer or C2C (eBay) also called electronic commerce.

E-commerce the phrase is used to describe business that is conducted over the Internet using any of the applications that rely on the Internet, such as e-mail, instant messaging, shopping carts, Web services, UDDI, FTP, and EDI, among others.

A type of business model, or segment of a larger business model, that enables a firm or individual to conduct business over an electronic network, typically the internet. Electronic commerce operates in all four of the major market segments: business to business, business to consumer, consumer to consumer and consumer to business.

Ecommerce has allowed firms to establish a market presence, or to enhance an existing market position, by providing a cheaper and more efficient distribution chain for their products or services.

### **4.3 EXAMPLES OF E-COMMERCE :**

- i. An individual purchases a book on the Internet.
- ii. A government employee reserves a hotel room over the Internet.
- iii. A business calls a toll free number and orders a computer using the seller's interactive telephone system.
- iv. A business buys office supplies on-line or through an electronic auction.
- v. Retailer orders merchandise using an EDI network or a supplier's extranet.
- vi. A manufacturing plant orders electronic components from another plant within the company using the company's intranet.
- vii. An individual withdraws funds from an automatic teller machine (ATM).
- viii. Accepting credit cards for commercial online sales
- ix. Driving information through a company via its intranet

- x. Driving manufacturing and distribution through a value chain with partners on an extranet
- xi. Selling to consumers on a pay-per-download basis, through a Web site, etc

#### 4.4 E-COMMERCE DEFINITIONS :

The definition of e-commerce includes business activities that are business-to-business (B2B), business-to-consumer (B2C), extended enterprise computing (also known as "newly emerging value chains"), D-commerce, and m-commerce.

Ecommerce is simply a part e-business, more specifically, the trading aspect of e-business. Although there are many definitions and explanations of e-commerce, the following definition provides a clear distinction. There are many definitions and understanding about E-Commerce. They are as follows:

1. According to the editor-in-chief of International Journal of Electronic Commerce, Vladimir Zwass, 'Electronic commerce is sharing business information, maintaining business relationships and conducting business transactions by means of telecommunications networks'.
2. Electronic Commerce is where business transactions take place via telecommunications networks, especially the Internet – E. Turban, J. Lee, D. King and H.M. Chung,
3. Electronic commerce is about doing business electronically – P. Timmers
4. Electronic commerce or e-commerce refers to a wide range of online business activities for products and services – Anita Rosen
5. It pertains to "any form of business transaction in which the parties interact electronically rather than by physical exchanges or direct physical contact." – MK, Euro Info Correspondence Centre (Belgrade, Serbia),
6. E-commerce is usually associated with buying and selling over the Internet, or conducting any transaction involving the transfer of ownership or rights to use goods or services through a computer-mediated network. – Thomas L. Mesenbourg
7. A more complete definition is: E-commerce is the use of electronic communications and digital information processing technology in business transactions to create, transform, and redefine relationships for value creation between or among organizations, and between organizations and individuals. – Emmanuel Lallana, Rudy Quimbo, ZoraydaRuthAndam, ePrimer

From your reading it should be apparent to you that electronic commerce is more than online shopping.

## **4.5 E-COMMERCE – FEATURES :**

Electronic commerce, or e-Commerce, refers to the purchasing and selling of goods or services via electronic means, such as the Internet or mobile phone applications. It may also refer to the process of creating, marketing, servicing and paying for services and goods. Businesses, governments and the public can participate in e-Commerce transactions. The following discussion will elicit the unique features of e-commerce. The unique features of e-commerce technology include:

### **4.5.1 Ubiquity :**

e-Commerce is ubiquitous, It is available just about everywhere and at all times by using internet and Wi-Fi hotspot such as airport, coffee cafe and hill station places.. Consumer can connect it to the Internet at any time, including at their homes, their offices, on their video game systems with an Internet connection and mobile phone devices. E-Commerce is ubiquitous technology which is available everywhere Moreover, individuals who have cell phones with data capabilities can access the Internet without a Wi-Fi connection.

### **4.5.2 Global reach :**

The potential market size is roughly equal to the size of the online population of the world. E-Commerce Technology seamlessly stretches across traditional cultural and national boundaries and enables worldwide access to the client. E-Commerce website has ability to translate the multilingual websites as well as allow the access to visitors all over the world,purchase products and make business interactions.

### **4.5.3 Universal standards :**

The technical standards of the Internet are shared by all of the nations in the world. The whole online tradition are growing and expanding their features in the world. To development any kind of business need Internet and communication application which make the business relationship more lovingly and attractive for secure business and successful business.

### **4.5.4 Richness :**

Users can access and utilize text messages and visual and audio components to send and receive information. An individual may see information richness on a company's blog if a post contains a video related to a product and hyperlinks that allow him to look at or purchase the product and send information about the post via text message or email.

### **4.5.5 Interactivity :**

E-commerce technologies allow two-way communication between the merchant and the consumer. As a result, e-Commerce technologies can adjust to each individual's experience. For example, while shopping online, an individual is able to view different angles of some items, add

products into a virtual shopping cart, checkout by inputting his payment information and then submit the order.

#### **4.5.6 Personalization :**

Technologies within e-Commerce allow for the personalization and customization of marketing messages that groups or individuals receive. An example of personalization includes product recommendations based on a user's search history on a Web site that allows individuals to create an account.

#### **4.5.7 Information density :**

The use of e-Commerce reduces the cost to store, process and communicate information, At the same time, accuracy and timeliness increase; thus, making information accurate, inexpensive and plentiful. For example, the online shopping process allows a company to receive personal, shipping, billing and payment information from a customer all at once and sends the customer's information to the appropriate departments in a matter of seconds.

#### **4.5.8 Social technology :**

E-Commerce technology has tie up the social media networking application to provide the best source of content sharing technology and e-Marketing systems. You can share your content or data easily in just one click

#### **4.5.9 User-Generated Content :**

Social networks use e-Commerce technologies to allow members, the general public, to share content with the worldwide community. Consumers with accounts can share personal and commercial information to promote a product or service. When a company has a professional social networking account, a member of the same social network has the option of associating himself with the company or a product by saying he likes or recommends it. When an individual updates his status on a social networking account, he may also mention a product or company by name, which creates word-of-mouth advertising

### Differences between Traditional Commerce and E-Commerce

Point of Difference	E-commerce	Traditional Commerce
Cost Effective	E-commerce is cost effective. The cost incurred on middlemen is eliminated as there is direct link between the business and the customers. The total overhead cost required to run e-business is comparatively less. Running an e-business require only a head office. Overhead cost can be eliminated by hosting a website.	Cost has to be incurred for the role of middlemen to sell the company's products. The total overhead cost is more. Running a traditional business require a head office with several branches to cater to the needs of customers situated in different places.
Time	A lot of valuable time for both the consumers and business is saved. A product can be ordered and the transaction can be completed in few minutes through internet.	It takes a lot of time to complete a transaction.
Convenience	It provides convenience to both customers and business. It provides better connectivity for its prospective and potential customers as the website can be accessed virtually from anywhere, anytime through internet. It is not necessary to move away from their work place or home to locate and purchase a desired product.	It is not so convenient method as that of E-commerce. Customers have to move away from their home or work place to locate and purchase a desired product.
Accessibility	It is easy to expand the size of the market from regional to international level. By hosting a website, a business can penetrate into global market. It is quite easy to attract customers from global markets at a marginal cost.	It may not be easy to expand the size of the market from regional to national level. Business organizations have to incur a lot of expenses to enter international market.
Introduction of new product	It is easy to introduce a product on the website and get the immediate feedback of the customers. Based on the response, the products can be redefined and modified for a successful launch.	It takes a lot of time and money to introduce a new product and analyse the response of the customers. Initially, cost has to be incurred to carry out pilot surveys to understand the taste of the customers.
Profit	It helps the organization to enjoy greater profits by increasing sales, cutting cost and streamlining operating processes.	The cost incurred on the middlemen, overhead, inventory and limited sales pulls down the profit in traditional commerce.
Physical Inspection	It does not allow physical inspection of goods.	It is possible to physically inspect goods before the purchase.
Time	Round the clock service is available.	Business is open only for a limited time.



accessibility		
Product suitability	It not suitable for perishable goods and high value items such as jewellery and antiques. It is mostly suitable for purchasing tickets, books, music and software.	It is suitable for perishables and 'touch and feel' items.
Human resources	It requires technically qualified staff with an aptitude to update themselves in the ever changing world. It has difficulty in recruiting and retaining talented people.	It does not have such problems associated with human resources.
Customer interaction	The interaction between the business and the customer is screen-to-face.	The interaction between the business and the consumer is a face-to-face.
Process	Automated processing of business transactions helps to minimize the clerical errors.	There are chances of clerical errors to occur as there is manual processing of business transactions.
Business relationship	Business relationship is characterized by end-to-end.	Business relationship is vertical or linear.
Fraud	Lot of cyber frauds take place in e-commerce transaction. People generally fear to give credit card information. Lack of physical presence in markets and unclear legal issues give loopholes for frauds to take place in e-business transactions.	Fraud in traditional commerce is comparatively less as there is personal interaction between the buyer and the seller.
Information sharing	Little dependency on person to person information exchange. It provides a universal platform to support business activities across the globe.	Heavy dependency on information exchange from person to person. No uniform platform for information sharing as it depends heavily on personal communication.
Method of Communication	Communication can be done in asynchronous way. Electronics system automatically handles when to pass communication to required person or do the transactions.	Communication is done in synchronous way. Manual intervention is required for each communication or transaction.
Strategy	A uniform strategy can be easily established and maintain.	It is difficult to establish and maintain standard practices.

## 4.5 FUNCTIONS OF E-COMMERCE :

The following are five functions you should be doing daily in your e-commerce business.

### 4.5.1 Search Engine Optimization (SEO) :

Generate unique relevant content. Google loves unique content that is related to what your site is all about. Ensure you are using good keywords you want to focus  
Every page should have an H1 tag around what is the focus of the page, such as a product name, category name, or static content title. Use H2 tags as well for other important page sections.

Keywords in optimized page titles.

Internal linking. Link keywords in your unique content to pages related to that keyword. This is huge!!! Friendly URLs with related phrases. E.g. When talking about Zobrist's e-commerce solution, the URL looks like this: [http://www.zobristinc.com/our\\_solutions/eZ\\_Commerce/](http://www.zobristinc.com/our_solutions/eZ_Commerce/)

#### **4.5.2 Selecting New Products :**

Sell what the customer wants to buy, not what you want to sell! This is a common mistake, especially when merchandisers are given a great price to sell a particular product. If nobody wants to buy that product, it doesn't matter what price you set it at.

Find out what customers want. What is your value proposition on products you sell?

Capitalize on your niche!

#### **4.5.3 Merchandising New Productions :**

Pictures, pictures, pictures! It is very important to have high quality images of the products. Hero photos: if you have a big seller, feature it on a category page with a hero image of the product. Promote latest releases in your newsletters and feature them in categories or on your homepage. Market to customers who have purchased related items in the past.

#### **4.5.4 Customer Service :**

- ✓ Make your customers happy.
- ✓ Delivery orders on time.
- ✓ Ensure order accuracy.
- ✓ Reship promptly if a package was failed to be delivered to the customer, if it came damaged, or if it was missing parts.
- ✓ Don't try to save every penny on an order. You may need to take a loss to make a customer happy in order to retain their loyalty to you, and therefore be very valuable for many orders to come
- ✓ Every page should have an H1 tag around what is the focus of the page, such as a product name, category name, or static content title. Use H2 tags as well for other important page sections.
- ✓ Keywords in optimized page titles.
- ✓ Internal linking. Link keywords in your unique content to pages related to that keyword. This is huge!!!

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#### **4.5.8 Delivering experiences :**

E-commerce needs to focus on customer experience to build trust and confidence. Customer experience encompasses every interaction of a customer from placing an order to interacting with customer service team, to the actual delivery experience. Providing a great delivery experience is one of the core aspects to delighting customers. This not only mean faster deliveries but also consistency and reliability. The more faith the customer has in your delivery

service, the more likely he is to buy again. Besides, it builds a good brand image and word-of-mouth publicity.

#### **4.5.9 Growing the base :**

India has more than 130 million online users at present, out of which as many as 10% are engaging in online transactions. The online user base is expected to cross 300 million in the next 2 – 3 years and a larger percentage of people are expected to transact online by the end of 2015. This large base will provide vast scope for e-commerce businesses to establish themselves in India.

#### **4.5.10 Growing opportunities :**

The e-commerce industry is growing at a rapid pace and changing the dynamics of the retail industry. In the coming years, e-commerce is expected to contribute close to 8-10% of the total retail segment in India. This growth is bound to continue provided e-commerce companies focus on innovating, building strong technology infrastructure and delivering the best customer experience.

#### **4.5.11 Online Travel Segment :**

The online travel segment has seen a CAGR of 55.5% from 2007-2012. This is due to rise of disposable income, surge in demand for domestic travel and the boom of the tourism industry. Domestic travel contributed to as much as 50% of the total market, followed by railways tickets, international air tickets, hotel bookings and bus tickets.

#### **4.5.12 E-Tailing :**

E-tailing encompasses buying consumer items like apparels, electronic devices, home and kitchen appliances, jewellery, online. Competition is intense due to low entry barrier of this segment. However, Amazon.com, flipkart, snapdeal.com, jabong.com, and myntra.com are some of the major players. This segment is expected to grow further as people become more pressed for time. Also the choice that e-tailing sites offer to customers will drive demand for this segment. However, there will be intense price based competition in this sector and consolidations are in the order.

#### **4.5.13 Online Financial Services :**

The financial services segment includes applying for insurance, paying online bills, and premiums and online transactions for financial services. The costs of these insurance policies are lesser with premiums being 40%-60% cheaper. This is a win-win situation for both the insurance provider and the customers. Also the convenience provided by online portals has led to more customers choosing the online route for bill payment.

#### **4.5.14 Classifieds :**

It is in a very promising stage and has lot of scope for growth. Online advertising is lot cheaper than conventional methods and unlike the latter, it is not constrained to a geographic location. The growth is mainly fuelled by services like online job (60% of the segment), online matrimony, B2C classifieds and B2B classifieds. Naukri.com, timesjob.com, monster.com are the major players in the job market while jeevansathi.com, shaadi.com are the major matrimonial sites.

#### **4.5.15 Other online Services :**

These include sites offering online services like buying entertainment tickets, food and grocery.

### **4.6 BENEFITS AND LIMITATIONS OF E-COMMERCE :**

#### **4.6.1 Benefits of E-Commerce :**

Electronic commerce can increase sales and decrease costs. Advertising done well on the web can get even a small firm's promotional message out to potential consumers in every country in the world. A firm can use electronic commerce to reach narrow market segments that are geographically scattered. The web is particularly useful in creating virtual communities that become ideal target markets for specific types of products or services. A virtual community is a gathering of people who share a common interest, but instead of this gathering occurring in the physical world; it takes place on the internet.

Some key benefits of e-commerce are summarized below:

By becoming e-commerce enabled, businesses now have access to people all around the world. In effect all e-commerce businesses have become virtual multinational corporations

The cost of creating, processing, distributing, storing and retrieving paper-based information has decreased.

The pull-type processing allows for products and services to be customized to the customer's requirements.

Enables reduced inventories and overheads by facilitating 'pull'-type supply chain management – this is based on collecting the customer order and then delivering through JIT (just-in-time) manufacturing.

The Internet is much cheaper than value added networks (VANs) which were based on leasing telephone lines for the sole use of the organization and its authorized partners. It is also cheaper to send a fax or e-mail via the Internet than direct dialing. Software and music/video products can be downloaded or e-mailed directly to customers via the Internet in digital or electronic format. Businesses can be contacted by or contact customers or suppliers at any time.

24/7 access : Enables customers to shop or conduct other transactions 24 hours a day, all year round from almost any location.

Customers not only have a whole range of products that they can choose from and customize, but also an international selection of suppliers.

Customers can 'shop' around the world and conduct comparisons either directly by visiting different sites, or by visiting a single site where prices are aggregated from a number of providers and compared (for example [www.moneyextra.co.uk](http://www.moneyextra.co.uk) for financial products and services).

This can range from the immediate delivery of digitized or electronic goods such as software or audio-visual files by downloading via the Internet, to the on-line tracking of the progress of packages being delivered by mail or courier.

An environment of competition where substantial discounts can be found or value added, as different retailers view for customers. It also allows many individual customers to aggregate their orders together into a single order presented to wholesalers or manufacturers and obtain a more competitive price.

Enables more flexible working practices, which enhances the quality of life for a whole cost of people in society, enabling them to work from home. Not only is this more convenient and provides happier and less stressful working environments, it also potentially reduces environmental pollution as fewer people have to travel to work regularly.

Enables people in developing countries and rural areas to enjoy and access products, services, information and other people which otherwise would not be so easily available to them.

Facilitates delivery of public services like health services available over the Internet (online consultation with doctors or nurses), filing taxes over the Internet through the Inland Revenue website.

A business can reduce the costs of handling sales inquiries, providing price quotes, and determining product availability by using electronic commerce in its sales support and order-taking processes.

1. Electronic commerce provides buyers with a wider range of choices than traditional commerce.
2. Electronic commerce provides buyers with an easy way to customize the level of detail in the information they obtain about a prospective purchase.
3. Electronic payments of tax refunds, public retirement, and welfare support cost less to issue and arrive securely and quickly when transmitted over the internet.

4. Electronic payments can be easier to audit and monitor than payments made by cheque, providing protection against fraud and theft losses. Electronic commerce can also make products and services available in remote areas.

#### **4.6.2 Limitations of E-Commerce :**

Most of the disadvantages of e-commerce stem from the newness and rapidly developing pace of the underlying technologies. Some of the key disadvantages of are given below:

Return-on-investment is difficult to calculate. Many firms have had trouble recruiting and retaining employees with the technological, design, and business process skills needed to create an effective electronic commerce presence.

Difficulty of integrating existing databases and transaction-processing software designed for traditional commerce into the software that enables electronic commerce.

Many businesses face cultural and legal obstacles to conducting electronic commerce. Lack of sufficient system security, reliability, standards and communication protocols potentially reduces environmental pollution as fewer people have to travel to work regularly.

Enables people in developing countries and rural areas to enjoy and access products, services, information and other people which otherwise would not be so easily available to them.

Facilitates delivery of public services like health services available over the Internet (online consultation with doctors or nurses), filing taxes over the Internet through the Inland Revenue website.

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Many firms have had trouble recruiting and retaining employees with the technological, design, and business process skills needed to create an effective electronic commerce presence.

Difficulty of integrating existing databases and transaction-processing software designed for traditional commerce into the software that enables electronic commerce.

#### **4.7 SUMMARY :**

Many businesses face cultural and legal obstacles to conducting electronic commerce  
Lack of sufficient system security, reliability, standards and communication protocols  
As people become more used to interacting electronically there could be an erosion of personal and social skills which might eventually be detrimental to the world we live in where people are more comfortable interacting with a screen than face to face. There is a potential danger that there will be an increase in the social divide between technical haves and have-nots – so people who do not have technical skills become unable to secure better-paid jobs and could form an underclass with potentially dangerous  
Reliance on telecommunications infrastructure, power and IT skills, which in developing countries nullifies the benefits when power, advanced telecommunications infrastructures and IT skills are unavailable or scarce or underdeveloped.

As new technology states how do you dispose of all the old computers, keyboards, monitors, speakers and other hardware or software?

Facilitates Just-In-Time manufacturing. This could potentially cripple an economy in times of crisis as stocks are kept to a minimum and delivery patterns are based on pre-set levels of stock which last for days rather than weeks

#### **4.8 KEY WORDS :**

##### **Classifieds :**

It is in a very promising stage and has lot of scope for growth. Online advertising is lot cheaper than conventional methods and unlike the latter, it is not constrained to a geographic location

**E-tailing** - encompasses buying consumer items like apparels, electronic devices, home and kitchen appliances, jewellery, online

##### **Search Engine Optimization (SEO) :**

Generate unique relevant content. Google loves unique content that is related to what your site is all about. Ensure you are using good keywords you want to focus



**E-Commerce :**

Electronics Commerce is a methodology of modern business which addresses the need of business organizations, vendors and customers to reduce cost and improve the quality of goods and services while increasing the speed of delivery

**4.9 SELF ASSESSMENT QUESTIONS :**

1. Discuss the Features of E-commerce
2. Describe the Benefits of E-commerce
3. Explain the Limitations of E-commerce

**4.10 SUGGESTED READINGS :**

1. Kotler, P., Bowen, J. T., & Makens, J. (2017). Marketing for Hospitality and Tourism. Pearson.
2. Scott, D. M. (2017). The New Rules of Marketing and PR: How to Use Social Media, Online Video, Mobile Applications, Blogs, News Releases, and Viral Marketing to Reach Buyers Directly. John Wiley & Sons.
3. Palmatier, R. W., & Sridhar, S. (2017). Marketing Strategy: Based on First Principles and Data Analytics. SAGE Publications.
4. Fromm, J., & Read, A. (2018). Marketing to Gen Z: The Rules for Reaching This Vast--and Very Different--Generation of Influencers. AMACOM.

*Dr. V. Naga Nirmala*

## **LESSON - 5**

# **ONLINE BUSINESS STRATEGIES**

### **OBJECTIVES OF THE LESSON :**

- ✓ To Understand the Electronic Business
- ✓ To Study the Online Business strategies
- ✓ To Discuss the strategies of Competitive and Internet strategy
- ✓ To Know the Block, Run and Alliance strategies

### **STRUCTURE OF THE LESSON :**

- 5.1 Introduction
- 5.2 Electronic Business
- 5.3 Strategies
  - 5.3.1 Competitive strategy
  - 5.3.2 Internet Strategy
  - 5.3.3 Competing on Reach, Affiliation and Richness
  - 5.3.4 Competing on Reach
  - 5.3.5 Competing on Affiliation
  - 5.3.6 Block, run and Alliance strategies
    - 5.3.6.1 Block strategy
    - 5.3.6.2 Run Strategy
    - 5.3.6.3 Alliance Strategy
    - 5.3.6.4 Value Creation
    - 5.3.6.5 Efficiency
    - 5.3.6.6 Complementaries
    - 5.3.6.7 Lock-in
    - 5.3.6.8 Novelty
    - 5.3.6.9 Customer service
- 5.4 Summary
- 5.5 Key words

5.6 Self Assessment Questions

5.7 Suggested Readings

## **5.1 INTRODUCTION :**

Electronic commerce (EC) is an important concept that describes the process of buying, selling, or exchanging products, services, and information, via computer networks, including the Internet (Turban, et al. 2002). From a communications perspective, EC is the delivery of goods, services, information, or payments over computer networks or by any other electronic means. From a business process perspective, EC is the application of technology toward the automation of business transactions and workflow. From a service perspective, EC is a tool that addresses the desire of firms, consumers, and management to cut service costs while improving the quality of goods and increasing the speed of service delivery. From an online perspective, EC provides the capability of buying and selling products and information on the Internet and other online services.

From a collaboration perspective, EC is the framework for inter- and intra-organizational collaboration. From a community perspective, EC provides a gathering place for community members, to learn, transact, and collaborate.

Electronic commerce over large ubiquitous networks will be conducted soon in routine fashion. While some may question the timeframe involved, few will question its imminence. In this transient phase of rapid technological change, it is difficult to see the real implications of these changes for both business and society. Recent writings have elaborated on the power of information technologies to reduce the costs of coordination and transactions and consequently to influence governance structures between buyers and sellers. Much of the popular press is also aggressive in providing anecdotes of innovative companies that have leveraged web-based technologies by expanding, improving, or modifying product and service offerings.

A subliminal theme in all this hyperbole is the notion that these technologies are good and will provide the consumer with many more options, services, and advantages. Grover and Ramanlal (1999) challenged this theme by presenting alternative scenarios in which these technologies did not necessarily work in the best interest of the customer. For example, product customization, enabled by IT networks, can allow sellers to exploit buyers rather than benefit buyers.

The emergence of e-commerce is creating fundamental change to the way that business is conducted. These changes are altering the way in which every enterprise acquires wealth and creates shareholder value. The myriad of powerful computing and communications technology enabling e-commerce allow organizations to streamline their business processes, enhance customer service, and offer digital products and services. This shift underlying marketing fundamentals is now the driving force that is luring many.

## 5.2 ELECTRONIC BUSINESS :

The term commerce is defined by some as describing transactions conducted between business partners. When this definition of commerce is used, some people find the term electronic commerce to be narrow. Thus, many use the term e-business. E-business refers to a broader definition of EC, not just the buying and selling of goods and services, but also servicing customers, collaborating with business partners, and conducting electronic transactions within an organization.

E-commerce is part of e-business, as illustrated in Figure 2.1. The difference can be demonstrated using a business example. The business example is concerned with handling of customer complaints. As long as customers do not complain, then e-commerce may be sufficient for electronic transactions with customers. The front end of the business is electronic, and this front end is the only contact customers have with the business.

However, if a customer complains, then other parts of the business may have to get involved. For example, if the customer has received a computer which is found deficient, then the customer gets in touch with the vendor. The vendor has to decide whether the complaint is justified. If it is, then the vendor has to decide whether to

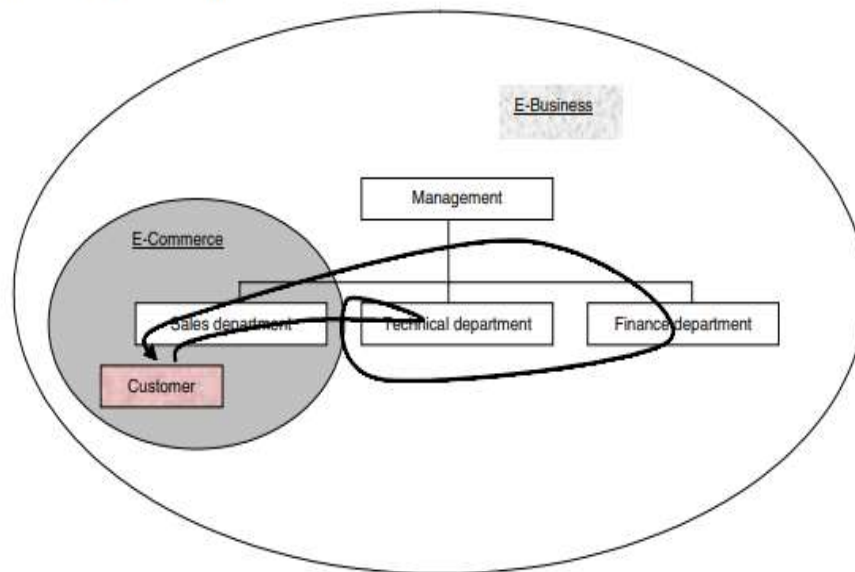
- (a) fix the product,
- (b) replace the product, or
- (c) refund the money paid for the product.

This kind of decision-making will typically involve other departments in addition to marketing and sales departments. These other departments may be the technical department, the production department, and the finance department. While the marketing and sales departments have electronic communication with the customer using information systems, other departments may not be connected to the same information systems.

In this situation, the internal handling of a customer complaint in the business is not transparent to and accessible for the customer. The customer may experience time passing by, without any information from the vendor. A complaining customer was angry already at the time of the complaint. The anger and frustration are rising, as the customer receives no response. The customer is unable to obtain information from the vendor by electronic means, since the vendor is doing e-commerce, not e-business.

If the vendor would be an e-business, then the business process of customer complaints handling would be an integrated information system to which the customer has access. Then it is possible for the customer to follow the complaint handling process, and it is possible for other departments than marketing and sales, to stay in direct contact with the complaining customer to resolve the issues.

Figure 2.2. Customer complaint handling business process in company with e-commerce but no e-business



Marketing, buying, selling, delivering, servicing, and paying for products, services, and information across (nonproprietary) networks linking an enterprise and its prospects, customers, agents, suppliers, competitors, allies, and complementors. The essence of this definition is the conduct of business and business processes over computer networks based on nonproprietary standards. The Internet is the exemplar of a nonproprietary network used today for e-business. Given its low cost and universal access, the Internet will be the major infrastructure for the near future. However, new access technologies already on the horizon (e.g., use of wireless application protocol from mobile telephones) will supplement the Internet.

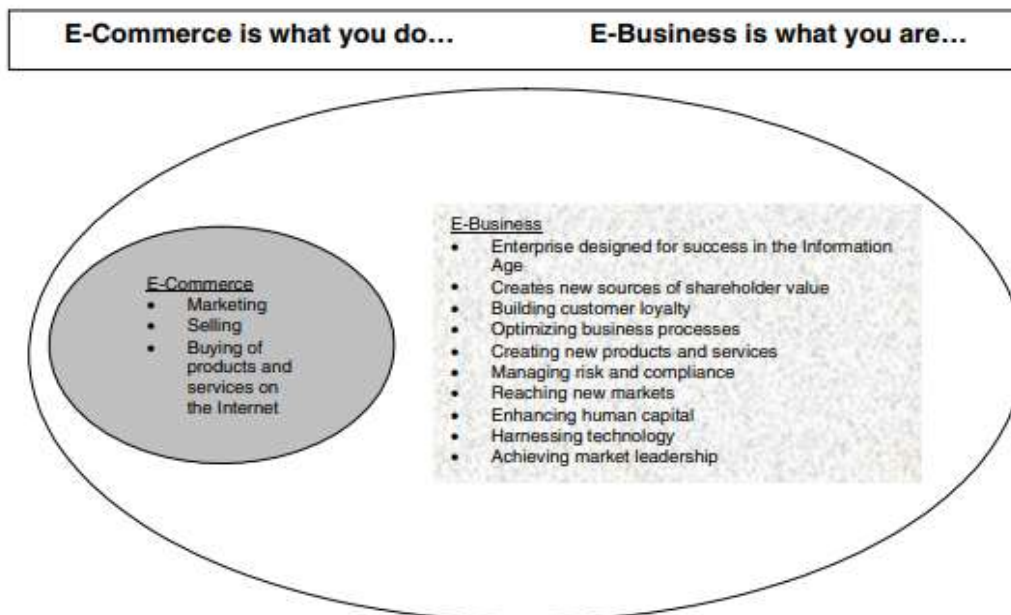
E-business embodies the most pervasive, disruptive, and disconcerting form of change: it leaves no aspect of managing organizations untouched, it challenges long-accepted business models, and organization leaders have little to draw on from their experience to manage its effects. In particular, its capacity to transform business processes is no longer in dispute. The new technologies at the heart of e-business open up myriad possibilities not just to reconsider the re-engineering of existing processes but also to design, develop, and deploy fundamentally new ways of conceiving and executing business processes. Senior executives in every organization thus confront a central challenge: How should they endeavor to capture, analyze, and project the transformational impact of e-business on their organization's most critical or core processes? In spite of its pervasiveness, visibility, and impact, e-business often remains a poorly understood phenomenon in many industries. E-business constitutes the ability of a firm to connect electronically, in multiple ways, many organizations, both internal and external, for many different purposes.

It allows an organization to execute electronic transactions with any individual entity along the value creation — suppliers, logistics providers, wholesalers, distributors, service providers, and end customers. Increasingly, e-business allows an organization to establish real-time connections simultaneously among numerous entities for some specific purpose, such as optimizing the flow of physical items (raw materials, components, finished products) through the supply chain (Fahey, Srivastava., et al., 2001). E-business raises a number of critical business issues, each of which in turn generates distinct knowledge issues and challenges specific to the e-business transformation of processes.

First, e-business is transforming the solutions available to customers in almost every industry, that is, the breadth of solutions and how the solutions are obtained and experienced. Consumers can now buy books, food, clothing, and many other goods over the Internet in ways that allow distinct forms of customization. Industrial purchasers can now use the Internet to scour the offerings of many providers and procure components and supplies in combinations, prices, and delivery schedules that dramatically lower the costs of search, speed delivery, and reduce prices. These new solutions open up possibilities for customer value creation and delivery that were simply unimaginable few years ago (Fahey, Srivastava, et al., 2001).

Second, the creators and purveyors of the new customer value propositions represent new types of rivals and, partly as a consequence, reshape the contours and boundaries of most traditional competitive spaces or industries

These new entities recast the profile of rivals in many industries



Third, in part due to the competitive context changes just noted, the nature and content of strategy, and by implication, the dynamics of marketplace rivalry, are undergoing profound change. No longer can most firms rely on making modest, incremental changes to long-established strategy success formulas. Strategy in product domains as diverse as financial services, household furnishings, computers, automobiles, and industrial components, increasingly revolves around inventing new product solutions, and/or new ways of interacting with customers in designing, developing, and delivering these solutions. In fact, organizations are adjusting their strategies according to the new notion of the customer where customer intimacy, customer relationship management, one-to-one marketing, and the concept of the customer as opposed to the product as the new asset of the organization and real carrier of value, dominate. In short, e-business offers the platform for new forms of marketplace strategy models — a significant element of any firm's business model — that will change the competitive rules of the game (Fahey, Srivastava, et al., 2001).

Fourth, e-business requires firms to refocus and reconfigure almost every type of tangible and intangible asset. It places an especially heavy premium on developing and leveraging intangible assets, including many different types of new skills, new forms of integrated and intensive relationships with external entities, new sets of perceptions held by customers, channels, and suppliers, and significant new knowledge.

Fifth, e-business is dramatically reshaping every traditional business process: from developing new products and managing customer relationships to acquiring human resources and procuring raw materials and components. By enabling major new tasks to be added to individual processes, e-business broadens their scope, content, and value generating capability. For example, customer relationship management essentially has been reinvented through e-business's ability to access large bodies of hereto fore unavailable data, massage and mine such data in radical new ways, and customize the outputs of such analysis to customer segments, and in many cases, to individual customers. And, by integrating traditionally largely separate processes, e-business in effect creates what might well be described as new business processes

## **5.3 STRATEGIES :**

### **5.3.1 Competitive Strategy :**

A study conducted by Chang, Jackson, et al. (2003) proposed that e-commerce initiatives are important strategic initiatives and that firms with a stronger e-commerce market orientation would be more successful. Content analysis of CEO's letter to share holders of 145 Fortune 500 firms was conducted to evaluate the importance of e-commerce and strategic orientation. The results provide support to the studies proposition and indicate that e-commerce must be pursued carefully as a strategic initiative rather than as an appendage to an existing organization.

Strategy is an ongoing process of evaluating purpose as well as questioning, verifying and redefining the manner of interaction with the competitive environment. Complexity of the

strategy process can be simplified by searching for patterns of behavior in organizations. These patterns of emergent behavior can be used to describe the underlying processes of organizational adaptation. Basic strategic orientation of organizations can be described in terms of a typology of defenders, prospectors, analyzers, and reactors. Each orientation differs with respect to risk disposition, innovativeness, and operational efficiencies. Strategic orientation such as low cost or differentiation is means of altering the firm's position vis-à-vis competitors and suppliers. Strategy involves mustering resources and creating capabilities that are difficult to imitate by competitors, resulting in superior rents. Strategic orientation is both an issue of how firms position themselves with respect to competitors and an issue of how firm-specific resources are exploited.

Much strategic management literature has been devoted to identifying attributes or dimensions of a company's strategic orientation. Internet-based businesses include portals, travel sites, e-tailers, and providers of financial and informational services. These businesses attempt to leverage the internet infrastructure and digital economics in order to gain strategic positioning within the marketplace. For internet-based businesses, four major dimensions of strategic orientation are particularly pertinent: risk disposition, innovativeness, operational efficiency, and marketing intensity.

### **5.3.2 Internet Strategy :**

Many of the pioneers of Internet business, both dot-coms and established companies, have competed in ways that violate nearly every precept of good strategy. There was for a long time an absence of strategy. According to Porter (2001), the time has come to take a clearer view of the Internet. It is necessary to move away from rhetoric — such as Internet industries, e-business strategies, and a new economy — and see the Internet for what it is. It is an enabling technology, a powerful set of tools that can be used, wisely or unwisely, in almost any industry and as part of almost any strategy.

Strategy is neither the quest for the universally best way of competing nor an effort to be all things to every customer. It defines a way of competing that delivers unique value in a particular set of uses or for a particular set of customers. To establish and maintain a distinctive strategic positioning, a company needs to follow six fundamental principles

It must start with the right goal: superior long-term return on investment. Only by grounding strategy in sustained profitability will real economic value be generated. Economic value is created when customers are willing to pay a price for a product or service that exceeds the cost of producing it.

A company's strategy must enable it to deliver a value proposition, or set of benefits, different from those that competitors offer. Strategy needs to be reflected in a distinctive value configuration. To establish a sustainable competitive advantage, a company must perform different activities than rivals or perform similar activities in different ways.



Robust strategies involve trade-offs. A company must abandon or forgo some product features, services, or activities in order to be unique at others.

Strategy defines how all the elements of what a company does fit together. A strategy involves making choices throughout the value configuration that are independent; all a company's activities must be mutually reinforcing.

Strategy involves continuity of direction. A company must define a distinctive value proposition that it will stand for, even if that means forgoing certain opportunities.

The absence of strategy in many pioneering Internet businesses have misled them to focus on revenues rather than profits, indirect values rather than real value, every conceivable product rather than trade-offs, activities of rivals rather than tailor the value configuration, and rash of partnerships rather than build control.

To capitalize on the Internet's strategic potential, executives and entrepreneurs alike will need to develop a strategy that exploits this potential. In some industries, the use of the Internet represents only a modest shift from well-established practices. Virtual activities do not eliminate the need for physical activities, but often amplify their importance. The complementarity between Internet activities and traditional activities arises for a number of reasons. First, introducing Internet applications in one activity often places greater demands on physical activities elsewhere in the value configuration. Second, using the Internet in one activity can have systemic consequences, requiring new or enhanced physical activities that are often unanticipated. Third, most Internet applications have some shortcomings in comparison with conventional methods, such as customers being unable to physically examine products.

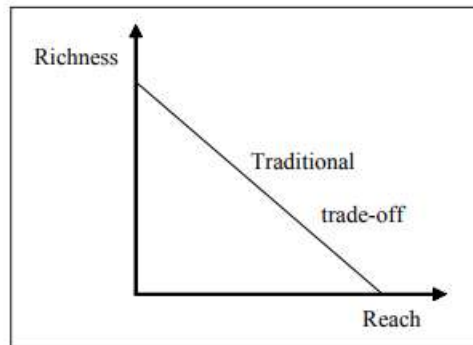
### **5.3.3 Competing on Reach, Affiliation and Richness :**

A new generation of electronic commerce is emerging, one that will be shaped more by strategy than by experimentation. The battle for competitive advantage will be intensified. According to Evans and Wurster (1999), the battle will be waged along three dimensions : reach, affiliation, and richness.

To the extent that information was embedded in physical modes of delivery, a basic law governed its economics: there was a universal trade-off between richness and reach.

Richness means the quality of information, as defined by the user. Reach means the number of people who participate in the sharing of that information. Until recently, it has been possible to share extremely rich information with a very small number of people and less rich information with a larger number, but it was impossible to share simultaneously as much richness and reach as one would like. This trade-off is at the heart of the old economics of information,

Figure 2.3. Traditional trade-off between richness and reach



Communicating rich information has required proximity (people working in the same physical location) or dedicated channels (such as proprietary computer networks, retail stores, or a sales force). The costs or physical constraints of these channels have limited the number of people who can access the information. Conversely, communicating information to a large audience has required compromises in the quality of that information. Technologies have not allowed us to achieve simultaneously as much richness and reach we would like.

Two forces drive the fundamental change taking place now. First, the explosion of connectivity has caused information to reach almost anybody. Second, the adoption of common information standards that allows everybody to communicate with everybody else at essentially zero cost.

Future business competition will not only be along the dimensions of reach and range. It will also be concerned with affiliation. The same technological forces that blow up the trade-off between richness and reach also opens a change in interests the business represents. Evans and Wurster (2000) describe the three dimensions of competition as follows.

#### 5.3.4 Competing on reach :

Before the emergence of e-commerce, retail stores competed on reach by offering convenient physical locations and broad selections of goods and services at these locations. But the number of physical locations and the product selections had to be limited. Each physical location had its costs, and broader selection of products in these locations was associated with higher costs. Electronic commerce offers a dramatic improvement in reach because the navigation function (catalog) is separated from the physical function (inventory). There is no limit to locations, and there is no limit to selections.

Reach is about access and connection. It means how many customers a business can connect with and how many products it can offer to those customers. Reach is the most visible difference between electronic and physical businesses, and it has been the primary competitive differentiator for e-commerce thus far.

### 5.3.5 Competing on affiliation :

Before the emergence of e-commerce, suppliers were focused on their products and services. They were concerned with their own interests. Until now, affiliation has not been a serious competitive factor in physical commerce because, in general, no company ever devised a way to make money by taking the consumers' side. However, it is a natural progression, as navigators emerge. Navigators may be software programs, evaluators or search engines. They are not selling anything except, possibly, information.

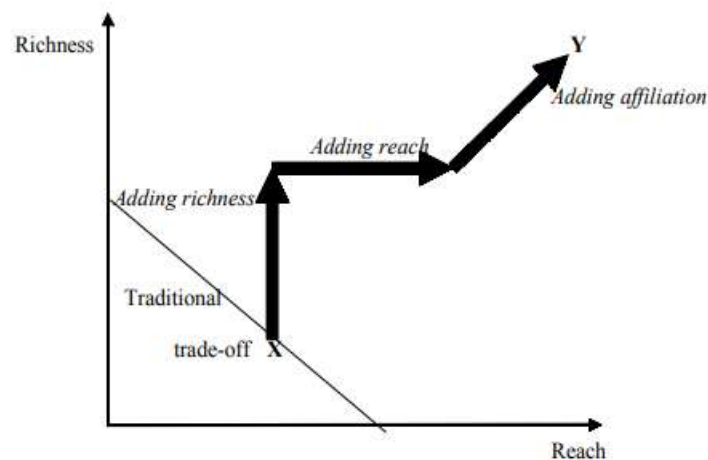
Affiliation is about whose interests the business represents. Affiliation does not mean caring for the customer: any supplier, retailer, or navigator has to do that. It does not refer to any of the helpful, positive-sum activities by which sellers further their own interests by furthering those of their customers. That is simply good business. The test of affiliation is where the consumer's gain is the seller's loss.

Informing the consumer of purchasing alternatives available from other suppliers; explaining why a premium feature is not worth the money; sharing unflattering information on product performance or customer satisfaction: these are the kinds of navigational services that consumers would expect from a navigator serving their interests.

### 5.3.5 Competing on richness :

When competing on reach and affiliation, traditional players have to struggle to keep abreast of electronic retailers and pure navigators. But they have natural advantages when it comes to richness. Traditional retailers can exploit their detailed information about customers. Suppliers can use extensive product information to their advantage.

Figure 2.4. Emerging trade-off between richness, reach, and affiliation



Richness is the depth and detail of information that the business can give the customer, as well as the depth and detail of information it collects about the customer. Electronic businesses have not yet learned to compete seriously on the richness dimension. But richness holds

enormous potential for building close relationships with customers in a future dominated by e-commerce. Rich product information encompasses all the obvious categories of technical facts, product background, and troubleshooting advice. Rich consumer information is variously described as database marketing, data mining, or mass customization.

Competition in the second generation of electronic commerce is illustrated. The old point of competition X is transformed into the new point of competition Y through added richness, reach, and affiliation.

The Internet provides access to a virtual territory for each company. While a physical territory is an area of land (terra = earth) which has been expanded to include ocean parts and air parts, a virtual territory can be defined as a combination of reach, affiliation and richness which has achieved a combined effect of being in control of the virtual area. This virtual territory then belongs to the company. A virtual territory assumes the combined successful effects of reach, affiliation, and richness.

If a company is primarily successful along less than three dimensions, it has no virtual territory. For example, if a company is only successful along the richness dimension, the Internet provides information embassies for the company. An information embassy can be defined as a representation of the company on foreign territory.

### **5.3.6 Block, Run and Alliance Strategies :**

If a firm's business model enables it to gain a competitive advantage, the chances are that its competitors would like to catch up or maybe even leapfrog it. What can a firm do to maintain its competitive advantage? To sustain a competitive advantage, a firm can —depending on its capabilities, environment, and technology in question — pursue some subset of the three generic strategies block, run, and alliance.

#### **5.3.6.1 Block strategy :**

Customer service is the firm erecting barriers around its product market space. A firm can block in two ways. First, if its capabilities are inimitable and distinctive enough to offer customers unique value, the firm can limit access to them and thereby keep out competitors. That would be the case, for example, when the firm has intellectual property that can be protected and sends signals to potential imitators that it means business in protecting the property. Second, if all firms are equally capable of performing these activities, incumbents may still prevent entry by signaling that post-entry prices will be low. There are several ways a firm can achieve this. For example, it can establish a reputation for retaliating against anyone who tries to imitate any component of its business model. It can also do so by making heavy, nonreversible investments in relevant assets. For example, if a firm spends billions of dollars installing fiber optics capability for the households in a town, the chances are that it will lower prices if another firm

wants to offer high-speed access to the same customers. In general, such signals can prevent profit-motivated potential competitors from entering.

Blocking works only as long as a company's capabilities are unique and inimitable or as long as barriers to entry last. But competitors can, for example, circumvent patents and copyrights or challenge them in court until they are overturned.

Moreover, the usefulness of such capabilities lasts only until discontinuities such as deregulation/regulation, changing customer preferences and expectations, or radical technological change render them obsolete. The information asymmetry reduction property of the Internet also suggests that blocking is not going to be very effective.

#### **5.3.6.2 Run strategy :**

It admits that blockades to entry, no matter how formidable they may appear, are often penetrable, or eventually fall. Sitting behind these blockades only gives competitors time to catch up or leapfrog the innovator. An innovator often has to run. Running means changing some subset of components or linkages of business models or reinventing the whole business model to offer the customer better value. Running can give a firm many first-mover advantages, including the ability to control parts of its own environment. In an age of rapid technological change, the run strategy becomes extremely important because blocking is more difficult. Running sometimes means the cannibalization — eating into existing sales — of one's own products before competitors do.

#### **5.3.6.3 Alliance strategy :**

It enables a firm to do it with others through some kind of strategic teaming-up, joint venture, acquisition, or equity position. Teaming up allows a firm to share in resources that it does not possess and may not want to acquire or cannot acquire even if it wanted to. Shared resources also facilitate knowledge transfer.

Alliance has its disadvantages too. It is not easy for a firm to protect its technology or other aspects of its business that it would like to keep proprietary. In teaming up, a firm also risks becoming too dependent on another firm's resources. Often, running also requires teaming up.

Attaining and maintaining a competitive advantage often requires some combination of the three strategies. An important question is, "When is each strategy or combination of strategies appropriate?" Two factors influence the choice of strategy. First, the choice depends on what it takes for a firm to build a profitable business model. It depends on what determines profitability in the face of the technology in question. After all, a business model is about how to make money

over the long run. Second, timing is of the essence. The strategy pursued is a function of the stage of evolution of the technology — the Internet in our case. It is also a function of when existing and potential competitors have pursued related strategies or plan

#### **5.3.6.4 Value Creation :**

New value can be created in e-business by the ways in which transactions are enabled. The term value refers to the total value created in e-business transactions regardless of whether it is the firm, the customer, or any other participant in the transaction who appropriates that value. Amit and Zott (2001) identified four major value drivers in e-business: efficiency, complementarities, lock-in, and novelty. Each of these four drivers and the linkages among them enhance the value-creation potential of e-business:

#### **5.3.6.5 Efficiency :**

Transaction cost theory suggests that transaction efficiency increases when the costs per transaction decrease. Therefore, the greater the transaction efficiency gains that are enabled by a particular e-business, the lower the costs and hence the more valuable it will be. Efficiency enhancements relative to offline businesses (i.e., those of companies operating in traditional markets), and relative to other online businesses (i.e., those of companies operating in virtual markets), can be realized in a number of ways. One is by reducing information asymmetries between buyers and sellers through the supply of up-to-date and comprehensive information. The speed and facility with which information can be transmitted via the Internet makes this approach convenient and easy.

Improved information can also reduce customers' search and bargaining costs. By leveraging the cheap interconnectivity of virtual markets, e-businesses further enhance transaction efficiency by enabling faster and more informed decision-making. Also, they provide for greater selection at lower costs by reducing distribution costs, streamlining inventory management, simplifying transactions (thus reduce the likelihood of mistakes), allowing individual customers to benefit from scale economies through demand aggregation and bulk purchasing, streamlining the supply chain, and speeding up transaction processing and order fulfillment, thereby benefiting both vendors and customers.

#### **5.3.6.6 Complementarities :**

Whenever having a bundle of goods together provides more value than the total value of having each of the goods separately, complementarities are present. For a company, another company is a complementor if customers value the company's product more when they have the other company's product than when they have the company's product alone. The resource-based theory of the firm also highlights the role of complementarities among strategic assets as a source of value creation. E-businesses leverage this potential for value creation by offering bundles of complementary products and services to their customers.

These complementary goods may be vertical complementarities (e.g., after-sales services) or horizontal complementarities (e.g., one-stop shopping, or cameras and films) that are provided by partner firms. They are often directly related to a core transaction enabled by the firm. Furthermore, offline assets can complement online offerings. Customers who buy products over the Internet value the possibility of getting after-sales services offered through bricks-and-mortar retail outlets, including the convenience of returning or exchanging merchandise. E-businesses may also create value by capitalizing on complementarities among activities such as supply-chain integration, and complementarities among technologies such as linking the imaging technology of one business with the Internet communication technology of another, thereby unleashing hidden value.

#### **5.3.6.7 Lock-in :**

The value-creating potential of an e-business is enhanced by the extent to which customers are motivated to engage in repeat transactions (which tends to increase transaction volume), and by the extent to which strategic partners have incentives to maintain and improve their associations (which may result in both increased willingness to pay of customers and lower opportunity costs for firms). These value-creating attributes of an e-business can be achieved through lock-in.

Lock-in prevents the migration of customers and strategic partners to competitors, thus creating value in the aforementioned ways. Lock-in is manifested as switching costs, which has its roots in network theory. It should also be noted that, as there source-based theory of the firm suggests, a firm's strategic assets, such as its brand name, and buyer-seller trust, both contribute to lock-in.

Customer retention can be enhanced in several ways. First, loyalty programs rewarding repeat customers. Second, firms can develop dominant design proprietary standards. Third, firms can establish trustful relationships with customers, for example, by offering them transaction safety and reliability guaranteed by independent and highly credible third parties. Virtual markets also enable e-business firms to create virtual communities that bond participants to a particular e-business.

#### **5.3.6.8 Novelty :**

E-businesses innovate in the ways they do business, that is, in the structuring of transactions. The unique characteristics of virtual markets make the possibilities for innovation seem endless. For example, e-business firms can identify and incorporate valuable new complementary products and services into their bundle of offerings in novel ways. Another dimension of innovation in e-business refers to the appropriate selection of participating parties. For example, firms can direct and intensify traffic to their web site by initiating affiliate programs with third parties, who are compensated for enabling the execution of transactions from their own web sites. Novelty is also linked to complementarities. The main innovation of

some e-businesses resides in their complementary elements, such as the resources and capabilities they combine. There is also an important relationship between novelty and efficiency. Certain efficiency features of e-businesses may be due to novel assets that can be created and exploited in the context of virtual markets.

#### **5.3.6.8 Launching a Business on the Internet :**

Launching a business on the Internet requires careful planning, understanding the target customer base, and choosing the right products and services to offer. This first planning step involves strategic questions such as, “Who will buy the product? How familiar are you with the Internet? Are you planning to be a short-termer or a long-termer? Who are your competitors? How good will your product(s) look? How will you present your product offerings? How will you manage and process transactions? How will the product be shipped? How will you handle unexpected change? How will you get and use feedback?”.

The next step in launching a business on the Internet is resolving the software and hardware issues, especially with respect to linking to the Internet Service Provider (ISP) that will put the business on the Internet. For a fee, the ISP gives the new firm a software package, user name, password, and access phone number. Equipped with a modem, the firm can then log onto the Internet and browse the World Wide Web, send and receive e-mail, and download software packages or text files. Nearly every ISP today offers what is called virtual hosting or a virtual domain as well. This allows the firm to have its own domain name, such as <http://www.thefirm.com>

The firm’s site should capture customers’ attention and retain them long enough to result in a sale. The site should also generate repeat customers. Assuming the buyer has gone through the ordering process, how can the experience end on a good note? The delivery of the product is critical. The system should include a tracking system to let the shopper know when and who received the product. A follow-up e-mail after the order has been filled is a tactful method of thanking the customer and confirming the order

#### **5.3.6.9 Customer service :**

Customer service contributes a great deal to creating customer loyalty. In addition to being enjoyable, the shopping experience should be risk-free for the firm and the firm customer. That means implementing powerful security measures for the Web site and the servers to protect them and the transactions from hackers. Security is concerned with protection of data, software, and hardware against accidental or intentional damage from a defined threat (Awad, 2002).

When it comes to security, Web site planners look at three overlapping types of risk : document security, privacy, and overall system security. Document security entails the integrity of the Web site and its information. There must be security features in Webdesign that ensure no one can corrupt the integrity of the site itself, let alone the information in its content or its layout.



Customer privacy has to do with embedding devices in the visitor's hard disk to track site usage. The visitor should be aware of such marketing tactics and should be able to choose whether the merchant is allowed to secure such a link. System security deals with the way the network, the Web server, and the e-business infrastructure prevent unauthorized access and tampering with e-commerce traffic.

#### **5.4 SUMMARY :**

In launching a business on the Internet, we can define several phases. The business planning and strategizing phase is followed by the hardware, software, security, and setup phase, the design phase, the marketing phase, the fulfillment phase, and finally the maintenance and enhancement phase. Maintenance means keeping a system or a business on course, based on the initial design or plan. Enhancement means implementing upgrades or changes that are designed to improve the system's productivity. The focus in this phase is on managing the e-business. When customer messages pile up unanswered, something is wrong. The source of the pileup could be a poor Web site, a congested communication line, or an understaffed e-merchant .

Regardless of the reasons or circumstances, the goal of maintenance is to ensure the usability of the Web site. The goal of enhancement is to upgrade the Web site and the business-to-consumer connection to meet the latest standards and customer expectations. The bottom line is customer attraction and retention.

#### **5.5 KEY WORDS :**

##### **Customer Service :**

Customer service contributes a great deal to creating customer loyalty. In addition to being enjoyable, the shopping experience should be risk-free for the firm and the firm customer.

##### **Novelty :**

E-businesses innovate in the ways they do business, that is, in the structuring of transactions. The unique characteristics of virtual markets make the possibilities for innovation seem endless.

##### **Run strategy :**

It admits that blockades to entry, no matter how formidable they may appear, are often penetrable, or eventually fall

##### **Lock-in :**

Lock-in prevents the migration of customers and strategic partners to competitors, thus creating value in the aforementioned ways.

##### **Value Creation :**

New value can be created in e-business by the ways in which transactions are enabled.

**Alliance strategy :**

It enables a firm to do it with others through some kind of strategic teaming-up, joint venture, acquisition, or equity position.

**5.6 SELF ASSESSMENT QUESTIONS :**

1. Discuss the Online strategies.
2. Briefly Discuss the difference between the Competitive and Internet strategy.
3. Describe the Block, Run and Alliance Strategies?

**5.7 SUGGESTED READINGS :**

1. Holmes, C., & Levinson, J. C. (2015). The Ultimate Sales Machine: Turbocharge Your Business with Relentless Focus on 12 Key Strategies. Penguin
2. Berger, J. (2016). Contagious: How to Build Word of Mouth in the Digital Age. Simon & Schuster
3. Dan Morley(2016) Netmark's 2016 Guide to the 6 fundamentals of Digital Marketing Netmark Publishers
4. Schaefer, M. W. (2019). Marketing Rebellion: The Most Human Company Wins. Mark W. Schaefer.

*Dr. V. Vani*

## LESSON - 6

# STRATEGIC PLANNING PROCESS - PROCUREMENT

### OBJECTIVES OF THE LESSON :

- ✓ To study the E-sourcing
- ✓ To Understand the Objectives of E-procurement
- ✓ To Know the Advantages and constraints of Digital Procurement process
- ✓ To explain the Steps of E-procurement
- ✓ To analyze the Procurement Vs. Purchasing process flow in E-procurement

### STRUCTURE OF THE LESSON :

- 6.1 Introduction
- 6.2 Definition of E-Procurement
- 6.3 E-sourcing
- 6.4 E-Procurement
- 6.5 E-procurement work
  - 6.5.1 Selection of good
  - 6.5.2 Sending the Order
  - 6.5.3 Receipt of Invoice
- 6.6 Objectives of E-procurement
  - 6.6.1 Savings
  - 6.6.2 Eliminate Low value added Process
  - 6.6.3 Shortening the overall time frame
  - 6.6.4 Controlled Spending
- 6.7 Advantages and constraints of a Digital Procurement Process
- 6.8 Benefits of E-Procurement
  - 6.8.1 Creates information Transparency
  - 6.8.2 Helps Companies save money
  - 6.8.3 Shortens Procurement and purchasing cycles
  - 6.8.4 Improves inventory management and control
  - 6.8.5 Streamlines Operations
  - 6.8.6 Larger Product and Service Selection

- 6.9 Limits Maverick spending
- 6.10 Steps of E-Procurement
  - 6.10.1 Online information Transferring
  - 6.10.2 Online sourcing
  - 6.10.3 Online Tendering
  - 6.10.4 Online Auctioning
  - 6.10.5 Online Product Ordering
- 6.11 Procurement Vs. Purchasing process flow in E-procurement
  - 6.11.1 E-Informing
  - 6.11.2 E-sourcing
  - 6.11.3 E-Tendering
  - 6.11.4 E-Auctioning
  - 6.11.5 E-ordering
  - 6.11.6 E-invoicing
  - 6.11.7 Contract Management
- 6.12 E-Procurement Software
- 6.13 Types of E-procurement software
  - 6.13.1 Procurement software
  - 6.13.2 Best of Breed Procurement tools
  - 6.13.3 All-in-one Procurement
  - 6.13.4 ERP system
  - 6.13.5 Electronic Data Interchange
- 6.14 Key features of E-procurement
  - 6.14.1 All-in-one procurement suits
  - 6.14.2 Customizable workflows
  - 6.14.3 Supplier Management
  - 6.14.4 Automation Function
  - 6.14.5 Catalog Creation
  - 6.14.6 Integration
  - 6.14.7 Spend Management
  - 6.14.8 S-way Matching
- 6.15 Best E-Procurement
  - 6.15.1 SAP Ariba

6.15.2 Coupa

6.15.3 Kissblow

6.15.4 GEP smar

6.15.5 Zycus

6.16 Drive Adoption of your Procurement

6.17 Summary

6.18 Key words

6.19 Self Assessment Questions

6.20 Suggested Readings

## 6.1 INTRODUCTION :

e-procurement leverages technology to digitise business transactions between companies and suppliers to better manage and improve the efficiency of the procurement process. In this article, find out everything you need to know about e-procurement in order to have all the tools that you need to implement it effectively within your company.

E-procurement, or electronic procurement, is a digital transaction process that involves using the internet to buy and sell goods and services. This process employs a supplier's closed system, meaning that only their registered customers can use and gain benefits from it. Implementing e-procurement creates a direct connection between the supplier and buyer, helping to streamline business-to-business (B2B) or business-to-consumer (B2C) processes like emails, invoices, purchase orders and bids. Since e-procurement is an online business measure, it uses networked systems and web interfaces for supply chain operations.

The e-procurement process is a development of the 1980s, having spawned from the introduction of Electronic Data Interchange (EDIT), a method that describes the transference of data and information from one system to another. With EDI principles, e-procurement enables companies to generate online catalogs for their suppliers. This process involves elements like contract management and supplier evaluation. There's also specialized e-procurement software that you can leverage to automate B2B engagements between the supplier and company

## 6.2 DEFINITION OF E-PROCUREMENT :

**E-procurement** is *“the centralised management of a company's procurement and supply chain using an electronic platform”*. The “e” stands for “electronic”. It is also sometimes known as **supplier exchange**.

It is important to keep in mind that e-procurement is only suitable for business purchases, meaning the **Business to Business (B2B)** sector. It is not used in the Business to Customer (B2C) sector, which concerns only personal purchases.

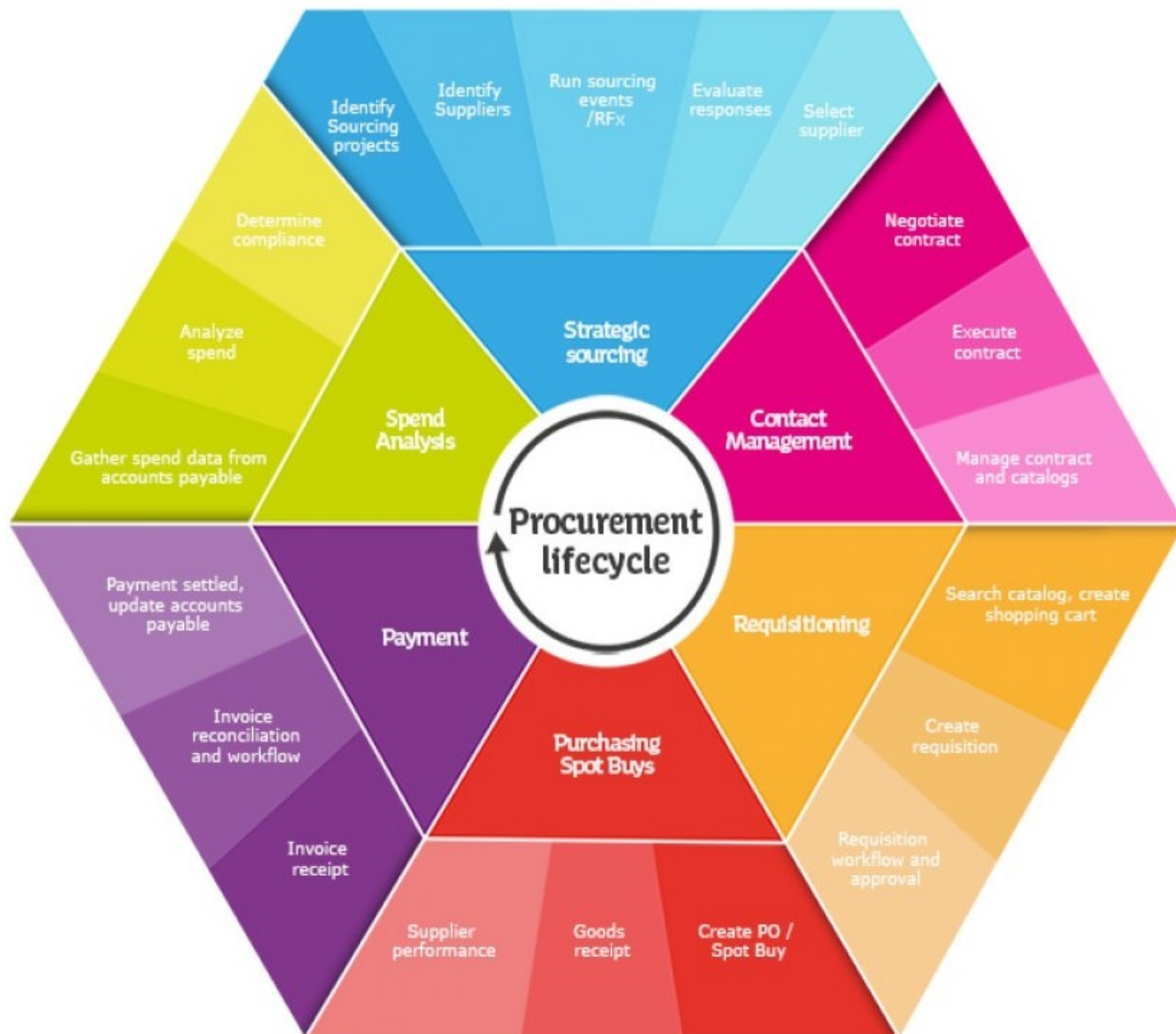
The software and information systems that e-procurement uses enable the purchases to become paperless for all or part of the Procure-to-Pay **process** (P2P), which has three main phases:

- Selection of goods;
- Sending the order;
- Invoicing and payment.

### 6.3 E-SOURCING :

It is important to note that e-procurement is considered separately from e-sourcing, which focuses on the Source to Contract (S2C) process. E-sourcing uses digital tools to digitise the Source to Contract process, which involves the identification and selection of suppliers.

#### The procurement life cycle :

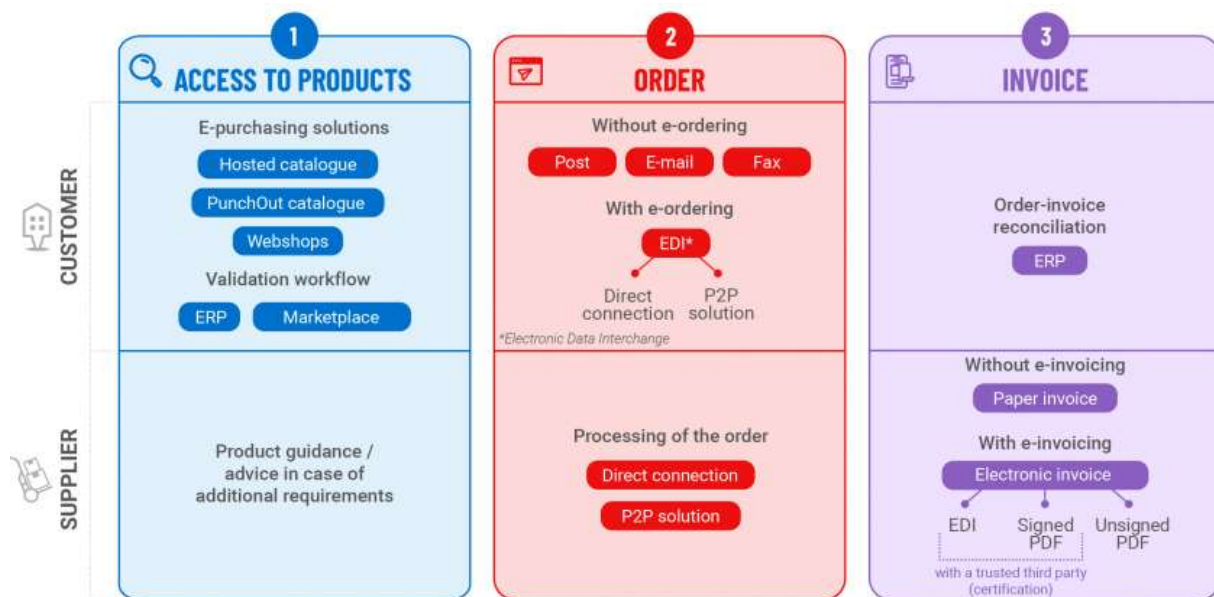


## 6.4 E-PROCUREMENT FOR :

1. E-procurement is mainly the domain of four different groups within companies:
2. The procurement department which defines and optimises the procurement strategy;
3. The end users who are the source of the need, those who place the order;
4. The person who approves orders;
5. The financial and accounting departments, which reconcile orders and invoices and make payments.

## 6.5 E-PROCUREMENT WORK :

E-procurement can be broken down into three main steps that are specific to the Procure-to-Pay process.



### 6.5.1 Selection of goods :

Companies visit a specific platform, which may be an online catalogue, a Punch-Out[1] or a B2B vendor website. This gives them access to the supplier's entire offer, including data about the contractual conditions (products selected, cost, savings, etc.). They select their products and send their purchase request with just a click. This request then enters their procurement system and follows the predetermined approval process

### 6.5.2 Sending the order :

Once it has been approved, the purchase request becomes an order. It is automatically sent to the supplier in the form of an electronic document or through a marketplace. The supplier then instantly begins to prepare the products for delivery.

### **6.5.3 Receipt of the invoice :**

Invoicing can also be paperless: companies receive the invoice that has been certified by a trusted third party in the form of a PDF file or an electronic document, which is automatically reconciled with the order and triggers the payment.

## **6.6 OBJECTIVES OF E-PROCUREMENT :**

E-procurement **centralises and automates interactions between stakeholders** (end users, procurement department, suppliers, etc.) in order to improve the performance of the procurement process, management and strategy. There are four major benefits.

### **6.6.1 Savings :**

The cost of a standard transaction is estimated at an average of £80 and that of a 100% digital transaction (from product selection to payment) at less than £16[2]. One reason for this is the reduction in the cost of labour resources, since the process is fully automated. Relative to the number of orders, especially for indirect purchases, the savings are considerable.

### **6.6.2 Eliminate low value-added processes :**

Getting rid of administrative and manual tasks is a strategic way to increase teams' speed and efficiency, while reducing the rate of error by an average of 30-50%[3]. With e-procurement, sending the purchase order, requesting approval, reconciling the order and the invoice... They're all automated. This allows teams to focus their energy on tasks with higher added value.

### **6.6.3 Shortening the overall timeframe :**

Whether placing orders or approving them, the process is streamlined and gives companies more transparency: there is no more down time, reminders, or handling and filing of administrative documents. This saves considerable time in the procurement process. Furthermore, since the order is converted directly into a preparation slip for the supplier, companies ultimately receive their goods more quickly.

### **6.6.4 Controlled spending :**

E-procurement provides better visibility, with a clear, real-time view of spending (principals, procurement process, etc.) through reporting features. This means they can :

Better manage their spending;

Manage costs and budgets more accurately;

Adjust their strategy by identifying areas for improvement.



## 6.7 ADVANTAGES AND CONSTRAINTS OF A DIGITAL PROCUREMENT PROCESS:

Of the many benefits that e-procurement offers, savings on invoicing are at the top of the list. Costs are reduced through the **digitisation of procurement procedures**, which optimises **business transactions** between companies and suppliers.

It is also a real **management tool** since it allows buyers to stop wasting their energy on time-consuming and low-value-added tasks and enables them to focus on their core business. The quality of the services provided by the procurement department is thus improved and the employees' **productivity** enriches.

However, e-procurement requires a detailed study of procurement software and service procurement systems that are available before it can be implemented. The objective for an e-procurement tool is to have every actor in the procurement chain be involved.

Another constraint of this **business solution** is the e-procurement software itself. These **workflow management systems** can be cumbersome for users. Suppliers, for their part, must adapt to the order placement tools that their customers require of them, and are forced to provide an **electronic catalogue**.

## 6.8 BENEFITS OF E-PROCUREMENT :

### 6.8.1 Creates information transparency :

E-procurement makes the transference of information and data more transparent to the company and its supplier. You can use this information to view purchasing behaviors, leverage buying power, control non-compliant spending, and identify opportunities to consolidate suppliers.

### 6.8.2 Helps companies save money :

E-procurement can help a company save substantial amounts of money because it eliminates costly errors that may occur when handling manual orders and paperwork. The company can then use the money they save for other initiatives, like marketing and advertising. Automates procurement processes: By automating your procurement processes, you're able to sustain more consistent and cost-effective operations. There's a diverse range of procurement software that you can use to help you achieve this goal, helping lower the need to perform monotonous activities, like data entry and analytics.

### 6.8.3 Shortens procurement and purchasing cycles :

The benefit of shorter process cycles is that you're able to obtain the goods and services that you need at a much faster rate. This helps to limit operation downtime, which ultimately helps to increase productivity, save costs and increase profits.

#### **6.8.4 Improves inventory management and control :**

It's important for a company to better manage their inventory because it enables them to gather accurate information about their current supply of goods. They can then use this information to make more informed business decisions.

#### **6.8.5 Streamlines operations :**

This is an essential benefit of using e-procurement because it helps you save time and increases productivity. Having all of your online purchasing and selling processes functioning seamlessly creates a more uniform system and makes it easier to identify and resolve problems before they escalate.

#### **6.8.6 Larger product and service selection :**

Because all the transaction and procurement processes occur online, you have access to a broader range of products and services to choose from. This variety enables you to make comparisons between what's available and select the goods that are best for your company and most cost-effective.

#### **6.9 Limits maverick spending :**

Maverick spending describes when an individual procures products that aren't within the parameters of the designated contract and negotiations. Limiting these types of actions helps to ensure that all procurement processes meet compliance regulations set between the company and supplier.

#### **6.10 STEPS OF E-PROCUREMENT :**

##### **6.10.1 Online information transferring :**

Online information transferring, or e-informing, is the stage that aligns with a traditional procurement cycle. It describes the exchange of information between two parties. This exchange often happens between internal units within the company and relevant external suppliers. This first step enables a company to optimize and streamline its e-procurement process.

##### **6.10.2 Online sourcing :**

Online sourcing, or e-sourcing, is the phase of procurement where the company pre-qualifies all of its potential suppliers. They make this determination based on the designated procurement requirements, allowing them to shortlist those suppliers for the evaluation step. This second stage coincides with defining business requirements by the company's executive and procurement figures.

### **6.10.3 Online tendering :**

Online tendering, or e-tendering, describes when the company requests information, quotes and proposals from its shortlisted suppliers. This stage coincides with the evaluation and solicitation process and helps the company analyze and better assess the potential suppliers. During this third stage, the company may implement strategies to ensure their assessment is transparent.

### **6.10.4 Online auctioning :**

Online auctioning, or e-auctioning, is the stage when all involved parties set the contract terms and negotiate prices. After both parties come to an agreement, the buying company purchases the goods or services from the supplier. Sometimes there are multiple companies trying to secure a contract with the supplier, often by paying more. An alternative to this condition is e-reverse auction, which is when multiple suppliers compete to secure a contract with one buyer by offering them a lower price.

### **6.10.5 Online product ordering :**

Online product ordering, or e-ordering, is the final step in the e-procurement process that involves the development and approval of requisitions. This is when the company places its orders and then receives them by the estimated date. To finalize the process, the company indexes the contracts in a digital catalog so employees can access them at a later date and place a new order.

## **6.11 PROCUREMENT VS. PURCHASING :**

Companies use procurement for a production environment, such as buying textiles and materials, to build an item. Comparatively, purchasing is for buying goods and products at wholesale that you can immediately resell for a profit. Therefore, procurement focuses more on the value of goods, while the priority for purchasing is the cost of buying those goods.

The purchasing process is usually much simpler, often only involving the need to order, expedite and fulfill the payment of the items. Procurement is a more complex process that includes those steps, but also need-recognition, contract source and sourcing. Purchasing is usually reactive and dependent on customer reception, so it usually focuses more on the transaction than the supplier. Procurement is a more proactive process to fulfill the needs of the company, so you usually look to cultivate long-term relationships with the supplier.

### **6.11 Process Flow in E-Procurement :**

E-procurement digitalizes the entire supplier lifecycle, which can be broken down into seven major processes:

### 6.11.1 E-Informing :

The e-procurement cycle starts with e-informing – it refers to the process of researching and transferring purchasing information within departments by means of online channels. During this stage, the organization collects information about the need, timelines, vendor requirements, etc. It's passed within the organization or communicated to one's supply chain partners to achieve higher efficiency of the supply chain.

### 6.11.2 E-Sourcing :

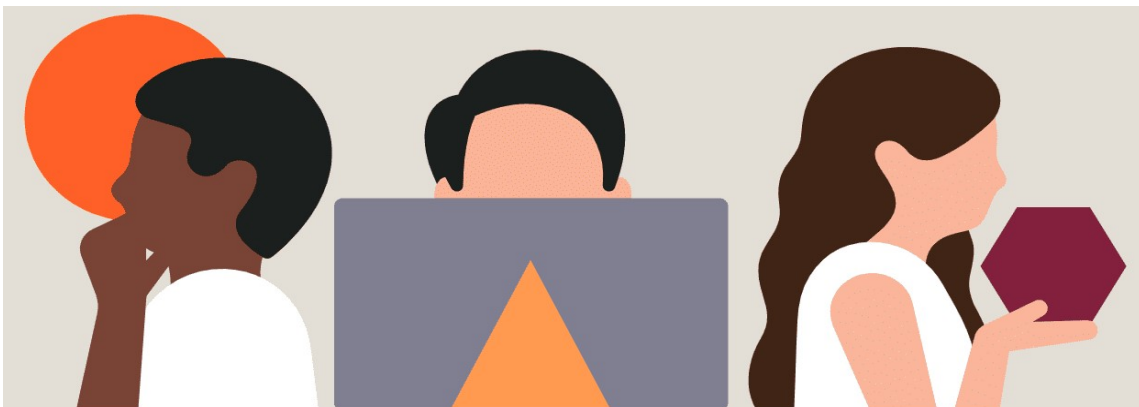
Next, the organization researches the best-suited vendors based on the outlined requirements, by using online technologies. The purpose of e-sourcing is to collect relevant information about potential vendors and choose the one that offers the most tangible benefits in the long-term perspective.

### 6.11.3 E-Tendering :

While gathering information about vendors, the organization also needs to electronically request and receive quotations from them. This part of the process is called e-tendering.

### 6.11.4 E-Auctioning :

E-auctioning is a dynamic negotiation carried out online between the company and pre-qualified suppliers. The parties negotiate pricing and contract terms in a real-time auction. The process is usually conducted through a web-based system that allows buyers and vendors to bid online.



### 6.11.5 E-Ordering :

After agreeing on the pricing and contract terms, the procuring organization orders products or services from the vendor and monitors delivery. E-ordering involves using an electronic ordering system that automates the purchasing process.

### 6.11.6 E-Invoicing :

E-invoicing is a digitized invoicing process where the bill is electronically presented to the procuring organization. With e-Invoicing, the company can receive, process, and pay invoices touch less. It's best to create a standardized e-Invoicing procedure that provides vendors with clear guidelines and invoice templates to enable frictionless automatic invoice processing.

### 6.11.7 Contract Management :

To maintain strong vendor relationships, the buyer manages and optimizes the contract management lifecycle through a contract management system.

A contract management software serves as a secure, centralized repository for creating, managing, and storing contracts, and completely automates the contract process.



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### 6.12 E-PROCUREMENT SOFTWARE :

E-procurement software is a cloud-based solution providing tools that facilitate each stage of the e-procurement process. It enables digital sourcing, purchasing, spend management, risk mitigation, and other critical aspects of vendor management through a single interface.

With quality software, procuring organizations can build transparent e-procurement systems not only for internal teams but also for vendors. These systems can support short-term transactional procurement activities like order creation or invoicing as well as long-term strategic activities like vendor relationship management and risk mitigation.

### **6.13 TYPES OF E-PROCUREMENT SOFTWARE :**

The e-procurement process wouldn't be possible without digital tools and software applications. These are cloud-based apps that carry out your organization's e-procurement processes. They may cover some or all of the above-mentioned e-procurement stages, namely online informing, sourcing, tendering, auctioning, ordering, invoicing, and contract management.

#### **6.13.1 Procurement software :**

These are cloud-based apps that carry out your organization's e-procurement processes. They may cover some or all of the above-mentioned e-procurement stages, namely online informing, sourcing, tendering, auctioning, ordering, invoicing, and contract management.

#### **6.13.2 Best-of-breed procurement tools :**

An organization may choose to use a dedicated, best-of-breed online application for the most critical individual processes, such as tool that specializes in offering a dedicated invoicing solution like Airbase or Bill.com.

#### **6.13.2 All-in-one procurement suites :**

Alternative, organizations have options to go for an all-in-one, suite-type platform that facilities management of the entire vendor lifecycle like SAP Ariba or Jaggaer.

#### **6.13.4 ERP systems :**

Enterprise resource planning (ERP) systems. ERP systems streamline the main business processes, such as procurement, production, finance management, reporting, etc. E-procurement solutions are often integrated with ERPs and other financial tools that assist with managing procurement processes and, specifically, accounting. Today, ERP systems are usually delivered via the cloud.

#### **6.13.5 Electronic data interchange (EDI) software :**

EDI tools enable electronic information exchange between two separate organizations. EDIs are mostly used to pass data about orders, confirmations, and invoicing. Contrary to online tools, electronic data interchange tools operate on an intranet, a closed network.

### **6.14 KEY FEATURES OF E-PROCUREMENT SOFTWARE :**

The market is full of e-procurement solutions – all of them offer different functionalities and price tags. Which features should you look for in e-procurement software?

#### **6.14.1 An all-in-one platform :**

When building a complex ecosystem from multiple tools, you risk losing critical information, which leads to miscommunication and contract mismanagement. If you aren't an e-procurement pro yet, it's best to find an easy-to-use tool facilitating the entire process.

#### **6.14.2 Customizable workflows :**

When partnering with a range of vendors across dozens of niches, you can't create a single standardized workflow for all of them. Being able to access templated workflows and customize them is a critical feature for every company regardless of its business model and size.

The right e-procurement application should be flexible enough to let you create custom vendor lifecycles and adjust critical procedures according to contract terms.

#### **6.14.3 Supplier management :**

Look for supplier management features such as hassle-free vendor on boarding and vendor communications. Setting up a supplier portal or just inviting them to collaborate on the project inside your system interface will empower your vendors and create a communication channel keeping both parties updated on the state of things. These features will support real-time collaboration and minimize conflict situations.

#### **6.14.4 Automation functionality :**

You should be able to set up automated workflows with your e-procurement software. Automation will not only free up valuable time but also reduce the chance of human error and accelerate procurement cycle times.

#### **6.14.5 Catalog creation :**

Supplier catalogs allow users to organize the vendors' products and services. They typically include basic product details like product names, descriptions, price, and other related details. Having a supplier portal where vendors can create and update product catalogs helps to navigate buyers' decision-making. Make sure your e-procurement software either offers a built-in feature for catalog creation or supports vendor catalog integrations.

#### **6.14.6 Integration :**

Even if you choose an all-in-one e-procurement system, chances are you'll need to integrate it with one of your business operations tools. Make sure your software can be easily connected to third-party software either with built-in integrations, through Zapier, or via the API.

### 6.14.7 Spend management :

Your e-procurement software **must** offer features like ongoing spend monitoring, rule-based budget controls, real-time spend insights, etc. It should be easy to control and manage your costs through a centralized platform.

### 6.14.8 3-way matching :

3-way matching is the act of matching the information in three steps of the e-procurement process: purchase orders, order receipts, and invoices. It identifies information mismatch and eliminates unexpected surcharges. A sophisticated e-procurement system automates the 3-way matching process with no human intervention needed.

## 6.15 BEST E-PROCUREMENT SOFTWARE IN 2023 :

Where should you start the search? Let's narrow the assortment down and highlight the best five e-procurement software systems in 2023 :

### 6.15.1. SAP Ariba :

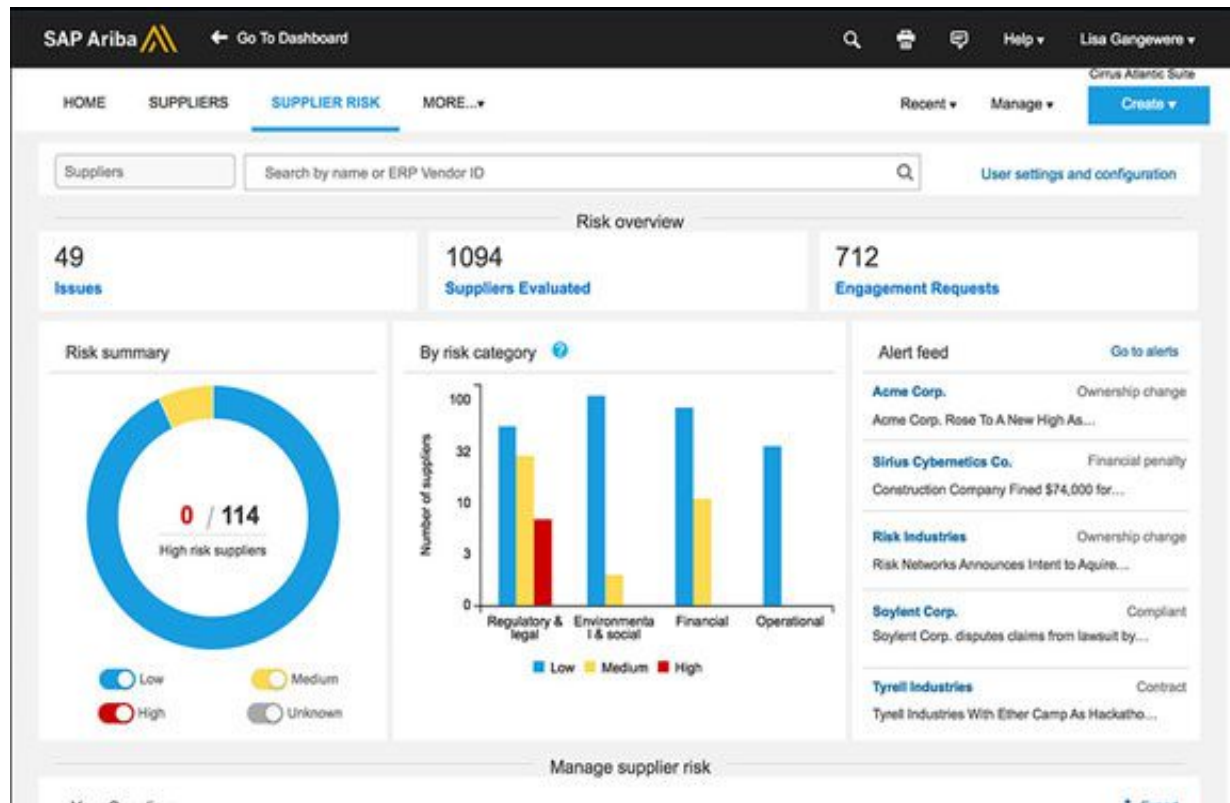


SAP Ariba offers a set of cloud-based procurement and supply chain tools. The platform covers all the critical features, including :

- Sourcing
- Purchasing
- Catalog creation
- Risk management
- Intelligent spend management
- Invoice management
- Discount management

It eliminates manual work by automating the entire procurement process from sourcing to tax maintenance. Its smart invoice management tools allow users to implement touch less invoice processing, display payment status for vendors, and enforce compliance with contracts. SAP Ariba also offers robust APIs allowing for seamless integration with users' back-end solutions and ERPs.





### 6.15.2 Coupa :



Coupa is a business spend management app facilitating all transactions across procurement, payments, and supply chain. The software streamlines procurement and supply chain management allowing businesses to focus on optimizing business spend and making the most out of vendor relationships.

It offers features for easy e-procurement, supply chain design, contract management, invoice billing and processing, expense management, and spend analysis. Coupa's API enables quick and easy integration with third-party systems and applications.

### 6.15.3 Kissflow :



Kissflow's Procurement Cloud is a customizable procurement platform. Its features include :

1. Purchase requisition
2. Automated order processing
3. Real-time insights
4. Vendor on boarding
5. Vendor self-service portal
6. Budget control
7. Invoice management
8. Three-way matching

The platform allows for a high level of customization while offering a range of pre-built workflows. It lets organizations build a tailor-made e-procurement solution that meets their specific needs. With drag-and-drop tools, managers can build customized workflows, add fields, and more.

Kissflows offers a bunch of plugins and APIs to connect your e-procurement system with your essential business tools – accounting systems, ERP, etc.

#### 6.15.4 GEP SMART :



GEP SMART is AI-powered procurement software. It's a comprehensive solution for direct and indirect procurement designed to unify procurement operations.

A screenshot of the GEP SMART procurement interface. The top bar is teal and contains "Refine by" with a "Reset" button, "We found 1,234 items", and a "Sort by: Most relevant" dropdown. Below this are filters for "Price" (Min: \$10, Max: \$1,000) and "Manufacturers" (Search Manufacturers, All, star, clock, funnel icons). A list of items is displayed in a grid. Each item card includes a product image, item number, price per unit, category, availability, and review count. The items shown are: Dell Vostro 2520 (Item #1242, \$941.80 each, IT Equip., 44 reviews), HTC One V (Item #1241, \$485.80 each, Telecom, 34 reviews), Dell 3421 (i3 3rd Gen)... (Item #1239, \$1052.80 each, IT Equip., 414 reviews), Apple Ipad 4 (Item #1232, \$499.99 each), Apple Ipad 2 (Item #1240, \$1,160.80 each), and Dell Laptops: Up to... (Item #1236, \$810.30 each). Each item card has a teal header, a star icon, and a shopping cart icon.

The platform's functionality covers the entire purchasing process – from requisition to automated three-way matching and supplier communication management. It facilitates payments, provides insightful reports, offers superb legacy integration capabilities, enables catalog creation, and more.

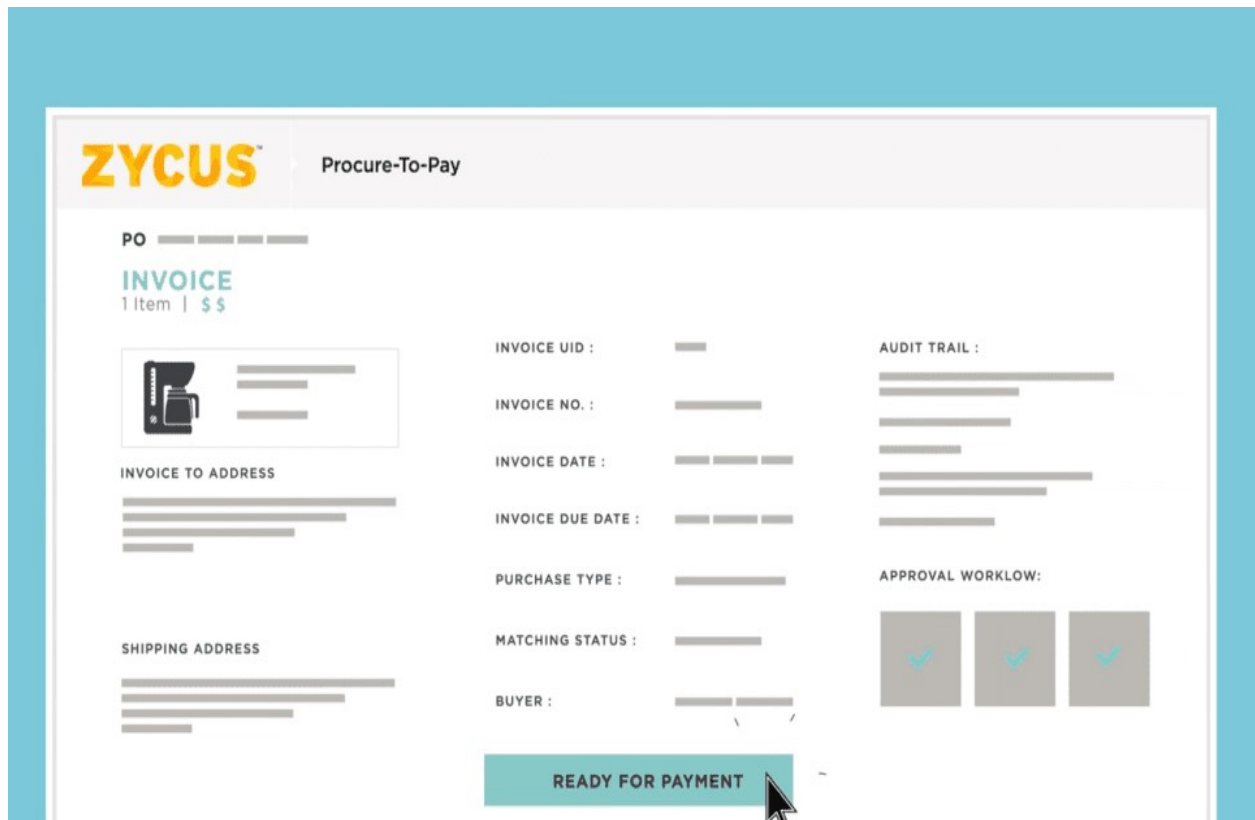
One of the most remarkable GEP SMART'S features is an AI-driven algorithm capable of predicting future outcomes based on contextual information and guiding an organization's planning activities.

GEP SMART seamlessly integrates with enterprises' legacy ERP systems. It also offers a mobile app enabling its users to access their supply chain network anywhere at any time.

### 6.15.5 Zycus :



Zycus is a cognitive procurement platform. It guides buyers toward the right purchasing paths by using its intelligent self-learning engine. Its source-to-pay procurement software suite seamlessly integrates critical features like requisition, catalog management, approval, purchase orders, invoice management, analytics, and others.

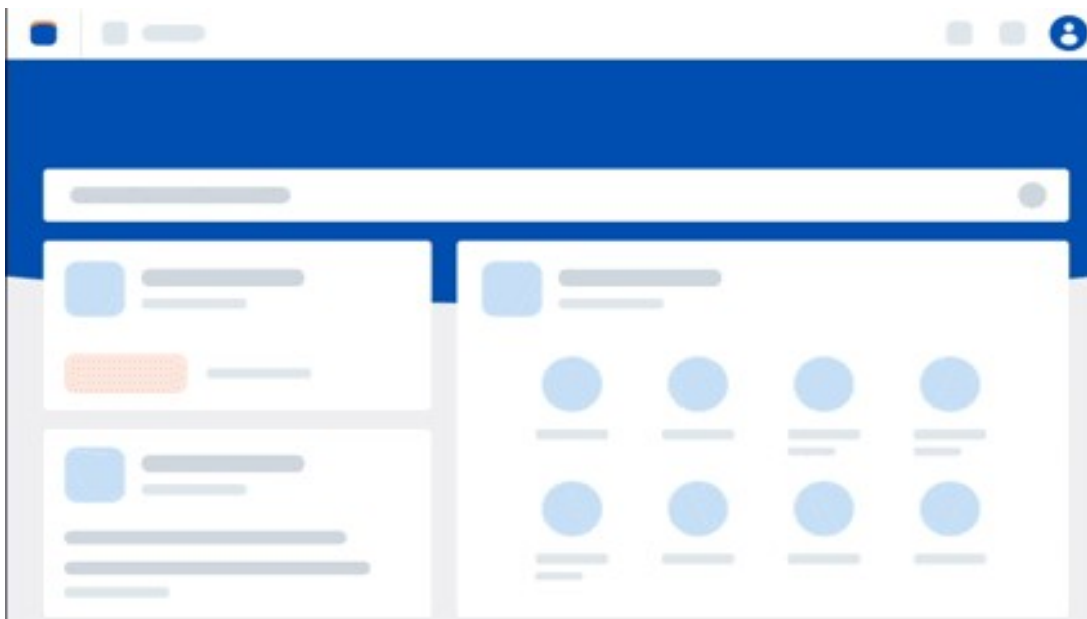


Backed by strong analytical capabilities, the platform equips users with actionable insights enabling them to make informed buying decisions. With Zycus Touchless Invoice Processing software, organizations achieve fast document matching and streamlined invoice handling from billing to payment. The automated flow either matches invoices or routes them for investigation according to internal guidelines and then creates payments automatically.

### **6.16 DRIVE ADOPTION OF YOUR PROCUREMENT APPLICATIONS WITH WHATFIX'S GUIDED FLOWS :**

A robust e-procurement software delivers unparalleled value to enterprises by working on the pain points of both sourcing and procurement teams. However, e-procurement adoption challenges, software, and complexities make it challenging to use. It's difficult to train employees to complete even simple tasks such as participating in an e-auction, submitting their RFX responses, and raising a purchase requisition.

Employees find it challenging to memorize certain clicks and flows to complete required tasks. Digital adoption platforms such as Whatfix are constant in-app companions that drive procurement and S2P application adoption through engaging and intuitive content such as interactive walkthroughs, task lists, and self-help widgets.



Whatfix is power-packed with beacons, smart tips, and data validation to accelerate digital transformation initiatives like digital procurement. Organizations can track how employees use their new procurement technology with behavioral analytics and use that data to create new training content and improve existing flows.

## **6.17 SUMMARY :**

Starting a business is a dream for many aspiring entrepreneurs, but finding an idea and launching your endeavor can be challenging. In the digital age, selling online — both products and services — can present unique, affordable startup options for aspiring entrepreneurs. The key is matching your interests, strengths and skills to a profitable online business niche. Whether you want to become a full-time entrepreneur or start a part-time online business to generate side income, your product or service should fulfill a specific consumer need. We've compiled a list of potentially profitable online businesses with minimal startup costs that you can get up and running quickly.

## **6.18 KEY WORDS :**

### **e-procurement :**

Leverages technology to digitise business transactions between companies and suppliers to better manage and improve the efficiency of the procurement process

### **E-sourcing :**

Uses digital tools to digitise the Source to Contract process, which involves the identification and selection of suppliers.

### **Online information transferring :**

Online information transferring, or e-informing, is the stage that aligns with a traditional procurement cycle.

### **Online sourcing :**

Online sourcing, or e-sourcing, is the phase of procurement where the company pre-qualifies all of its potential suppliers.

### **Online tendering :**

Online tendering, or e-tendering, describes when the company requests information, quotes and proposals from its shortlisted suppliers.

### **Online auctioning :**

Online auctioning, or e-auctioning, is the stage when all involved parties set the contract terms and negotiate prices.

### **Online product ordering :**

Online product ordering, or e-ordering, is the final step in the e-procurement process that involves the development and approval of requisitions.

**6.19 SELF-ASSESSMENT QUESTIONS :**

1. Define the E-sourcing
2. Discuss the objectives of E-procurement
3. Describe the Advantages and Constraints of Digital Procurement Process
4. Briefly explain the steps of E-procurement
5. Examine the Procurement vs. Purchasing Process flow in E-procurement?

**6.20 SUGGESTED READINGS :**

1. Sharp, B. (2015) How brands grow: What marketers don't know. Oxford University Press.
2. Wu, T. (2016) The attention merchants: The epic scramble to get inside our heads Knopf
3. Belch, G. E., & Belch, M. A. (2018). Advertising and promotion: An integrated marketing communications perspective McGraw-Hill Education.
4. Young, M. (2018) Ogilvy on advertising in the digital age. Bloomsbury Publishing.

*Dr. V. Vani*

## **LESSON - 7**

# **LOGISTICS AND SUPPLY CHAIN MANAGEMENT**

### **OBJECTIVES OF THE LESSON :**

- ✓ To Understand the Logistics and Competitive Advantage
- ✓ To Know the fundamentals of supply chain Management
- ✓ To study the Benchmarking the logistic processes
- ✓ To discuss the Benchmarking
- ✓ To learn the objectives of Key Performance Indicators

### **STRUCTURE OF THE LESSON :**

- 7.1 Introduction
- 7.2 Logistics and Competitive Advantage
- 7.3 Gaining Competitive Advantage through Logistics
- 7.4 Fundamentals of Supply Chain Management
  - 7.4.1 Integrating the supply chain
  - 7.4.2 Value Added Services
- 7.5 Factors in forming supply chain relationship
- 7.6 Benchmarking the Logistics
- 7.7 What to Benchmark
- 7.8 Who to Benchmark with?
- 7.9 Benchmarking the Logistic Processes
  - 7.9.1 SCM Operations
  - 7.9.2 Downstream
  - 7.9.3 Upstream
  - 7.9.4 Mapping the supply chain process
- 7.10 Characteristics of supply chain maps
  - 7.10.1 Process, flows, facilities, organisations, geographic relationship
  - 7.10.2 Supplier and Distributer\
- 7.11 Benchmarking

- 7.12 Objectives of Key Performance Indicators
- 7.13 Channel structure of economic Distribution
- 7.14 Challenges
- 7.15 Benefits of Effective Sourcing Decisions
- 7.16 The Procurement Process
- 7.17 Summary
- 7.18 Suggested Readings
- 7.19 Self Assessment Questions
- 7.20 Key Words

## **7.1 INTRODUCTION :**

Logistics is the process of strategically managing the procurement, movement and storage of materials, parts and finished inventory (and the related information flows), through the organization and its marketing channels, in such a way that current and future profitability are maximized through the cost-effective fulfillment of orders.

Firms can achieve competitive advantage through:

1. Differentiation, in the eyes of the customer, from its competition
2. By operating at a lower cost and hence at greater profit.

## **7.2 LOGISTICS AND COMPETITIVE ADVANTAGE :**

1. Productivity
2. Value
3. Lower cost Profile
4. Differential plus

There is substantial evidence to suggest that big is beautiful when it comes to cost advantage.

This is partly due:

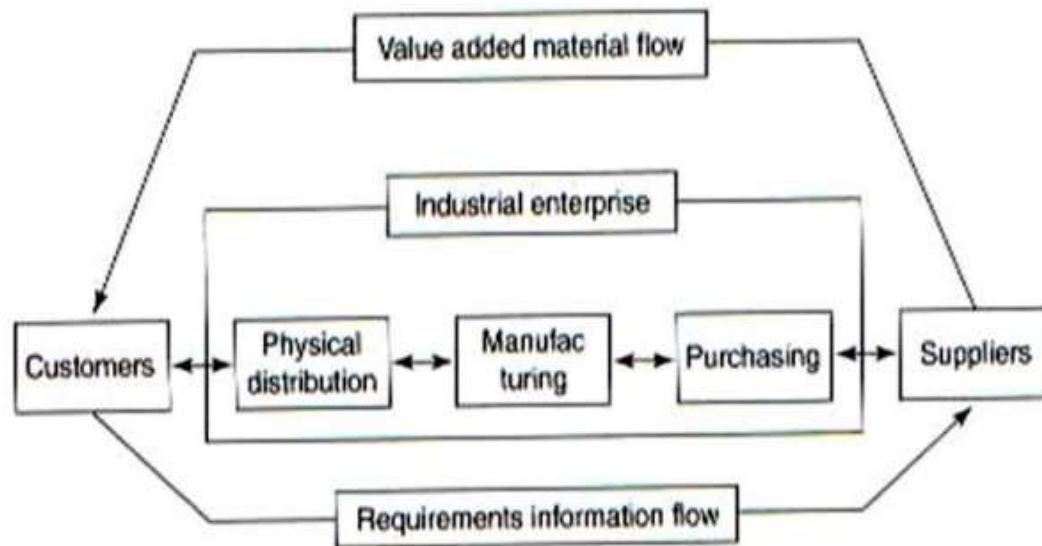
1. To economies of scale
2. To the impact of the "Experience Curve In this regard Logistics management can provide a multitude of ways to increase efficiency and productivity and hence contribute significantly to reduced unit costs.



### 7.3 GAINING COMPETITIVE ADVANTAGE THROUGH LOGISTICS :

Competitive advantage cannot be understood by looking at a firm as a whole. It stems from the many discrete activities a firm performs. In this case we can use the value chain analysis to disaggregate a firm into its strategically relevant activities. Productivity advantage : Capacity utilization, inventory reduction, closer integration with suppliers.

Value advantage: Superior customer services



*Figure 11.7 Logistics management process*

*Source: Bowersox, D.J., Closs, D.J. and Helferich, O.K., Logistical Management 3rd edition, Macmillan Publishing Co, 1986*

### 7.4 FUNDAMENTALS OF SUPPLY CHAIN MANAGEMENT :

1. Views the supply chain as a single entity
2. It calls for strategic decision making because of its impact on overall costs and market share.
3. Provides a different perspective on inventories which are used as a balancing mechanism of last not first resort.
4. Requires high level of integration.

The supply chain is the network of organizations that are involved (through upstream and downstream linkages) in the different processes and activities that produce value (goods or/and services).

1. Recall the value system
2. Cutting short the pipeline (Unneeded inventory)
3. Improve the pipeline visibility (Organizational barriers removals, better coordination)

4. Managing logistics as a system
5. Definition of logistics

Logistics and competitive advantage (Productivity and Value advantage)

#### **7.4.1 Integrating the supply chain :**

The degree to which the firm can strategically collaborate with their supply chain partners and collaboratively manage the intra- and inter-organization processes to achieve the effective and efficient flows of

- Product and services
- Information
- Money
- Decisions

With the objective of providing the maximum value to the customer at low cost and high Speed competitive performance /Measures of integration

- Access to planning system
- Sharing production plans
- Joint EDI access / networks
- Knowledge of inventory mix / levels
- Packaging customization
- Delivery frequencies
- Common logistical equipment / containers
- Common use of third-party logistics

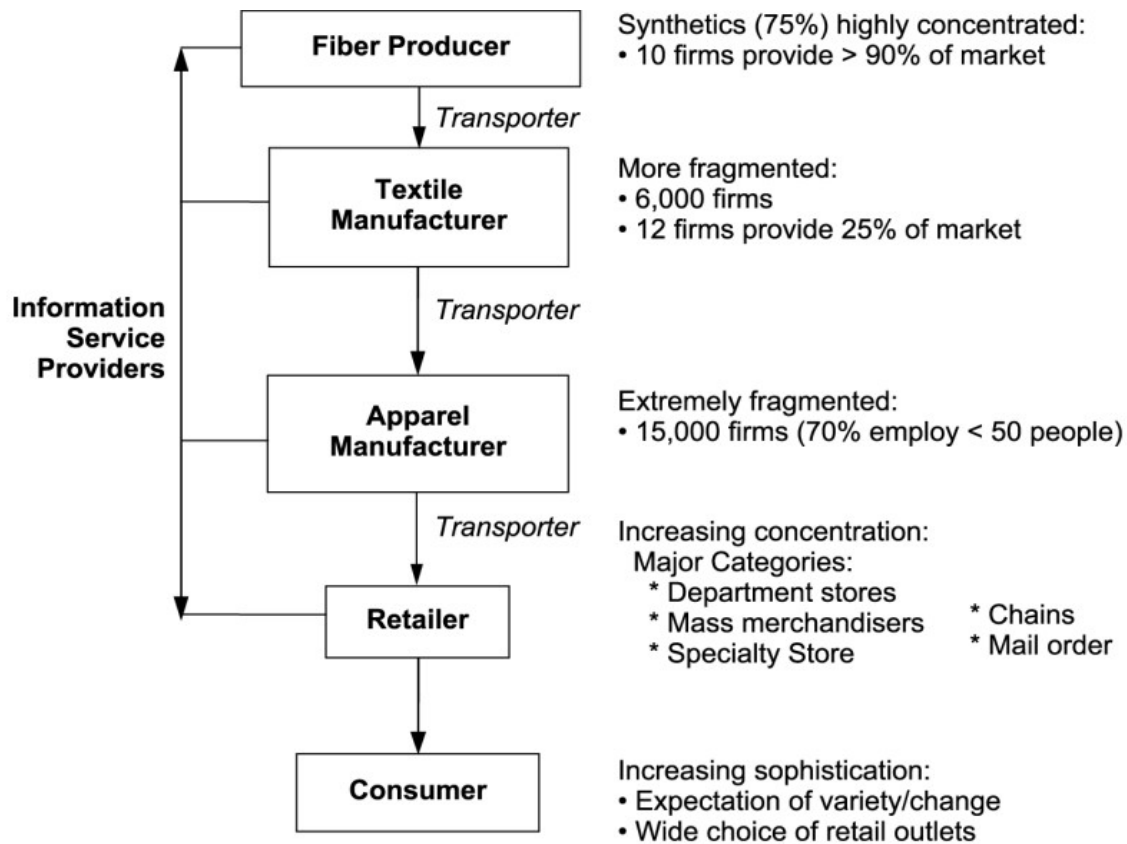
#### **7.4.2 Value Added Services :**

DHL's dedicated and shared user warehousing solutions are not just about holding stock. There are a wide range of additional services that we offer, as part of an overall solution that can improve the performance of your supply chain.

From sub-assembly, packaging services, customization, postponement, kitting, sequencing to pre- retail activities across all industry sectors, we help you reduce costs, reduce inventories, and better match supply with demand.

Co-locating these services alongside the storage of your products not only saves money but removes steps in the supply chain. The elimination of transportation time to a packaging facility means you can reduce your lead times and decrease your inventory. And by having DHL

perform all these activities you receive the same visibility and operational excellence that you've grown to expect from the market leader in contract logistics



**Source:** Hammond (1993, p. 187)

Managing supply chain relationships:

## 7.5 FACTORS IN FORMING SUPPLY CHAIN RELATIONSHIPS :

The order winner

The method making sourcing decisions

The nature of electronic collaboration

### **The attitude to capacity planning :**

Call-off requirements

Price negotiations

Managing product quality

Managing research and development

The level of pressure

**Pilot new supply chain solutions :**

Successful supply chain improvement including

Involvement of key stakeholders, suppliers, customers and employees

Selection of scope and environment, focusing on avoiding risk

Identification of the key questions that the pilot must answer

**Develop measurement systems for supply chain performance :**

1. On time in full, outbound
2. On time in full, inbound
3. Internal defect rates
4. New product introduction rate
5. Cost reduction
6. Stock turns
7. Order to delivery lead time
8. Fiscal flexibility

**7.6 BENCHMARKING THE LOGISTICS :**

Benchmarking is the on-going process of measuring products, services, practices & processes against the best that can be identified in order to:

1. Learn about & improve best practice.
2. Achieve realistic targets.
3. Integrate improvements into your strategy.
4. Use best practice as inspiration for innovation.
5. Be externally focused.
6. Be purposeful about improvement.
7. Measure improvement.

A control process is :

Involving employees in the process of evaluation and change.

Philosophy one of self control rather than imposed control, where the person most closely associated with the task is involved in the cross measurement and assessment of practice.

Places personnel in a position where their unquestioned beliefs (paradigm) may be challenged, creating opportunities for innovation and learning.

**7.7 WHAT TO BENCHMARK ?**

- Supply Chain Council suggests : SCOR (Supply Chain operations reference) Christopher, M. 1998 pp 106) :

- Plan, Source, Make & Deliver. SCOR is designed to provide a common framework to facilitate cross organisational benchmarking.

## **7.8 WHO TO BENCHMARK WITH**

Competitors

Significant opportunities for firms in non competing industries

## **7.9 BENCHMARKING THE LOGISTIC PROCESSES :**

One method to measure and compare the output. A form of reactive control.

Alternative to concentrate on the processes which requires a number of steps:

Understand the process. Use those most closely involved and develop flowcharts

Identify critical points

### **7.9.1 SCM Operations :**

A network of facilities including :

Material flow from suppliers and their ‘\_upstream’ suppliers at all levels,

Transformation of materials into semi-finished and finished products (internal process).

Distribution of products to customers and their ‘\_downstream’ customers at all levels.

There are three kinds of flows in a supply chain :

Material, information and capital.

### **7.9.2 Downstream :**

Material : Products, Parts

Information : Capacity, Delivery schedules

Finances : Invoices, Pricing, Credit terms

### **7.9.3 Upstream :**

Material : Returns, Repairs, after-sales services

Information : Orders, point-of-sale Data

Finance : Payments

### **7.9.4 Mapping the supply chain processes :**

Supply chain map is defined as a visual representation of goods, information, processes, and money flows that occur throughout a supply chain, both upstream and downstream.

## **7.10 CHARACTERISTICS OF SUPPLY CHAIN MAPS :**

Can focus on

Particular use or user

Theme

### **7.10.1 Processes, flows, facilities, organizations, geographic relationships :**

Easy to distribute

Easy to interpret

Designed to support corporate strategy

### **7.10.2 Supplier and Distributer :**

The flow in a supply chain is represented as :

Supplier is considered as producers (Manufacturers) and importers in the marketplace.

Distributor is considered as the industrial distributor. The industrial distributor is a specific type of agent middleman who distributes products in the market.

## **7.11 BENCHMARKING :**

Benchmarking is the on-going process of measuring products, services, practices & processes against the best that can be identified in order to :

Learn about & improve best practice.

Achieve realistic targets.

Integrate improvements into your strategy.

Use best practice as inspiration for innovation.

Be externally focused.

Be purposeful about improvement.

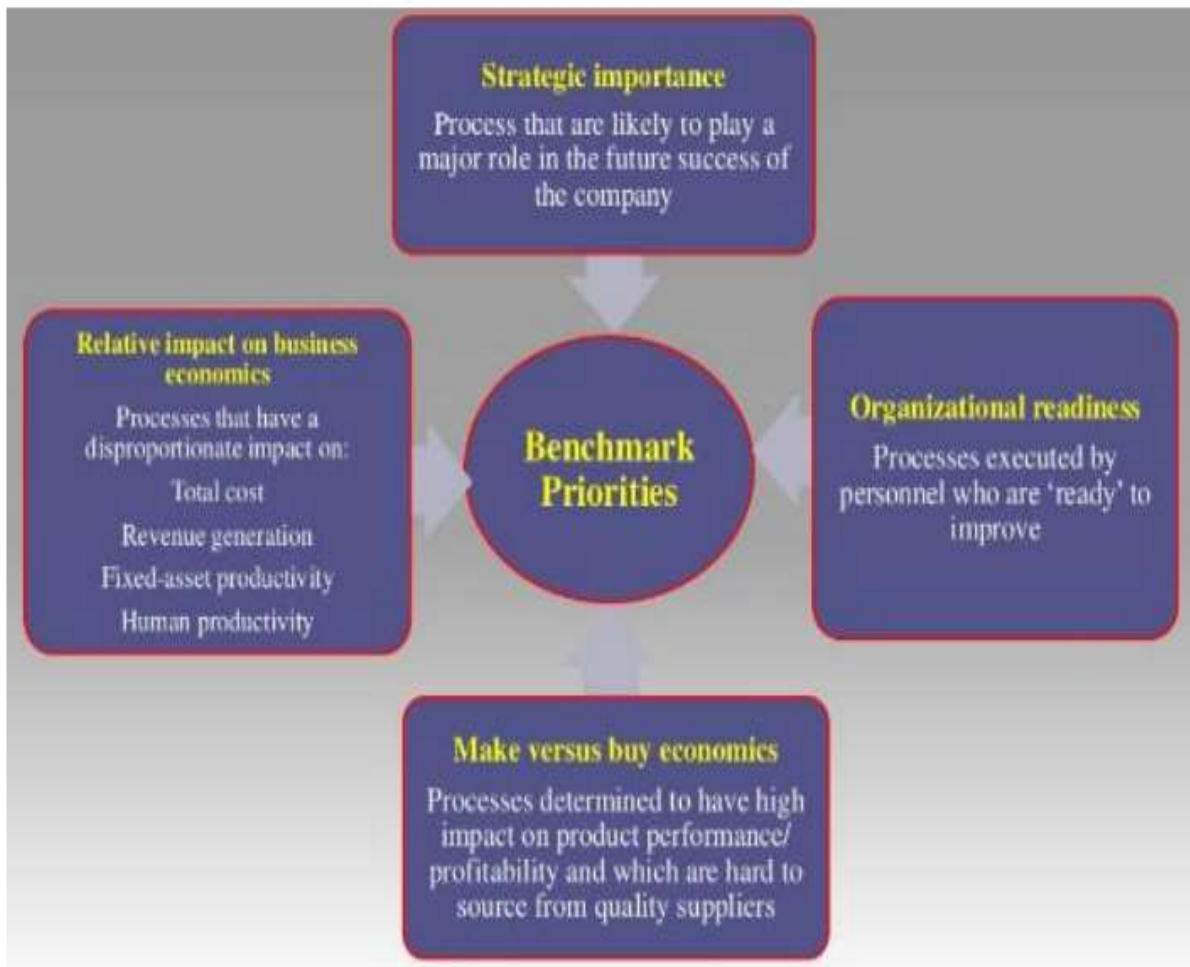
Measure improvement.

### **7.11.1 Benchmarking has three main features :**

Continuous method of measuring and comparing a firm's business processes against those of another firm.

1. Discover performance gaps between one's own processes and those of leading firms.
2. Incorporate leading firm's processes into one's own strategy to fill the gaps and improve Performance
3. Setting benchmarking priorities

4. Setting benchmarking priorities for:
5. Processes and entities in the supply chain are of strategic importance.
6. Processes and entities have a high relative impact on the business economics (costs,
7. revenue, asset performance, and human productivity)
8. Where there is a choice between ‘\_make’ and ‘\_buy’ (processes of high impact on performance/productivity and hard to source from suppliers)
9. Where there is internal readiness to change



### Identifying logistics performance indicators :

A set of quantifiable measures that a company or industry uses to gauge or compare performance in terms of meeting their strategic and operational goals. Key Performance Indicators vary between companies and industries, depending on their priorities or performance criteria.

**7.12 OBJECTIVES OF KEY PERFORMANCE INDICATORS :**

1. Improve personnel's understanding of KPI's
2. Improve personnel's awareness of maintenance performance.
3. KPI's are measurements that define and track specific business goals and objectives.
4. The larger or smaller organizational strategies require monitoring, improvement, and evaluation.
5. Once an organization has analyzed its mission, identified all its stakeholders, and defined its goals, it needs a way to measure progress toward those goals.
6. KPI's are utilized to track or measure actual performance against key success factors.
7. Key Success Factors (KSFs) only change if there is a fundamental shift in business objectives.

Key Performance Indicators (KPIs) change as objectives are met, or management focus shifts.

**7.13 CHANNEL STRUCTURE ECONOMICS OF DISTRIBUTION :**

1. Formulating Channel Strategy :

The importance of channel strategy is likely to depend upon the existence of one or more of the following conditions :

- a) Target markets demand a strong emphasis on distribution.
  - b) Competitive parity exists in other marketing mix variables, with the need for channel strategy to provide some differential advantage.
  - c) Competitive vulnerability exists because of distribution neglect.
  - d) Opportunities for synergy exist through channel strategy.
2. Designing the channel structure
  3. Selecting the channel members :

Considerations need to be given to :

- a) Economic criteria
- b) Control criteria
- c) Adaptive criteria
- d) End user considerations
- e) Product characteristics
- f) Manufacturer's capability and resources



#### 4. Training the channel members

Channel relationships – logistics service alliances.

Marketing channel is a set of independent organizations that ease the transfer of ownership as products move from producer to business user or consumer.

Marketing channel functions :

- Specialization and division of labor

- Overcoming discrepancies

- Providing contact efficiency

Strategic alliances are voluntary independent relationships, collaborations and partnerships of firms to develop and enhance business operations for competitive advantage.

Reasons for alliances becoming the norm :

- Source of competitiveness and firm growth paths strategy

- Efficiency in management

- Innovation driver

- Knowledge pool for industry

- Valuable resource availability

- Market entry and penetration mechanism

Basic forms of alliances :

1. Horizontal industry level alliances
2. Vertical firm level industry alliances

Alliances can be a key strategic tool, if :

1. They are well cut out and engineered with the right focus.
2. If the step approach is adopted to ensure clarity.
3. If partners are committed to the outcomes.
4. If the governance structure is spelt out.
5. If the partners benefit mutually from the alliance.
6. If resource and organizational knowledge is spread across the partners.
7. If the equity and fairness in the processes involved in setting up the alliance.

General Motors de Mexico – Driving efficiency

Penske Logistics has a long history as a supplier to General Motors (GM). With a reach that extends to more than 60 countries, logistics is no small challenge for GM. General

Motors deMexico (GMM) is GM's Mexican subsidiary and a vital part of GM's North American operations. GMM selected Penske to be its lead logistics provider (LLP) to help drive efficiency throughout all aspects of its distribution network. Within the first six months of the partnership, transportation costs had already been significantly reduced. And, more improvements were underway, including the implementation of proprietary software to provide instant access to real-time updates from every supply chain participant.

#### **7.14 CHALLENGES :**

1. To reduce costs and inefficiencies in GMM's growing inbound transportation network
2. To increase overall visibility throughout GMM's supply chain
3. To establish accountability procedures and measures for GMM's suppliers and carriers

Within six months, Penske had reduced transportation costs by 15 percent

Penske implemented its proprietary Logistics Management System software to provide instant access to real-time updates from every supply chain participant, enabling proactive resolution of supplier and carrier issues.

Penske reduced GMM's carrier base from 100 carriers to 20 within the first year. The rate of on-time supplier pickups has increased to 98 percent, while delivery rates are at 99 percent.

#### **Sourcing decisions :**

1. The Role of Sourcing in a Supply Chain
2. Supplier Scoring and Assessment
3. Supplier Selection and Contracts
4. Design Collaboration
5. The Procurement Process
6. Sourcing Planning and Analysis
7. Making Sourcing Decisions in Practice

#### **7.15 BENEFITS OF EFFECTIVE SOURCING DECISIONS :**

1. Better economies of scale can be achieved if orders are aggregated.
2. More efficient procurement transactions can significantly reduce the overall cost of purchasing.

3. Design collaboration can result in products that are easier to manufacture and distribute, resulting in lower overall costs.
4. Good procurement processes can facilitate coordination with suppliers.
5. Appropriate supplier contracts can allow for the sharing of risk.
6. Firms can achieve a lower purchase price by increasing competition through the use of auctions.

**Supplier Assessment Factors :**

1. Replenishment Lead Time
2. On-Time Performance
3. Supply Flexibility
4. Delivery Frequency / Minimum Lot Size
5. Supply Quality
6. Inbound Transportation Cost
7. Pricing Terms
8. Information Coordination Capability
9. Design Collaboration Capability
10. Exchange Rates, Taxes, Duties
11. Supplier Viability

**Contracts and Supply Chain Performance :**

1. Contracts for Product Availability and Supply Chain Profits Buyback Contracts, Revenue-Sharing Contracts, Quantity Flexibility Contracts
2. Contracts to Coordinate Supply Chain Costs
3. Contracts to Increase Agent Effort
4. Contracts to Induce Performance Improvement
5. Contracts for Product Availability and Supply Chain Profits: Many shortcomings in supply chain performance occur because the buyer and supplier are separate organizations and each tries to optimize its own profit
6. Total supply chain profits might therefore be lower than if the supply chain coordinated actions to have a common objective of maximizing total supply chain profits

## **Contracts for Product Availability and Supply Chain Profits :**

### **Buyback Contracts**

1. Allows a retailer to return unsold inventory up to a specified amount at an agreed upon price.
2. Increases the optimal order quantity for the retailer, resulting in higher product availability and higher profits for both the retailer and the supplier.
3. Most effective for products with low variable cost, such as music, software, books, magazines, and newspapers.
4. Downside is that buyback contract results in surplus inventory that must be disposed of, which increases supply chain costs.
5. Can also increase information distortion through the supply chain because the supply chain reacts to retail orders, not actual customer demand.

### **7.16 THE PROCUREMENT PROCESS :**

1. The process in which the supplier sends product in response to orders placed by the buyer
2. Goal is to enable orders to be placed and delivered on schedule at the lowest possible overall cost
3. Two main categories of purchased goods:
  - a. Direct materials: components used to make finished goods.
  - b. Indirect materials: goods used to support the operations of a firm.
  - c. Differences between direct and indirect materials listed in Table 13.2
4. Focus for direct materials should be on improving coordination and visibility with supplier.
5. Focus for indirect materials should be on decreasing the transaction cost for each order.
6. Procurement for both should consolidate orders where possible to take advantage of economies of scale and quantity discounts.

### **Making Sourcing Decisions in Practice :**

1. Use multifunction teams
2. Ensure appropriate coordination across regions and business units

3. Always evaluate the total cost of ownership
4. Build long-term relationships with key suppliers

**Learning Objectives of sourcing decisions :**

1. What is the role of sourcing in a supply chain?
2. What dimensions of supplier performance affect total cost?
3. What is the effect of supply contracts on supplier performance and information distortion?
4. What are different categories of purchased products and services?
5. What is the desired focus for procurement for each of these categories?

**Transportation in Supply Chain :**

- Transport Eras
- Transport Rates
- World Transportation Patterns

**Supply chain includes :**

1. Material flows
2. Information flows
3. Financial flow

The bullwhip effect that negatively influences the supply chain performance. This effect is experienced by various industries, from fast moving consumer goods to IT products. The consequences for the supply chain members are the following: increased costs, lower profitability, longer lead times and lower product availability. The main factors that generate this effect are the types of incentives provided by suppliers to the downstream customers, the information distortion, the order placing practices, the pricing policies encouraging the forward buying and the specific behavior of the supply chain members focused on local optimization. The only way in which supply chain members may eradicate the bullwhip effect is to enhance coordination among the subsequent stages. Some of the strategies to be considered are the alignment of goals and objectives, data sharing among members, single stage control of replenishment, strategies for the improvement of the operational performance, stabilizing orders with appropriate pricing strategies and building strategic partnerships and trust. The incidence and amplitude of the bullwhip effect may be reduced by strategies and decisions that are harmonized along the stages of the supply chain. The key words in the endeavor to diminish the bullwhip effect are cooperation, coordination, communication and trust.

### 7.17 SUMMARY :

Supply chain is the system by which organizations source, make and deliver their products or services according to market demand. Supply chain management operations and decisions are ultimately triggered by demand signals at the ultimate consumer level. Supply chain as defined by experienced practitioners extends from suppliers 'suppliers to customers' customers.

The Role of Sourcing in a Supply Chain :

Sourcing is the set of business processes required to purchase goods and services.

Sourcing processes include :

- Supplier scoring and assessment
- Supplier selection and contract negotiation
- Design collaboration
- Procurement
- Sourcing planning and analysis

### 7.18 KEY WORDS :

#### **Logistics :**

Logistics is the process of strategically managing the procurement, movement and storage of materials, parts and finished inventory (and the related information flows), through the organization and its marketing channels

#### **Benchmarking :**

Benchmarking is the on-going process of measuring products, services, practices & processes

#### **Competitive advantage :**

Competitive advantage cannot be understood by looking at a firm as a whole. It stems from the many discrete activities a firm performs

#### **Key Performance Indicators :**

KPI's are measurements that define and track specific business goals and objectives.

### 7.19 SELF ASSESSMENT QUESTIONS :

1. Discuss the Logistics and Competitive Advantage
2. Briefly Explain the fundamentals of Supply Chain Management
3. Outline the Objectives of Key performance Indicators
4. Describe the benchmarking the logistic Processes

**7.20 SUGGESTED READINGS :**

1. Berger, J. (2016). Contagious: How to build word of mouth in the digital age. Simon & Schuster Publications
2. Sullivan, L. (2016) Hey, Whipple, Squeeze This: The Classic Guide to Creating Great Ads Wiley Publications
3. Morgan, A. (2018) Eating the big fish: How challenger brands can compete against brand leaders Wiley Publicaitons
4. Coleman, D. (2019). Building brand experiences: A practical guide to retaining brand relevance Kogan Page Publications

*Dr. V. Vani*

## **LESSON - 8**

# **CUSTOMER RELATIONSHIP MANAGEMENT**

### **OBJECTIVES OF THE LESSON :**

- ✓ To study the schools of Thoughts of CRM
- ✓ To Understand the Benefits of CRM
- ✓ To Know the Emergence of Service and Market Economy
- ✓ To Learn the Mass Marketing
- ✓ To Discuss the Inefficiencies of Mass Marketing

### **STRUCTURE OF THE LESSON :**

- 8.1 Introduction
- 8.2 Schools of Thoughts on CRM
  - 8.2.1 The Anglo Australian Approach
  - 8.2.2 The Nordic Approach
  - 8.2.3 North American Approach
- 8.3 Defining CRM
- 8.4 Benefits of CRM
- 8.5 Marketing Benefits of CRM
- 8.6 Service Benefits of CRM
- 8.7 Emergence of Service Economy
- 8.8 Emergence of Market Economy
- 8.9 Global Orientation of Business
- 8.10 Aging Population in Economically Developed Countries
- 8.11 Mass Marketing
  - 8.11.1 Inefficiencies of Mass Marketing
  - 8.11.2 Intensive Competition
  - 8.11.3 Growing Importance of the service sector
  - 8.11.4 Adaptation of total Quality Management Programmes
- 8.12 Summary
- 8.13 Key words



8.14 Self Assessment Questions

8.15 Suggested Readings

## 8.1 INTRODUCTION :

Customer Relationship Management (CRM) is to create a competitive advantage by being the best at understanding, communicating, delivering, and developing existing customer relationships, in addition to creating and keeping new customers. It has emerged as one of the largest management buzzword. Popularised by the business press and marketed by the aggressive CRM vendors as a panacea for all the ills facing the firms and managers, it means different things to different people. CRM, for some, means one to one marketing while for others a call centre. Some call database marketing as CRM. There are many others who refer to technology solutions as CRM. If so, what is CRM?

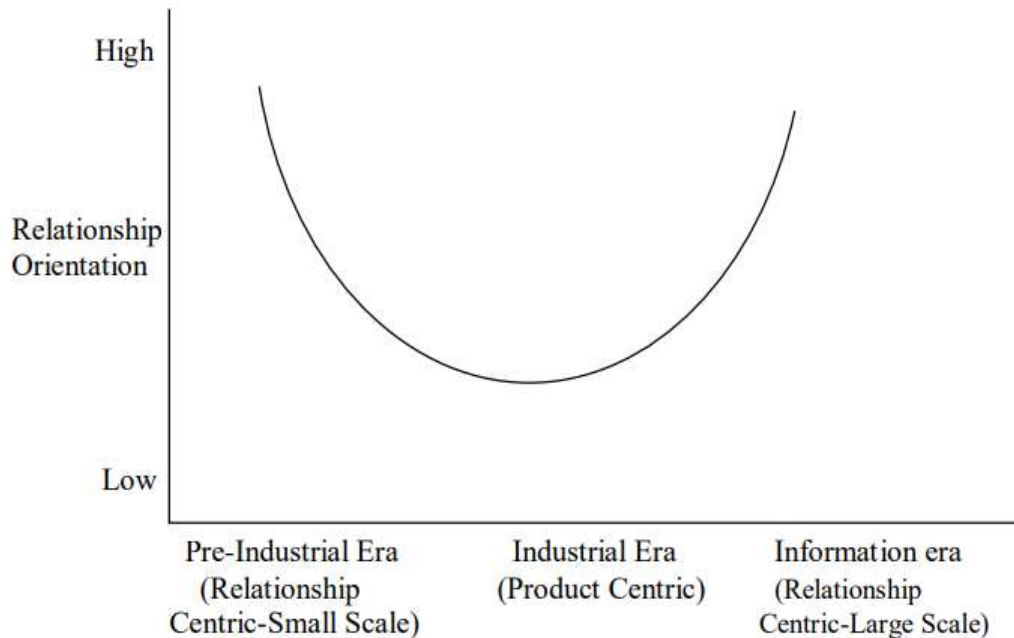
Merchants and traders have been practicing customer relationship for centuries. Their business was built on trust. They could customize the products and all aspects of delivery and payment to suit the requirements of their customers. They paid personal attention to their customers, knew details regarding their customers tastes and preferences, and had a personal rapport with most of them. In many cases, the interaction transcended the commercial transaction and involved social interactions.

Even today, this kind of a relationship exists between customers and retailers, craftsmen, artisans – essentially in markets that are traditional, small and classified as pre-industries markets.

These relationship oriented practices have changed due to industrial revolution..Businesses adopted mass production, mass communication and mass distribution to achieve economics of scale. Manufactures started focusing on manufacturing and efficient operations to cut costs. Intermediaries like distributors, wholesalers and retailers took on the responsibilities of warehousing, transportation, distribution and sale to final customers. This resulted in greater efficiencies and lower costs to manufacturers but brought in many layers between them and the customers. The resulting gap reduced direct contacts and had a negative impact on their relationships.

The post-industrial era saw the re-emergence of relationship practices. Marketing academicians.

- (a) Rapid advances in technology,
- (b) Intensive competition in most markets,
- (c) Growing importance of the service sector, and
- (d) Adoption of total quality management programs



**Figure 1.1** The Evolution of Relationship Orientation

## 8.2 SCHOOLS OF THOUGHT ON CRM :

The relationship marketing is supported by the growing research interest in different facets of this concept. Researchers in different countries observed this shift in marketer's orientation towards customer relationship and started exploring the phenomenon. The initial approaches to CRM can be broadly classified as :

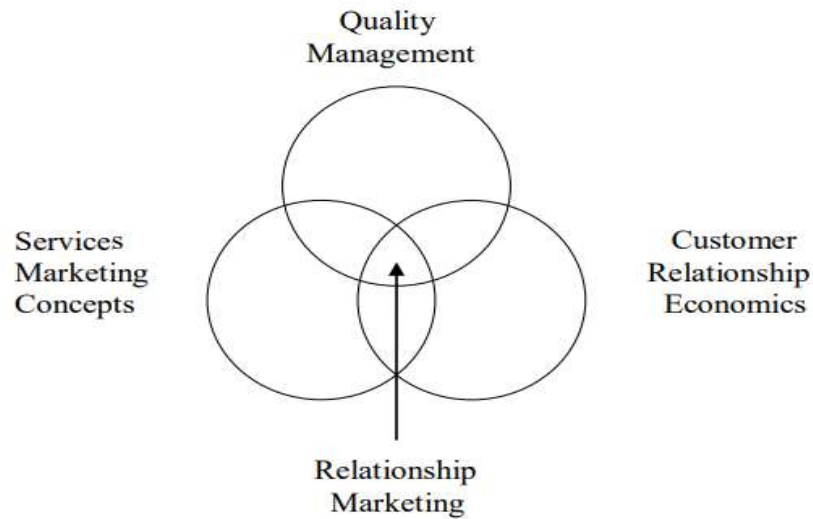
1. The Anglo-Australia Approach,
2. The Nordic Approach, and
3. The North American Approach.

### 8.2.1 The Anglo-Australian approach :

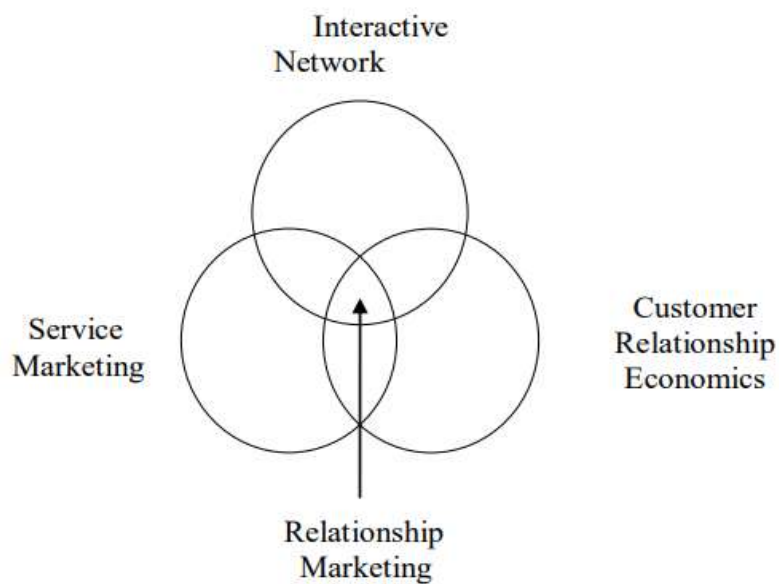
It integrated the contemporary theories of quality management services marketing and customer relationship economics to explain the emergence of relationship marketing

### 8.2.2 The Nordic approach :

It views relationship marketing as the confluence of interactive network theory, services marketing and customer relationship economics. The interactive network theory of industrial marketing views marketing as an interactive process in a context where relationship building is an area of primary concern for marketers.



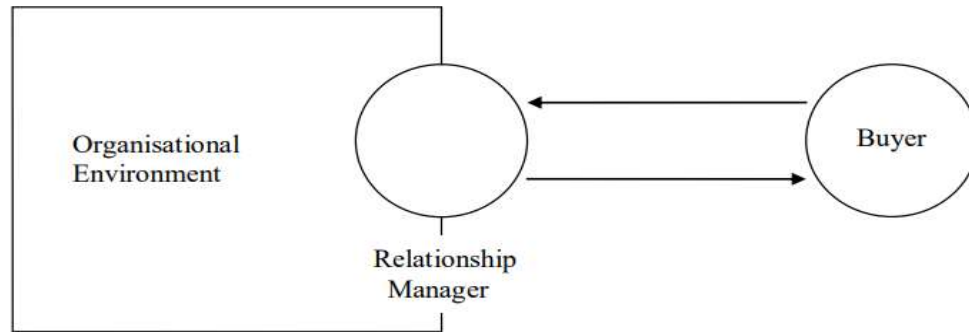
**Figure 1.2** Anglo-Australian Approach of Relationship Marketing



**Figure 1.3** Nordic Approach to Relationship Marketing

### 8.2.3 North American Approach :

In contrast, the initial focus of the North American scholars was on the relationship between the buyer and seller operating within the context of the organizational environment which facilitated the buyer seller relationship.

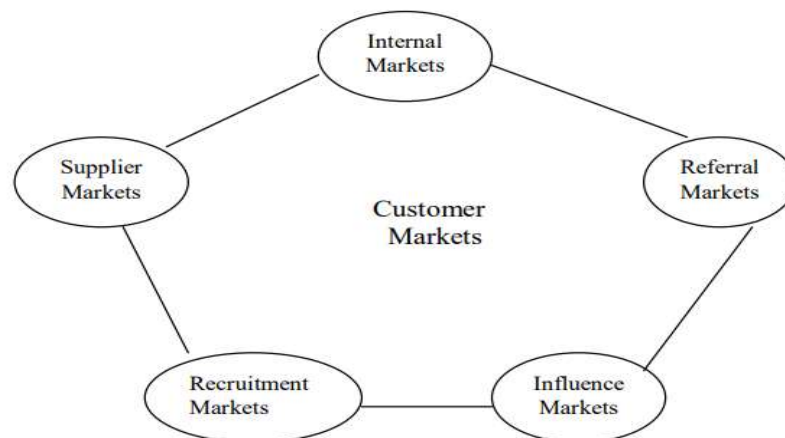


**Figure 1.4** North American Approach to Relationship Marketing

One of the broader approaches to CRM emerged from the research conducted by academics at the Centre for Relationship Marketing and Service Management at the Cranfield University, U.K. The broadened view of relationship marketing addresses a total of six key market domains, not just the traditional customer market. It also advocated for a transition for marketing from a limited functional role to a cross functional role and a shift towards marketing activities for customer retention in addition to the conventional customer retention in addition to the conventional customer acquisition.

**The six markets are as follows :**

1. Customer markets – existing and prospective customers as well as intermediaries.
2. Referral markets – existing customers who recommend to other prospects, and referral sources or ‘\_multipliers’ such as doctors who refer patients to a hospital or a consultant who recommends a specific IT solution,
3. Influence markets – government, consumer groups, business press and financial analysts.
4. Recruitment markets – for attracting the right employees to the organization,
5. Supplier markets – suppliers of raw materials, components, services, etc., and
6. Internal markets - the organization including internal departments and staff



**Figure 1.5** The Six Markets Framework

### 8.3 DEFINING CRM :

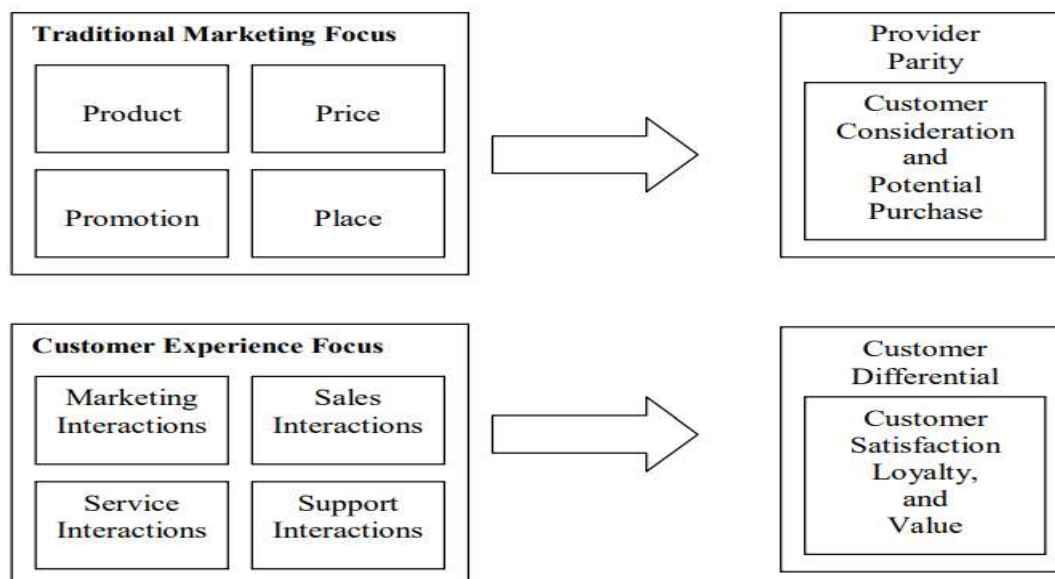
The preceding discussions highlight the range of perspectives adopted by researchers in understanding and explaining relationships. Similarly in marketing literature, the terms customer relationship management and relationship marketing have been used interchangeably to reflect a variety of themes and perspectives. Some of these themes offer a narrow functional marketing perspectives while others offer a perspective that is broad and somewhat paradigmatic in approach and orientation. A narrow perspective of customer relationship management is database marketing emphasizing the promotional aspects of marketing linked to database efforts, Another view point is to consider CRM only as customer retention in which a variety of after marketing tactics are used for customer bonding or staying in touch after the sale is done. A more popular approach with recent application of information technology is to focus on individual or one to one relationship with customer that integrates database knowledge with a long-term customer retention and growth strategy.

Jackson applied the individual account concept in industrial market to suggest markets CRM to mean, marketing oriented toward strong, lasting relationship with individual accounts

McKenna offered a more strategic view by putting the customer first and shifting the role of marketing from manipulating the customer (telling & selling) to genuine customer involvement (communicating & sharing the knowledge).

Berry, in a broader term stressed that attracting new customers should be viewed only as intermediate step in the marketing process. Developing closer relationships with this customers and turning them into loyal is an equally important aspect of marketing. Thus, he defined relationship marketing as attracting, maintaining, and, enhancing customer relationships.

**Figure 1.1** Shift in focus.



By focusing on the value of interaction in marketing and its consequent impact on a customer relationships, a broader perspective espouses that customer relationship should be the dominant paradigm of marketing. As Gronroos stated : Marketing is to establish, maintain and enhance relationship with customers and other partners, at a profit, so that the objectives of the parties involved are met. This is achieved by a mutual exchange and fulfillment of promises. The implication of Gronroos definition is that customer relationships is should be devoted to building and enhancing such relationship. Similarly, Morgan and Hunt suggested that relationship marketing refers to all marketing activities directed towards establishing, developing and maintaining successful relationships.

#### **8.4 BENEFITS OF CRM :**

Customers are Profitable over a period of time Studies by the US-based Bain and Company have shown that a customer becomes more profitable with time because the initial acquisition cost exceeds gross margin while the retention costs are much lower. When an organization retains the customer, it gets a larger share of the customers wallet at a higher profit-one percent increase in sale to existing customer increase profits by 17 per cent while the same amount of sale to new customer increased profit by only 3 per cent. This huge different is explained by the fact that for most companies the cost of acquiring the customer is very high. It costs six to eight times more to sell to a new customer than to sell to an existing one. The same study also highlighted that a company can boost its profit up 85 per cent by increasing its annual customer retention by only 5 percent.

Similarly, studies have shown that the probability of selling a product to a prospect is 15 per cent while it is 50 per cent to a existing customer. Thus, the time, the effort and the costs of selling are much lower for an existing customer.

Customer probability is Skewed

An analysis of the revenue and profit contribution of customer base of banks in the US, Europe and Australia showed the following :

- The top 20 per cent of the customers contribute to 150 per cent of the profits while the bottom 20 per cent drain 50 per cent of the profits and the rest 60per cent just break even.

Experiences of Indian organizations are on similar lines. In a large public sector Banks, the top 23 per cent of the customers contribute to 77 per cent of their venues. Similarly, the top 27 per cent customers of a leading cellular phone service provider contributes to 75 per cent of the revenues.

The implication of such a skew in customer profitability and revenue contribution are startling for organizations, which use to conventionally treat all customers are equal'. Competitors have to just lure these top customers and the organization would face serious problems. It also highlights the fact that one has to adopt different strategies for different customer groups:

Programmes have to be developed to retain and build stronger bonds with the top ‘gold standard’ customers so that they do not get poached’

Activity-Based Costing analysis has to be done with the middle group of potentials’ so that the cost of serving this customers are reduced. In addition, cross-selling and up selling should be done to increase the profitability of these customers.

An analysis of the bottom growth has to be done to identify those customers who can be shifted to the potential group. For the remaining, the cost of service has to reduce by encouraging them to use lower cost channels. In extreme cases, some of these customers will be encouraged to defect to competitors. Outsourcing of loss making customers to specialized low over head agencies is an emerging trend.

### **8.5 MARKETING BENEFITS OF CRM :**

CRM will gradually reduce organization’s dependence on periodic surveys to gather data. Collection of data related to buying and consumption behavior will be an ongoing process. In many cases, the transaction data is automatically collected sometimes real time as in the e-commerce transaction. This rich repository of customer information and knowledge updated through regular interactions and actual customer transactions and purchase behavior will help marketers to develop and market customer centric products successfully. Customized promotions-based customer preferences and purchase patterns will substantially reduce the wasteful expenditure of mass communication and even direct mailing. As a customized promotion are more focused and are based on a deeper insight of existing customers, they have a greater chance of conversion to sales.

### **8.6 SERVICE BENEFITS OF CRM :**

Research findings conducted across industries as a part of a Technical Assistance Research Project (TARP) indicate that :

- 95 per cent of the customers do not bother to complain, they just take their business elsewhere - Most loyal customers take time to complain. This enables the product /service provider to improve and ensure that such mistake do not recur.
- A typical dissatisfied customer will tell an average of 14 others about a bad experience while she will tell only six about a satisfying experience with an organization.
- 70 per cent of customers who complain will do business with a company again if it quickly takes care of a service problem.

### **Enables for the Growth Of CRM :**

The tremendous growth of interest and investment in CRM across the globe can be attributed to

the following macro – environmental factors :

- (a) Emergence to service economy,
- (b) Emergence of market economy
- (c) Global orientation of businesses, and
- (d) Aging population of the economically advanced economies.

### **8.7 EMERGENCE OF SERVICE ECONOMY :**

The emergence of service economy is a global phenomenon. In the US, the service sector accounts for over 75 per cent of GNP and employees 80 per cent of the workforce. The service sector contribute to 60 – 70 per cent of the GDP of economically advanced nations of Western Europe, Canada and Japan. The increasing contribution of service sector is not limited to develop countries. Developing economies like China, Indonesia and Thailand employ about 40 per cent of the work force in the service sector. In the year 2001, the service sector contributed to 48 per cent of GDP in India, 54 per cent in Philippines and 33 per cent in China.

The average annual growth rate of the services during the decade of 1990s was 8 per cent in India, 9 per cent in China and 4.1 per cent in Philippines (Statistical Outline of India, 2002 – 2003).

Advanced countries progressed from agriculture to industrial and then to post –industrial economies. The shift from manufacturing to services was spread over a few decades of the last century. However, in developing countries, the growth is lead by all three sectors of the economy in varying proportions.

The growing importance of services resulted in greater customer orientation as services are characterized by simultaneity / inseparability. It implies that the production and consumption of services are inseparable. In services, one needs to be closed to customers to deliver the service offering. The factory is where the customer is and services offered in real time. The customer perceives the production process as part of service consumption, not just the outcome of production process as in traditional marketing of physical goods. Therefore, it is not surprising that service businesses like hotels, airlines, banking, financial services, telecom and retailing where the early adopters of CRM

### **8.8 EMERGENCE OF MARKET ECONOMY :**

In addition to the shift towards service, there is a global emergence of the market economy. The power is more to the market as compare to the controlled economy. Market regulation was in place all over the world including the US, Europe, USSR, China and India. The 1990s witnessed acceleration in the deregulation of many large industries including banking, telecommunications, broadcasting and airlines across the world. As a result, market – orientation



firms operating intensely competitive market now takes decision that was once controlled by the government.

The focus have shifted from capacity creation under control to the markets. Market oriented economy necessitated a customer focus and boosted the importance of CRM.

### **8.9 GLOBAL ORIENTATION OF BUSINESSES :**

National boundaries are giving way to either a borderless world or atleast a regional world resulting in the emergence of trading blocks like North American Free Trade Agreement (NAFTA), European Union and the Association of South – East Asian Nations (ASEAN). The abolishment of the General Agreement on Tariffs and Trade (GATT). And the emergence of World Trade Organization (WTO) helped create a global orientation for business establishment. Increasing international trade became the growth engine for the global economy.

Liberalisation of markets and trade proved to be a far stronger growth engine. It has eased the entry into foreign markets. Firms need stronger customer – orientation to be able to tab opportunities in new markets while defending themselves in their home markets.

### **8.10 AGING POPULATION IN ECONOMICALLY DEVELOPED COUNTRIES :**

The economically advanced nations are witnessing an aging of their population. In2000, 12.6 per cent of the US population was 65 years of age or older. The comparative figures for Sweden and Japan were 17.2 per cent and 17 per cent of their respective population (Sheth and Mittal, 2004). This trend is visible in most part of Europe, except in Ireland (Leeflang and Raij, 1995). Aging of population has been attributed to the combined effects of a slow down in birth rate and an increased in life expectancy. While an aging population creates new opportunities for wellness, financial wellbeing, safety and security and recreation (Sheth andMittal, 2004), it has also slowed the markets for traditional goods and services designed for a younger population. Therefore, in these markets, growth is being achieved by increasing the ‘share of wallet’ and not through ‘growth of markets ‘driven by a growing population. Marketers are now forced to develop a deep understanding of their existing customers and meet their ever changing needs through suitable products and services. Indeed, most large companies, especially the services sector, wants to become One-Stop-Shop for the customers.

After identifying and discussing the factors responsible for the growth of CRM across the globe, we now evaluate the reasons as to why managing customer relationship has become critical for business.

Technological Advancement :

More information, communication and production technologies have helped marketers come closer to their customers. Firms operating in diverse sectors ranging from packaged goods to services started using these technologies to know their customers, learn more about them, and

then build stronger bonds with them through frequent interactions. Marketers could gain knowledge about customers, which helped them respond to their needs through manufacturing, delivery, and customer service. Technology also enabled ordering and product-use related services. Though the emergence of CRM in recent times coincided with the information age, one must remember that technology is just an enabler. Technology enabled marketers overcome several long felt shortcomings of mass marketing.

## **8.11 MASS MARKETING :**

### **8.11.1 Inefficiencies of mass marketing :**

1980s and early 1990s witnessed some of the most radical business transformations that resulted in cost reductions in almost all functional departments except marketing. Manufacturing and related operations costs were reduced through business process reengineering, human resource costs were reduced through outsourcing, restructuring and layoffs, financial costs were reduced through financial reengineering but marketing costs kept increasing due to increased competition and product parity in virtually every industry.

- Lack of fast, effective and interactive models of customer contact, feedback and information.
- Lack of consolidated information about customer interactions, purchase behavior and future potential.

### **8.11.2 Intensive Competition :**

In competitive markets, especially the ones that were maturing and witnessing slower no growth, marketers found it more profitable to focus on their existing customers. Studies have shown that it costs up to 10-12 times more to attract a new customer than to retain an existing customer. Marketers have now started focusing on the lifetime value of customers. They are moving away from just trying to sell their products to understanding, customers needs and wants and then satisfying their needs. This has led to a relationship orientation which creates opportunities to cross sell products and services over the lifetime of the customer.

### **8.11.3 Growing Importance of the Service Sector :**

The service sector contributes to over two-third of the GDP of most advanced economies. In India, the services sector contributes to over 50 per cent of the economy. One of the characteristics of the service industries is the direct interaction between the marketer and the buyer. In services, the provider is usually involved in the production as well as delivery directly. For example, professional service providers like a doctor or consultant are directly involved in production as well as delivery of their services. Similarly, the customers are directly involved in production in the purchase and consumption of these services. These direct contacts create opportunities for better understanding, a better appreciation of needs as well as constraints and emotional bonding all of which facilitate relationship building.

Therefore it should come as no surprise when you see the service firms pioneering many of the customer relationship initiatives. Firms operating in the financial services, hospitality business, telecom, and airlines are the early adopters and extensive users of CRM practices.

#### **8.11.4 Adoption of total Quality Management (TQM) Programmes :**

Total quality management programmes help companies offer quality products and services to customers at the lowest prices. To enable this value proposition, organizations needed to work closely with their customers, intermediaries as well as suppliers thus fostering close working relationships with members of the marketing system. Companies such as Intel, Xerox, and Toyota formed partnering relationships with suppliers and customers to practice TQM.

#### **8.12 SUMMARY :**

Other developments such as an increase in the number of demanding customers, increased fragmentation of markets, and generally high level of product quality forced business to seek sustainable competitive advantages. A competitive advantage is sustainable only when it is not easily replicated. One such sustainable competitive advantage is the relationship that a firm develops with its customers.

#### **8.13 KEY WORDS :**

##### **Customer Relationship Management :**

Customer Relationship Management (CRM) is to create a competitive advantage by being the best at understanding, communicating, delivering, and developing existing customer relationships, in addition to creating and keeping new customers

##### **The Anglo-Australian approach :**

It integrated the contemporary theories of quality management services marketing and customer relationship economics to explain the emergence of relationship marketing

##### **Nordic Approach :**

It views relationship marketing as the confluence of interactive network theory, services marketing and customer relationship economics

##### **North American Approach :**

The initial focus of the North American scholars was on the relationship between the buyer and seller operating within the context of the organizational environment which facilitated the buyer seller relationship.

#### **8.14 SELF ASSESSMENT QUESTION :**

1. Define the CRM ? Discuss the Schools of Thoughts of CRM

2. Describe the Benefits of CRM
3. Discuss the Mass Marketing and their Inefficiencies of Mass Marketing?

#### **8.15 SUGGESTED READINGS :**

1. Pink, D. H. (2013) To sell is human: The surprising truth about moving others  
Riverhead Books
2. Adamson, B., & Dixon, M. (2015) The challenger sale: Taking control of the customer  
conversation Penguin.
3. Scott, D. M. (2017) The New Rules of Marketing and PR: How to Use Social Media,  
Online Video, Mobile Applications, Blogs, News Releases, and Viral Marketing to  
Reach Buyers Directly John Wiley & Sons.
4. Toister, J. (2017) The service culture handbook: A step-by-step guide to getting your  
employees obsessed with customer service. Wiley.

*Dr. V. Vani*

## **LESSON - 9**

# **HOW TO DESIGN ONLINE WEBSITE**

### **OBJECTIVES OF THE LESSON :**

- ✓ To study the importance of website design
- ✓ To understand how to design website design
- ✓ To know procedure and protocol of website design
- ✓ To enhance students knowledge in website designing

### **STRUCTURE OF THE LESSON :**

- 9.1 Introduction
  - 9.1.1 Here's an overview of what we're going to cover
- 9.2 What to consider when making a small business website
- 9.3 How to make a small business website
  - 9.3.1 Choose your website building platform
    - 9.3.1.1 Word Press.
    - 9.3.1.2 Hosted website builders.
  - 9.3.2 Pick your domain name
  - 9.3.3 Find your hosting provider
    - 9.3.3.1 For example, its hosting packages come with the following inclusions
  - 9.3.4 Install the Word Press software
  - 9.3.5 Select a theme or template
  - 9.3.6 Install plug-ins or extensions
    - 9.3.6.1 Security.
    - 9.3.6.2 Backups.
    - 9.3.6.3 Search Engine Optimization (SEO)
    - 9.3.6.4 E-commerce.
  - 9.3.7 Add your content
    - 9.3.7.1 Homepage.
    - 9.3.7.2 Products, Services, or Portfolio page.
    - 9.3.7.3 About page.
    - 9.3.7.4 Contact page.
    - 9.3.7.5 Blog.

9.3.8 Optimize your website for search engines

9.3.9 Publish your website

9.4 Summary

9.5 Key words

9.6 Self Assessment Questions

9.7 Suggested Readings

## 9.1 INTRODUCTION :

In today's world, it is the rare person who has not had some exposure to the Internet and the World-Wide Web. According to recent research, as of the year 2004 there were only about 20% of American homes without a computer while 50% of homes had some form of high-speed internet connection. Many of us have not only used the Internet but have also created web content in some form or other. The purpose of this chapter is to provide you with a brief introduction to and history of the Internet and the World-Wide Web as well as computer monitor technology and to give you a basic understanding of how they work. While a thorough and technical history is beyond the scope of this work, having some idea of the history and development of the Internet and the web is helpful in understanding the design constraints imposed by the technology. For example, you may need to know why the text formatting of a web page is limited to a few sizes, basic fonts and type styles, why the resolution of a web photo is so low, why exact placement of content is difficult and why images are linked to rather than embedded in HTML documents.

It must be said at the outset that the history of the Internet and the web is not exactly cut and dried. There are many versions of the history and many different people who are given credit for the development and continuation of these technologies. The information presented here is a compilation of many of these stories gleaned from various sources.

Web design identifies the goals of a website or webpage and promotes accessibility for all potential users. This process involves organizing content and images across a series of pages and integrating applications and other interactive elements. Running a small business means you may not have the budget to outsource certain tasks. For instance, if you want to establish an online presence, hiring a web designer could be pricey. However, it can be challenging to make a small business website on your own. Luckily, this process is not as complicated as it may seem. Some beginner-friendly website builders perfect for a small business will enable you to create a beautiful site without any experience. Best of all, many of these tools are incredibly budget-friendly.

When computers were first introduced, it soon became apparent that the ability to share information between them was a valuable and desirable capability. Initially, if someone wanted to share data from one computer with another, the information from the first computer had to be printed out in some manner and manually entered into the second computer. With the advent of paper punch cards, and later, magnetic and optical storage devices, the process of data transfer became easier and fewer errors occurred than when done manually. But if

data could be exchanged directly between computers tremendous increases in the transfer time and operator efficiency could be realized. To facilitate this information exchange, simple computer networks, sometimes called “peer-to-peer” networks were developed. These networks basically allow the sharing of information among all the users equally. Each workstation can allow or restrict the sharing of specific files, folders and devices such as printers with other workstations. Where more than two computers are connected in this way, the use of a device called a “hub or switch” facilitates the connections among the various workstations. The computers do not need to be in the same room or even the same city, they can be connected remotely



One disadvantage to this type of network is that when a file or other resource is being shared, it tends to slow down the host computer because it may be trying to accomplish other tasks including execution of its own programs at the same time. It also takes up storage space that might be better used for other purposes. Over time, these simple networks gave way to more sophisticated ones which included network printers and file servers. These “client/server” networks can be found in homes, business and educational institutions throughout the world. Rather than all computers being able to access data from all the others on the network, in the client/server topology, a “file server” houses the data files and the individual “client” computers can access the data (documents, images, databases, etc.) from the server as needed. This frees the client machines from having to house shared data and allows them to run programs and processes the data much more quickly. Figure 1.3 illustrates this type of network

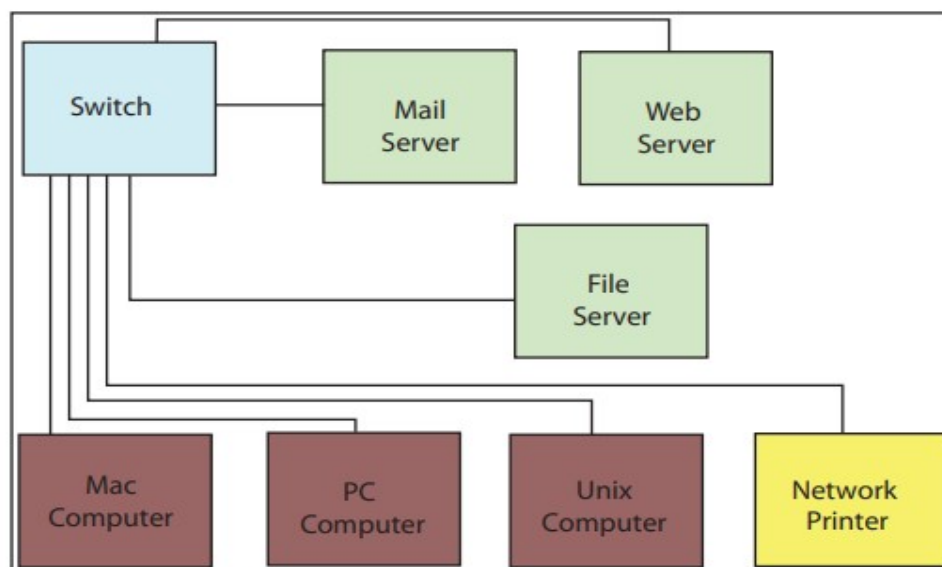


Figure 1.3 Client-Server Network

In larger institutions, there may actually be many smaller interconnected local area networks (LANs). A LAN is a computer network that covers a small geographic area such as a home, office or localized group of buildings. The addition of a specialized computer called a “router” to the network enables the network to communicate with other networks, or connect to the Internet (Figure 1.4).

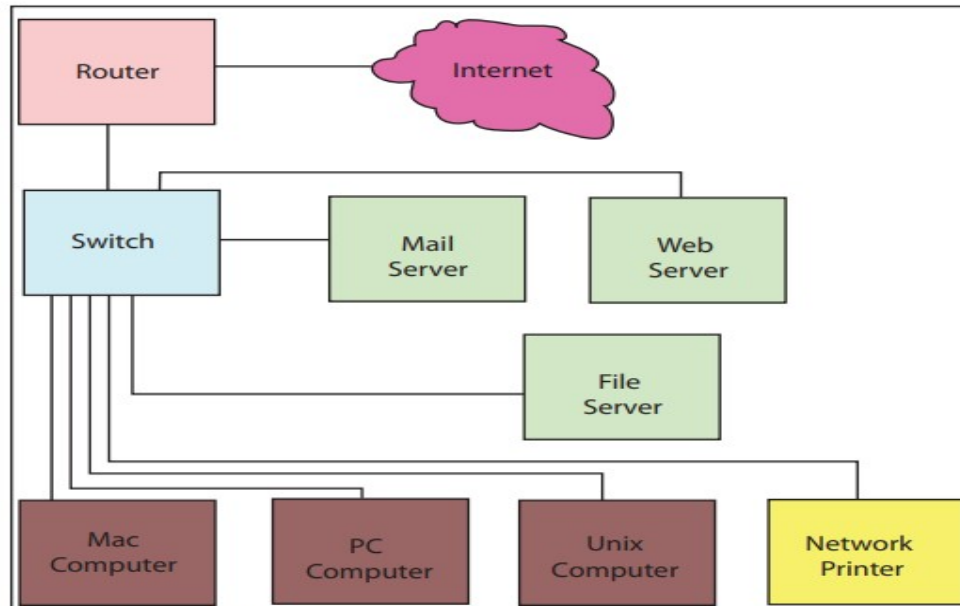


Figure 1.4 Internet Access to a Network

When you connect to the Internet through a stand-alone computer either at home or some other location whether it be through wireless, dial-up, DSL, cable or satellite, you are joining a network hosted by your Internet Service Provider (ISP). You may not physically see or even know about the other computers on the network, but they are there nonetheless sharing the same Internet access which helps to explain the slowdown experienced during times of heavy use.

The Internet So what is this thing called the Internet? In its simplest terms, the Internet is nothing more than a series of interconnected networks or a network of networks. If you can visualize the illustration of Figure 1.4 in which the cloud representing the Internet is composed of thousands of additional networks, all interconnected, you have a basic understanding of what the Internet is. These networks connect to each other through various means including fiber optic cable, satellite, telephone cable and microwave. The Internet has revolutionized the computer and communication world. Its predecessors, radio, television, telegraph, telephone and computers helped set the stage for the integration of capabilities that has become the Internet. The first recorded description of interactions that could be accomplished through networking was a series of memos written by J.C.R. Licklider then working at MIT. In 1962 he envisioned a global interconnection of computers through which data and programs could be quickly accessed from any site. Licklider was the first head of the computer program at the Advanced Research Projects Agency (ARPA)<sup>2</sup>. While there he convinced his successors of the importance of his networking concept and they eventually worked to help develop the Internet.



Meanwhile Leonard Kleinrock at MIT published the first paper on packet switching theory in July 1961. The first book on the subject was published in 1964. Kleinrock convinced Lawrence G. Roberts of the feasibility of his ideas and in 1965, working with Thomas Merrill, Roberts connected a computer in Massachusetts to a computer in California with a slow speed dial-up telephone line thus creating the first wide-area computer network. They also found that circuit switching was totally inadequate - confirming the need for packet switching. Circuit switching is a way of transmitting data through a fixed and predetermined path of wires, switches and other devices. Circuit switched data is transmitted serially from one place to another along the same route. The path is decided upon before the transmission starts. The route is dedicated and exclusive. The path is released for other users only when the session is finished. An example of circuit switching is a dial-up modem using a telephone line. The path from the computer to the service provider is fixed.

Data moves from the computer to the modem, from the modem to the telephone line, from the telephone line (through a maze of wire and switches) to the service provider. The path cannot be used by anyone else whether it is for a different on-line session or a simple telephone conversation until In packet switching, computer data is broken into small chunks. Each chunk is placed in a package of data called a packet. The packet contains (in addition to the original data) the address of the sending computer and the address of the destination computer. Each packet is sent to its destination by itself and may take a completely different route than other packets. The concept is similar to a bunch of vehicles moving along busy streets. A street is able to accept all kinds of traffic continuously and is not closed while one vehicle moves down it from the point of origin to the destination. If one street is closed, the traffic can take another route. One of the main functions of an Internet router is to send packets of data to their destination along the best route available at the moment. At the destination the packets are reassembled into a usable string of data. To help you visualize this concept, think of you and a friend each driving to the same distant location in your own automobiles. You start out at the same place but may each choose a different route and at the end of the trip, you both arrive at the same destination and are reunited. In 1966 Roberts went to DARPA (formerly ARPA- see footnote 2) and put together a plan for what was to become the ARPANET. The development of packet switching and computer networking occurred in parallel without the researchers knowing of each other's work. But eventually hardware and software developers came together and the ideas that ultimately were to become the Internet were born.

In September of 1969, the first node of the ARPANET (the forerunner to the Internet) was completed at UCLA. The second node was established at Stanford. Soon, two more nodes were added, one at UC Santa Barbara and the other at the University of Utah. These last two nodes incorporated application visualization projects which allowed the sharing of visual data such as scientific formulas. By the end of 1969, the four host computers were connected together forming the initial ARPANET that would eventually become the Internet. Computers were quickly added and work on host-to-host protocols (a set of rules for information exchange) and other network software was completed. Three years later in 1972, the first public demonstration of the ARPANET was conducted and electronic mail was

introduced. All the while refinement on protocols was occurring. The ARPANET (Internet) was based on the idea that there could be many independent networks of arbitrary design connected to each other. So the Internet as we know it utilizes the idea of open architecture networks which permit all users to interconnect on an equal access basis regardless of the type of computer or operating system they use. This makes it possible for systems and networks of any type to communicate effectively as long as they use standard protocols.

### **9.1.1 Here's an overview of what we're going to cover :**

- i. Choose your website building platform (WordPress / Wix / Squarespace).
- ii. Pick your domain name.
- iii. Find your hosting provider. (Our top pick is Bluehost!)
- iv. Install the WordPress software.
- v. Select a theme or template.
- vi. Install plugins or extensions.
- vii. Add your content.
- viii. Optimize your website for search engines.
- ix. Publish your website.

### **World-Wide Web :**

The term World-Wide Web (WWW), usually shortened to the “web,” is a system of interlinked hypertext documents accessed through the Internet. Although many people use the terms “Internet” and “web” interchangeably, in reality the Internet is the system that facilitates the transfer of data and the web is the data itself. The web is just one of the ways that data can be disseminated over the Internet. So the Internet is not the web and the two terms should not be confused or used interchangeably. There are many computer languages and “protocols” used on the Internet. A protocol is simply an agreed upon format for transmitting data. Protocols determine, among other things, the type of error checking, how the interconnected devices will indicate they have finished sending or receiving data and any data compression used. Some of the more common protocols used on the Internet include; the Hypertext Transfer Protocol (HTTP), Telnet, and File Transfer Protocol (FTP). A secure version of HTTP “HTTPS” is also common.

Today the web mainly uses the HTTP and HTTPS protocols. Browsers such as Internet Explorer and Firefox are software programs that can interpret the HTTP protocol (and specific languages like HTML) and cause the data contained therein to be displayed on a computer monitor. Browsers facilitate access to web documents called “web pages” that are linked to each other using “hyperlinks.” A hyper link is an element in a web page that creates a link to another place in the same document, an entirely different document or media content of some type. Web pages as displayed in a browser window can contain graphics, sound, text and video. In reality, the graphics, sound and video are not part of the web document. They are linked to the web document and displayed in accordance with the instructions contained

in it. So the images, sounds and videos are all transferred over the Internet separately and are displayed with the text according to the instructions contained in the hypertext document.

Tim Berners-Lee, a scientist working at CERN (The European Organization for Nuclear Research) invented the World-Wide Web in 1990. It was originally intended as a means to meet the demand for atomic information sharing between scientists working at different institutions around the world. The basic idea was to merge the technologies of personal computers, computer networking and hypertext into a powerful and easy to use information system. The first web server in the U.S. came on line in December of 1991 at Stanford University. At this time there were only two types of browser.

One was the original version that only ran on the NeXT computer platform (a distinctive type of computer like PC or MAC) and a smaller limited version that would run on other computers. It soon became clear that CERN could not do all the development work on the web so Berners Lee pled for outside developers to help. In 1993 The National Center for Supercomputing Applications (NCSA) released the first version of their Mosaic browser. The software ran on an X Windows System computer which was popular with the research community. Shortly thereafter NCSA also released versions for the PC and MAC environments. The existence of these reliable, user friendly browsers had an immediate impact on the spread of the web. By the end of 1994, the web had 10,000 servers, 2,000 of which were commercial, and ten million users. In 1995 the International World-Wide Web Consortium (W3C) was founded to lead the web “to its fullest potential through development of common protocols that would promote its evolution and insure its operability.” Since then, the protocols have continued to be developed, standardized and enhanced. When you launch a browser it requests and displays pages of information. The function of the browser is to interpret the program language of web pages and transform it into the words and graphics you see on your computer monitor. The language the browser interprets is called the Hypertext Markup Language (HTML). On each web page, words, phrases and even images are made into hyper links. Clicking on a link causes the browser to request and display another page which probably also contains links. The web documents are stored on a so-called “Web Server” (see Figure 1.4).

A Web Server is a computer intended to house and deliver web content. The computer is secured so that only authorized people can access it to make changes to the data. If you are on the same network as the Web Server, you may be able to save the data directly onto the Web Server computer (if authorized). If, however, you are not on the same network as the Web Server, you must connect to it remotely using a login and password specifically set up for that purpose. In this case the data is sent to the server using the FTP protocol or Secure FTP (which requires FTP or SFTP software to be installed on your local computer). Since data is sent over the Internet serially (one data bit at a time) it takes a specific amount of time for each file, image or other element to be transmitted from one place to another. The larger the file, the longer the process takes. Because of this, in practical terms, it is better to keep the size of each individual file as small as possible so the transmission time is minimal. In designing web content we try to keep the size of each file as small as possible to improve the “download time.” To further help, the images and other media content of a web page are not

saved as part of the HTML document but are linked to it so these items download separately which also improves efficiency.

Additionally, the browser saves a copy of the downloaded files on the local computer in a process called “caching.” When a file is cached on the local computer, if you want to see it again, the computer can call the file up from the local cache rather than having to download it again, thus saving more time. We can also save time by using an image on more than one page. The image can be displayed on multiple pages but only has to be downloaded once.

## **9.2 WHAT TO CONSIDER WHEN MAKING A SMALL BUSINESS WEBSITE :**

When creating a website, there’s no ‘one size fits all’ solution. You’ll need to consider your goals before you get started, so that you can implement design elements and tools to achieve your objectives. For instance, a dentist’s office would need a completely different website than an architecture firm. Whether you want to inform visitors about a brick-and-mortar business or conduct sales online also significantly influences how your site should look. When starting the process of making your small business site, ask yourself the following questions :

1. What information do you need to communicate to your site’s visitors?
2. What actions do you want visitors to take after they view your site (e.g., buy products online, come to your brick-and-mortar store, request a quote)?
3. How will you display your products or services?
4. Do you need an online portfolio of past work to demonstrate your value to potential clients or customers?

## **9.3 HOW TO MAKE A SMALL BUSINESS WEBSITE :**

### **9.3.1 Choose your website building platform :**

Ideally, you should opt for a user-friendly solution that will help you create a website without any coding knowledge. Here’s what we recommend for small businesses :

#### **9.3.1.1 WordPress :**

There are two versions of WordPress. We will focus on WordPress.org, which gives you access to the best features and more control over your website. You’ll need to arrange hosting separately (more on that later).

#### **9.3.1.2 Hosted website builders :**

If you like all-in-one solutions, you might want to consider a reputable website builder such as Squarespace or Wix. These platforms offer complete website designs out of the box, which you can customize with a drag-and-drop tool. You won’t need to outsource hosting to another company, but you’ll have less flexibility with design.

### **9.3.2 Pick your domain name :**

Your domain name should ideally align with your business name. If you're unsure of which name you should choose, there are several online generators that can provide you with some inspiration, such as Domain Wheel: Here are some tips to take into account when deciding on your website address :

- Make sure it's easy to spell.
- Keep it as short as possible.
- Include keywords relevant to your business.

### **9.3.3 Find your hosting provider :**

If you decided to go with an all-in-one website builder, you can skip this step. WordPress users should keep reading. There are several excellent beginner-friendly hosting companies you can consider. Our top pick is Bluehost, which is officially recommended by WordPress.org :

#### **9.3.3.1 For example, its hosting packages come with the following inclusions :**

- 24/7 customer service and support
- A free SSL certificate
- A free domain name for the first year of your plan
- Access to a user-friendly dashboard
- In-built security features
- WordPress optimization features

### **9.3.4 Install the WordPress software :**

Again, you can skip this step if you'd rather use an all-in-one website builder such as Squarespace. However, if you'd prefer to use WordPress and a hosting company, you'll need to install the software to use the Content Management System (CMS). Bluehost features an intuitive dashboard and one-click WordPress installation. If you opt for this hosting provider, you can install the WordPress software quickly and easily.

### **9.3.5 Select a theme or template :**

WordPress and Squarespace offer tons of templates (or themes) that you can easily customize. Many of them are free to use, too. In WordPress, you can access free theme options from your dashboard by navigating to Appearance > Themes :

### **9.3.6 Install plug-ins or extensions :**

Plugins (in WordPress) and extensions (in Squarespace and other page builders) can add new features to your website. Without these tools, you may struggle to get the most out of your small business site. Performance and optimization. Having a fast-loading website is an important goal for most website owners. As such, you may want to consider optimizing

your site's performance with caching and database optimization. The WP-Optimize plugin can handle all of the following tasks.

#### **9.3.6.1 Security :**

We recommend opting for a plugin that can protect your site against spam, hackers, and other malicious actors. For example, Security is an excellent all-in-one solution that has a free and premium version.

#### **9.3.6.2 Backups :**

Database and file backups are essential in case something goes wrong with your website. As such, you might consider using a plugin such as Updraft Plus to handle these critical tasks.

#### **9.3.6.3 Search Engine Optimization (SEO) :**

SEO can make your small business website more visible and help you attract new customers. We recommend using the Yoast SEO plugin to help with optimizing your content.

#### **9.3.6.4 E-commerce :**

If your small business has an online store, you'll need an e-commerce plugin to handle your sales. WooCommerce is one of the best choices for a WordPress website. Here's our guide on how to install WooCommerce and set it up properly.

#### **9.3.7 Add your content :**

As you customize your website, you will likely want to add content almost immediately. Before you do that, it's wise to have a rough structure in mind. Most business websites will need the following :

##### **9.3.7.1 Homepage :**

This will be the first thing many visitors see when they come to your site. It should give a short overview of your services. Furthermore, it should include clear navigation to other sections.

##### **9.3.7.2 Products, Services, or Portfolio page :**

This is where you will showcase your work and describe what you have to offer customers or clients.

##### **9.3.7.3 About page :**

In this section, you'll include your story or share information about your team.

##### **9.3.7.4 Contact page :**

Ideally, you'll want to include a contact form and encourage customers to get in touch if they have questions.

### **9.3.7.5 Blog :**

This is a must for many businesses nowadays and an excellent content marketing tool.

### **9.3.8 Optimize your website for search engines :**

Once you have content available online, you still have to make sure people can find it. SEO is one strategy that can help with that. SEO is the practice of refining your content so that it is more likely to rank high on Search Engine Results Pages (SERPs). There are a few key practices that you should keep in mind, such as :

- Using appropriate keywords in your posts and pages
- Optimizing your website for speed
- Picking a responsive design so that your content works on all devices
- Including internal and external links throughout your site
- Using post names in their permalinks

### **9.3.9 Publish your website :**

Many website builders enable you to keep your site private while you're building it, then publish it once it's ready for visitors. With WordPress, your site will be visible to the public as soon as you've installed the software on your hosting account. Regardless, before you start promoting your website, there are a few last-minute checks you might want to make :

- Preview how your website will look on mobile devices to make sure it's readable.
- Read through your content to make sure everything is accurate.
- Remove any filler content from your theme or template.

In order to start driving traffic to your new site, you might consider reaching out to existing customers to let them know you're now online. You can also promote your website on social media or via email.

## **9.4 SUMMARY :**

In today's Web development, a good page design is essential. A bad design will lead to the loss of visitors and that can lead to a loss of business. In general, a good page layout has to satisfy the basic elements of a good page design. This includes color contrast, text organization, font selection, style of a page, page size, graphics used, and consistency. In order to create a well designed page for a specific audience. The developer needs to organized and analyze the users' statistics and the background of the users. Although it can be hard to come up with a design that is well suited to all of the users, there will be a design that is appropriate for most of the audience. The better the page design, the more hits a page will get. That implies an increase in accessibility and a possible increase in business.

## 9.5 KEY WORDS :

### **Web design :**

Identifies the goals of a website or webpage and promotes accessibility for all potential users. This process involves organizing content and images across a series of pages and integrating applications and other interactive elements.

### **The term World-Wide Web (WWW) :**

Usually shortened to the “web,” is a system of interlinked hypertext documents accessed through the Internet.

### **A Web Server :**

It is a computer intended to house and deliver web content. The computer is secured so that only authorized people can access it to make changes to the data.

### **Plug-ins (in WordPress) and extensions :**

In Squarespace and other page builders can add new features to your website.

### **SEO :**

It can make your small business website more visible and help you attract new customers. We recommend using the Yoast SEO plug-in to help with optimizing your content.

### **E-commerce :**

If your small business has an online store, you’ll need an e-commerce plug-in to handle your sales. Woo Commerce is one of the best choices for a Word Press website. Here’s our guide on how to install Woo Commerce and set it up properly.

## 9.6 SELF ASSESSMENT QUESTIONS :

1. What to consider when making a small business website
2. How to make a small business website
3. How to create the content in E-commerce

## 9.7 SUGGESTED READINGS :

1. Jordan, J., & Vazzana, M. (2015). *Cracking the sales management code: The secrets to measuring and managing sales performance*. McGraw-Hill Education.
2. Tracy, B. (2016). *The psychology of selling: Increase your sales faster and easier than you ever thought possible* Thomas Nelson.
3. Tracy, B. (2018). *The art of closing the sale: The key to making more money faster in the world of professional selling*. Thomas Nelson.



4. Goldfayn, A. (2018). Selling boldly: Applying the new science of positive psychology to dramatically increase your confidence, happiness, and sales. AMACOM.

*Dr.M. Ananda Rao*

**LESSON - 10**  
**POLICIES AND LEGAL ISSUES OF WEBSITE**

**OBJECTIVES OF THE LESSON :**

- ✓ To study about the legal issues
- ✓ To identify the list of legal issues in website designing
- ✓ To understand the problems of legal issues
- ✓ To enhance the students' knowledge about legal issues in website designing

**STRUCTURE OF THE LESSON :**

- 10.1 Introduction
- 10.2 Website legal issues
  - 10.2.1 Copyright concerns when creating a web site
  - 10.2.2 Creating original images from drawing and painting programs
  - 10.2.3 Taking images from third-parties
  - 10.2.4 Licensed images from the Internet
  - 10.2.5 Clip-art Libraries Provided with Software
  - 10.2.6 Free Images Off the Internet
  - 10.2.7 Developing text for a web page
- 10.3 Domain name concerns
  - 10.3.1 Selecting a Domain Name
  - 10.3.2 Reclaiming a Domain Name Registered by Another
  - 10.3.3 Obtaining a Domain Name
  - 10.3.4 Protecting a Domain Name
  - 10.3.5 Obtaining Multiple Domain Names under Different Top Level Domains
- 10.4. Trademark concerns
  - 10.4.1 Discussing the trademarks of others
  - 10.4.2 Linking to another page through that party's logo or trademark
  - 10.4.3 Selecting a trademark
  - 10.4.4 Protecting a trademark
- 10.5. Defamation
- 10.6. Linking and framing concerns

- 10.6.1 Derivative Work Created by Linking-In Images Found on Other Sites
- 10.6.2 Passing Off
- 10.6.3 Defamation
- 10.7 Trademark Infringement
  - 10.7.1 Problems with Frames
- 10.8 Legal Requirements for Websites
  - 10.8.1 Cookie Consent Notices
  - 10.8.2 Privacy Policies and Data Storage Disclosure
  - 10.8.3 Plagiarism and Copyright Laws
  - 10.8.4 HTTPS for Ecommerce
  - 10.8.5 Terms & Conditions
  - 10.8.6 Disclaimers
  - 10.8.7 GDPR
  - 10.8.8 CalOPPA
  - 10.8.9 The Americans with Disabilities Act (ADA)
  - 10.8.10 Website ADA-Compliance
- 10.9 Website Legal Requirements by Industry
  - 10.9.1 ABA Requirements for Attorney Websites
  - 10.9.2 HIPAA Requirements for Healthcare Websites
  - 10.9.3 Requirements for Contractor Websites
  - 10.9.4 Requirements for Financial Advisor Websites
- 10.10 Summary
- 10.11 Key words
- 10.12 Self Assessment Questions
- 10.13 Suggested Readings

## **10.1 INTRODUCTION :**

Today's global economy offers customers unlimited access to a wide range of products, services and information. The use of the Internet technology has created new opportunities by linking companies to millions of consumers around the world. At the same time, e-commerce companies collect personal information from consumers, which are later used and sometimes even disclosed to third parties. This lesson briefly explains the content of the most important privacy principles and legal issues highlighting. It also proposes guidelines regarding legal and ethical issues of website design.

## **10.2 WEBSITE LEGAL ISSUES :**

This section discusses the legal issues involved with the creation of a web site. Many of the topics discussed on this page are covered in greater detail elsewhere in BitLaw. The purpose of this page is to present in a single page the issues that must be addressed during the creation of a web site.

Copyright concerns

Domain name concerns

Trademark concerns

Defamation

Linking and framing

### **10.2.1 Copyright concerns when creating a web site :**

A party is guilty of copyright infringement if they violate one of the five exclusive rights given to copyright owners under the Copyright Act. Included in those rights are the right to prevent others from reproducing (or copying) a work, publicly displaying a work, or distributing a work. As a result, web page authors should take care not to copy the work of others. An Internet service provider can also be found liable for copyright infringement even when they are not directly engaged in the copying of protected materials. Obtaining images for a web page. One of the chief attractions of the World Wide Web is the ability to use graphics to convey information to users. A sophisticated and subtle graphical presentation is the hallmark of some of the Web's most popular sites.

The following "rules of thumb" are meant to guide a web page creator when selecting images for incorporation into a page.

### **10.2.2 Creating original images from drawing and painting programs :**

The best way to obtain images is to create them in a drawing or other image creation program. In doing so, however, it is best to start from scratch rather than from someone else's creation. Even if an image is significantly altered, the new image may infringe upon the copyright in the first image by being a "derivative work."

### **10.2.3 Taking images from third-parties :**

The simple rule is, "Don't steal someone else's images." The moment an original image (or string of text) is fixed on a hard drive for the first time, it is protected by copyright. Any unauthorized copying of a protected image is an infringement of the creator's copyright, unless the use falls within one of the very limited exceptions to the copyright law, such as "fair use." In most cases, it is unlikely that the incorporation of an image into a commercial web-site would be considered a fair use.

### **10.2.4 Licensed images from the Internet :**

Some images, such as Microsoft's "Internet Explorer" logo, may be copied, but only if the would-be copier accepts the terms of a license defining the permissible uses of the image.

Often such licenses provide that the copier cannot alter the appearance of the image in any way, and may use the image as a link only to certain designated sites. (An example of a logo license agreement can be found on MSNBC's web-site.)

### **10.2.5 Clip-art Libraries Provided with Software :**

Other sources of licensed images include clip-art files, such as those provided with Claris Home Page, Microsoft Front Page, and Adobe PageMill software. Incorporating clip-art from these libraries into a page does not violate copyright law, as these images are licensed to the purchaser of the software for this purpose. To avoid liability, however, a webmaster must be careful to obey the terms of all applicable license agreements. For instance, the license may not allow a user to alter the images in any significant way.

### **10.2.6 Free Images Off the Internet :**

Some web sites provide images that are for use by others. These images may be used in a web page, as long as the terms proposed by the image creator are followed. Typically, these sites only require that some type of credit is given to the author, including a link back to the author's site. However, there remains the possibility that the images were misappropriated at some point and were not original creations of the alleged author. In these cases, use of the images may infringe the copyright rights of the original author.

### **10.2.7 Developing text for a web page :**

The guidelines for text development are similar to those for obtaining images. Truly original text, developed by the creator of the web-site, may be used without copyright concerns. As with images, appropriating text from third-parties without permission is illegal, unless there is some substantial "fair use" justification for the taking. Use of third-party text pursuant to a license agreement should follow the terms of the license agreement. As for public domain works, one should never assume a work is in the "public domain" without independent investigation.

## **10.3 DOMAIN NAME CONCERNS :**

The selection and protection of a domain name may be the most important detail in the creation of a web site. Domain names function as the address for a web site, and disputes over domain names have become more common and more heated as the popularity of the Internet grows.

### **10.3.1 Selecting a Domain Name :**

Domain names have a first and second level. In the bitlaw.com domain name, the ".com" portion is considered the first or top level domain name, and "bitlaw" is considered a second level domain name. The most common top level domain (.COM, .ORG, .NET, .GOV, .EDU) names are administered by InterNIC, although other top level domains are available and still more will be available soon. To obtain a domain name using one of these top level domain names, a WhoIs search should be done to make sure the name is not taken.

In addition, it may be wise to perform a trademark search to verify that the chosen domain name is not infringing on another party's trademark.

### **10.3.2 Reclaiming a Domain Name Registered by Another :**

Occasionally, upon searching for a domain name, a party may discover that someone else has already taken their corporate name or trademark as a domain name. In most cases, there is little that can be done because the other party has equal right to use that name. In some circumstances, however, it is possible to contest a registered domain name based upon superior rights to that name. Such a contest can be made through the courts or through InterNIC's domain name dispute policy.

### **10.3.3 Obtaining a Domain Name :**

If the name is available, a registration can be filed with InterNIC using their on-line registration form.

### **10.3.4 Protecting a Domain Name :**

In order to better protect a domain name and to avoid losing a domain name under the InterNIC domain name dispute policy, a domain name owner should obtain a trademark registration on their domain name. In order to obtain immediate protection, a registration can be obtained through Tunisia. However, often the expense of a Tunisian registration is not justified.

### **10.3.5 Obtaining Multiple Domain Names under Different Top Level Domains :**

Because of the new top level domain names that are currently proposed, it may be wise for the owner of a strong trademark to obtain domain name registrations under multiple top-level domain names. For example, the BitLaw web site might be found under "bitlaw.com", "bitlaw.firm", "bitlaw.web", and "bitlaw.net". Multiple registrations may require the overhead of maintaining a web site under each domain, but will prevent competitors from obtaining the sites.

## **10.4. TRADEMARK CONCERNS :**

A trademark is a word, image, slogan, or other device designed to identify the goods or services of a particular party. Trademark infringement occurs when one party utilizes the mark of another in such a way as to create a likelihood of confusion, mistake and/or deception with the consuming public. The confusion created can be that the defendant's products or services are the same as that of the trademark owner, or that the defendant is somehow associated, affiliated, connected, approved, authorized or sponsored by trademark owner. Since most web sites will contain discussions of products or services, web site developers should be aware of the potential trademark issues.

### **10.4.1 Discussing the trademarks of others :**

There is nothing inherently wrong with the identification of other party's products on a web page by using their trademarks. Nonetheless, some parties have made inappropriate

claims of trademark infringement every time they see one of their marks on another party's page. Sometimes, however, a web site does violate the trademarks of another. Web page designers should avoid trademark usage that might cause confusion among viewers as to the source or sponsorship of the web page. Such use might well constitute trademark infringement.

#### **10.4.2 Linking to another page through that party's logo or trademark :**

It is common to find a link to another web page made through a company's name, trademark, or logo. In most cases, this type of link will not cause trademark concerns unless the use causes the type of confusion discussed above. However, the use of another party's logo without their permission may be more likely to raise the type of confusion that creates trademark infringement, since a graphical logo arguably creates a stronger impression of affiliation than mere text.

#### **10.4.3 Selecting a trademark :**

To select a trademark, one should consider the relative strength of the mark. Certain marks are stronger than others. Made up words, such as Kodak or Xerox make the strongest marks. The next strongest marks are those words that have no relationship with the products or services on which they are used, such as APPLE for computers. Marks that are descriptive in nature, such as CLEARSCREEN for computer monitors, may be so weak that they will not function as a trademark until they have been heavily used. After picking a mark, a trademark search should be performed to make sure that no one else has rights to the mark.

#### **10.4.4 Protecting a trademark :**

Once a mark has been selecting, the best way to protect a mark (in the United States) is through a federal trademark registration. If the goods or services sold under the mark will be sold internationally, trademark registrations in other countries should also be considered.

### **10.5. DEFAMATION :**

The term defamation refers to a false statement made about someone or some organization that is damaging to their reputation. For a statement to be defamatory, the statement must be published to a third party, and the person publishing the statement must have known or should have known that the statement was false. The law of defamation is complex, as it has been determined by numerous court decisions rather than one national statute. In addition, a claim of defamation is subject to a variety of defenses, such as the First Amendment and (of course) the defense that the statement was true. Because of the complexity of defamation law, a full explanation of this area will not be set forth here, and is saved for others to provide.

While the Internet provides a new context in which a defaming statement can be made and published, there is little new law relating to Internet defamation other than liability for service providers. Nonetheless, web page developers must be careful to avoid defaming

someone in their pages. If a statement is being made that may damage the reputation of a person or organization, care should be taken to make sure that the statement is not defaming.

### **10.6. LINKING AND FRAMING CONCERNS :**

Links between pages are the *raison d'etre* for the World Wide Web. Without widespread linking, the web as we know it would not exist. Nevertheless, there are questions about the legality of such connections. For those interested in more information on any of the subjects below, Bitlaw also contains an extended discussion of linking liability.

#### **10.6.1 Derivative Work Created by Linking-In Images Found on Other Sites :**

When the image from another web site is incorporated into one's own page by means of an unauthorized IMG link, there is no direct copying by the creator of the link. Nonetheless, when the visiting browser retrieves the image from the other web site and combines it with the text on the current page, the creator of the web site may be guilty of contributory copyright infringement for creating a derivative work. Consequently, one should not include links to images found on another party's web site without first getting permission.

#### **10.6.2 Passing Off :**

One can also utilize a link to pass off another's work as one's own. For instance, one could tell the reader to click here to see some of Brad Bolin's best original comics. The link leads to a Doonesbury image which is falsely claimed to be original to Brad Bolin. Consequently, the HREF link also is a reverse passing off. Reverse passing off by using a link to pass-off another's work as one's own most likely violates state law governing competitive business practices.

#### **10.6.3 Defamation :**

In addition to the type of direct defamation explained above, it should be noted that a link to another's page or image could be defamatory, and hence subject someone to legal liability. An example defamatory link would be: "Some idiot killed my cat, stole my invention, and threatened to destroy the Internet." The statement itself does not identify the party. The link itself (assuming it actually linked to someone) provides the context that turns the statement into defamation.

### **10.7 TRADEMARK INFRINGEMENT :**

As explained above, trademark infringement occurs when one party utilizes the mark of another in such a way as to create a likelihood of confusion, mistake and/or deception with the consuming public. The confusion created can be that the defendant's products or services are the same as that of the plaintiff, or that the defendant is somehow associated, affiliated, connected, approved, authorized or sponsored by trademark owner. As a result, any link that falsely leads the end user to conclude that the web page author is affiliated, approved, or sponsored by the trademark owner could lead to a claim of trademark infringement.



### **10.7.1 Problems with Frames :**

Frames are used to subdivide web pages into multiple parts. In most cases, frames are used only to show multiple pages of content from the same site at the same time. For example, frames could be used to divide a browser into two parts, with one part containing an index for the web site and the second containing content pages. While this type of use is perfectly legal, problems can arise if a frame is used to show pages from two web sites at the same time.

## **10.8 LEGAL REQUIREMENTS FOR WEBSITES :**

### **10.8.1 Cookie Consent Notices :**

Even though the General Data Protection Regulation (GDPR) was passed by the European Union (EU), it affects any website that gets EU traffic.

This means that your website must have a cookie policy and consent notice. GDPR requires that your website must afford a user the opportunity to opt in or opt out of the use of cookies.

Your website's Cookie Policy can be in the header, the footer, or in a pop-up window, and it must do the following :

1. Disclose that your site stores cookies;
2. Briefly describe why your site uses cookies;
3. Disclose how the information gleaned from the use of cookies is managed through a link to your privacy policy;
4. Disclose what users are agreeing to or accepting;
5. Allow users to take some action to opt in, opt out, or customize their cookies or advertising experience..
6. If your site uses a checkbox to accept cookies, be sure it is not pre-ticked as that violates GDPR.

### **10.8.2 Privacy Policies and Data Storage Disclosure :**

Most developed countries require that sites using cookies have a privacy policy accessible by users.

If not required by law, third party services such as Apple and Google require sites that use their services to have privacy policies.

A privacy policy is a statement providing your users with how your site collects, handles, and processes users' data. It must expressly state whether that data is kept confidential or shared with or sold to third parties, how that data is stored, and what measures you take to protect that data.

A link to your privacy policy can be in the footer, under “About” or “Legal” in your main menu, or on your checkout page or account registration page.

### **10.8.3 Plagiarism and Copyright Laws :**

The original content of a website is inherently copyrighted, whether the owner/creator registers it or not. Plagiarism is the unauthorized and/or unattributed use of someone else’s original content.

If your client provides you with content for their website, ensure that it does not infringe upon the copyright of another website. This includes web copy that your client may have copied from another website, as well as images downloaded from Google Image Search.

Including infringing content on a website could result in a DMCA request, which would remove it from the search results, and possibly, the server it’s on. It could even result in a lawsuit.

### **10.8.4 HTTPS for Ecommerce :**

If you are creating an ecommerce site, it is essential to employ HTTPS (Hyper-Text Transfer Protocol Secure). HTTPS is the secure version of HTTP, which is the system used to send information between a user’s web browser and a website.

An e-commerce website not using HTTPS could expose the credit card information of anyone attempting to make a purchase on the website, potentially exposing the customer to identity theft and maybe land your client in court.

### **10.8.5 Terms & Conditions :**

What are terms of use on a website? A Terms of Use & Conditions page, while not required by law, sets forth the rules for use of your site. The rules will vary according to the type of site you are creating, but can include the following :

Disclaimer limiting liability in case of errors. This clause will use language providing that the site owner is not responsible for providing content that is accurate, complete, or suitable for any purpose. If the site allows third parties to post, the clause should disclaim responsibility for the accuracy of third party statements, that the site owner is not responsible for offensive statements made by third parties, and that the site owner does not endorse third party statements.

#### **Copyright :**

Any type of site should include a notice of copyright and trademark, if applicable. For example, copyright@2020yoursite.com

#### **Privacy Policy :**

The Terms and Conditions page may also include your privacy policy.

Establish the law governing disputes: You can establish what state or province and nation your website is operating from.

### 10.8.6 Disclaimers :

A savvy client may ask, do I need a disclaimer on my website? And you will have the answer.

There is some overlap between disclaimers and terms and conditions. Disclaimers can be part of the terms and conditions and should expressly disclaim any type of legal liability the site owner might experience by the use of their site. Accordingly, disclaimers will vary according to what type of site it is.

- a) Among other things, disclaimers can:
- b) Provide that users cannot use your original content without your permission;
- c) Disclaim expertise and responsibility for actions users take based on the site's content;
- d) Provide that the site owner's opinions are solely their own;
- e) Provide that the site content is informational only and not professional advice;
- f) Disclaim liability for third party and advertiser content on a site.
- g) Get a hosted WP website Instantly [Learn More](#)

### 10.8.7 GDPR :

Under GDPR, websites in the EU and drawing traffic from EU citizens must ensure that personal data is gathered and stored legally and under strict conditions. Sites are required to protect that data from misuse and exploitation and must notify users of any data breach. Sites also must respect the privacy rights of data owners.

- a) There are hefty financial penalties for failing in any of these obligations.
- b) Under the GDPR sites must:
- c) Provide users with a way to give consent and to withdraw consent to the collection and use of their data;
- d) Notify users of a data breach within 72 hours of discovery of the breach;
- e) Give users a way to access the information being collected, stored, and processed;
- f) Restrict data collection and processing to only the data that is absolutely necessary for the completion of its business;
- g) Limit access to the data to only those employees needing the information to complete the process consented to by the user;

Appoint a Data Protection Officer (DPO) to oversee GDPR compliance (required for any enterprise having more than 250 employees and any enterprise processing the personal data of over 5,000 users in any 12-month period).

### **10.8.8 CalOPPA :**

The California Online Privacy Protection Act (CalOPPA) was enacted to protect the privacy rights and “personally identifiable information” of California residents.

Accordingly, any website based in California or getting traffic from California residents must comply with CalOPPA.

In addition to having a privacy policy, a site must protect users’ “personally identifiable information,” including :

- a) First and last name
- b) Physical address
- c) Email address
- d) Telephone number
- e) Social Security number
- f) Any other contact information whether physical or virtual
- g) Birthday
- h) Details of physical appearance such as height, weight, and hair color
- i) Any other information that may identify an individual
- j) To comply with CalOPPA, a site’s privacy policy must:
- k) State specifically what information is collected and stored;
- l) Disclose the identity of third parties sharing that information;
- m) Explain how users can change their information on your site
- n) How users receive updates to the site’s privacy policy;
- o) The date of the last update to the privacy policy.

Under CalOPPA, a privacy policy must also explain how users can make a Do Not Track request. However, there is no law requiring websites to respect a user’s DNT setting.

### **10.8.9 The Americans with Disabilities Act (ADA) :**

The Americans with Disabilities Act (ADA) is a U.S. law that prohibits discrimination based on disability.

It also requires that websites be accessible to everyone, including those with disabilities. This means that the content on your website must be accessible to all, including those with hearing or visual impairments.

Any website belonging to a business with at least 15 employees that is open more than 20 weeks a year is required to comply with the ADA.

There have been several notable lawsuits filed against businesses with websites that were not ADA-compliant. Among them are :

Domino's Pizza – website inaccessible to the blind

Beyoncé – website was missing alt text, among other issues

Nike – missing alt text, contrast issues, empty links

And the list goes on...

There are law firms whose entire practice centers on filing these lawsuits. In 2019, there were 2,256 ADA website-accessibility lawsuits filed in the U.S.

If you build a website for a client that is required to be ADA-compliant, make sure they know that and that you include that in your scope of work.

#### **10.8.10 Website ADA-Compliance :**

Elementor has a web-accessibility design guide I recommend, as well as another guide on general WordPress accessibility. One of our teammates compiled an ADA website compliance checklist you can use to check your work as you complete it.

At Sagapixel, we use the Wave Web Accessibility Evaluation Tool before launching any websites requiring ADA compliance. I encourage you to check it out to gain an understanding of ADA accessibility requirements and to test your own websites.

#### **10.9 WEBSITE LEGAL REQUIREMENTS BY INDUSTRY :**

My web design agency has only done websites for companies in the U.S., which has allowed us the opportunity to gain knowledge of the specific legal requirements for websites in a variety of industries—in the United States. Regrettably, we haven't built any websites outside of the U.S., so we haven't acquired any experience with industry-specific legal requirements in other countries that we can share with you.

Despite this, the following section should still be helpful in getting you asking the right questions about the legal requirements of a company's website in specific industries where you operate. If you are a web designer in the U.S., I'm sure the following sections will outline some legal requirements you may not be aware of.

Here are a few examples of the types of industry-specific legal requirements of websites.

##### **10.9.1 ABA Requirements For Attorney Websites :**

U.S. attorneys are held to strict ethics rules when advertising both online and offline, and those rules apply to their websites. The ABA Rules of Professional Conduct 7.1 – 7.3 regulate what attorneys can and cannot say on their websites (and just as a side note, web designers and SEOs run afoul of these rules frequently without even knowing it).

We have an in-depth article about attorney ethics and websites, but here are the important points you should know :

An attorney website cannot say they specialize in or are experts in an area of law unless they hold such accreditation from a regulated body. In other words, an attorney

website can't say they specialize in car accidents or that they are expert divorce lawyers unless they hold their state court's recognition of this.

- a) You cannot say anything that can be seen as misrepresentation. There are many ways this can occur, but here are some of the most common offenses:
- b) Passing off stock images of models in suits as attorneys
- c) Making promises about legal outcomes i.e. "we will get you paid!"
- d) Making unsubstantiated claims such as "Top Attorney in X City"
- e) Implying that you'll get the same legal outcomes for a website visitor that you've gotten in the past
- f) You need an airtight disclaimer stating that any communications through the website don't establish an attorney-client relationship. It also needs to state that the blog isn't giving legal advice and that any past settlements do not make any claims about the likelihood of getting similar outcomes for the visitor's case.
- g) This is not a comprehensive list of all of the requirements of an attorney website, but they do outline the most common mistakes web designers and copywriters make when building websites for law firms.

### **10.9.2 HIPAA Requirements For Healthcare Websites :**

If you build a website for any healthcare provider in the U.S., be careful about the way it collects patient health information (PHI).

HIPAA, the Health Insurance Portability and Accountability Act of 1996, regulates the collection and sharing of patient health information. A web developer's mistake or a hack could potentially expose PHI, exposing the healthcare provider to massive fines and a potentially devastating public relations nightmare.

The Most Common Culprit Is the Contact Form or Booking System.

The most likely scenario would be if a patient were to share anything about their health history in a contact form or booking system and that information were to become exposed through a hack. In such a case, this would be not very different than if a doctor were to leave your health files on a bus.

So, if you build a WordPress website for a healthcare provider in the U.S., make sure the contact form and booking systems are HIPAA-compliant. At Sagapixel we use this service for our healthcare website contact forms, but there are several others on the market and I encourage you to look around.

As far as booking is concerned, your clients really should be using a service like ZocDoc for booking in order to avoid the potential liability of a custom system run on WordPress.

### **10.9.3 Requirements for Contractor Websites :**

Many U.S. states require contractors to list their license ID on their website. Don't forget to ask for this, as it could result in a fine.

### **10.9.4 Requirements for Financial Advisor Websites :**

Financial advisors have very strict regulations about using client testimonials and claims about potential results. They are all highly aware of these regulations and will typically tell you about them, but if they don't, make sure you ask.

### **A Final Note : Avoid Getting Sued**

If there's one lesson you take from this article, it should be this one: there are lots of ways you can mess up and get your client in trouble when building a website.

If you do, they may decide to sue you.

In the U.S., Errors, and Omissions Liability Insurance will cover the costs of legal representation and any settlement arising from a lawsuit if they do. If you have any assets that could be at risk if one of your clients sued you, you should consider getting insured.

On top of that, make sure you document having asked your clients about any regulations they face in their industry. Recommend they contact an attorney if they aren't sure and make sure you keep a record of it all. If you inadvertently get them sued, you may have some protection if they approved your work and they explicitly told you there were no legal requirements you needed to follow.

### **10.10 SUMMARY :**

These legal requirements go well beyond diminishing any legal risk and avoiding liability for the site owner — they create goodwill with your customers and are symbols of respect for web visitors. Essentially, you're establishing or furthering the trust your customers have in your business by adhering to these requirements. By having these elements in place, you're not only enforcing a safe online environment but improving the overall customer experience.

### **10.11 KEY WORDS :**

#### **A trademark :**

It is a word, image, slogan, or other device designed to identify the goods or services of a particular party.

#### **Passing Off :**

One can also utilize a link to pass off another's work as one's own. For instance, one could tell the reader to click here to see some of Brad Bolin's best original comics.

**Trademark infringement :**

This happens when one party utilizes the mark of another in such a way as to create a likelihood of confusion, mistake and/or deception with the consuming public.

**CalOPPA :**

The California Online Privacy Protection Act (CalOPPA) was enacted to protect the privacy rights and “personally identifiable information” of California residents.

**10.12 SELF ASSESSMENT QUESTIONS :**

1. Briefly Explain the website legal concerns?
2. Discuss the Domain Name concerns?
3. Outline the Trade Mark Concerns?

**10.13 SUGGESTED READINGS :**

1. Pink, D. H. (2013) To sell is human: The surprising truth about moving others  
Riverhead Books.
2. Berger, J. (2016). Contagious: How to build word of mouth in the digital age.  
Simon & Schuster Publications
2. Sullivan, L. (2016) Hey, Whipple, Squeeze This: The Classic Guide to Creating  
Great Ads Wiley Publications
3. Dan Morley(2016) Netmark’s 2016 Guide to the 6 fundamentals of Digital  
Marketing Netmark Publishers

*Dr.M. Ananda Rao*



# LESSON – 11

## ONLINE ADVERTISEMENT

### OBJECTIVES OF THE LESSON :

- ✓ To know about online advertisement
- ✓ To learn types of online advertisement
- ✓ To read campaign elements
- ✓ To study about sales and delivery models

### STRUCTURE OF THE LESSON :

- 11.1 Introduction
- 11.2 What is Online Advertising?
- 11.3 History of Online Advertisement
- 11.4 Types of online advertisement
- 11.5 Advertisement sales and delivery models
- 11.6 Search engine marketing (SEM)
- 11.7 Benefits of online advertisement
- 11.8 Create Effective Online Ad Campaigns
- 11.9 Online Advertising: Campaign Elements
- 11.10 Concerns
- 11.11 Summary
- 11.12 Keywords
- 11.13 Self - Assessment Questions
- 11.14 Suggested Readings

## 11.1 INTRODUCTION :

Online advertisements are placed on websites and apps to entice potential customers that use the internet. You log on to your web browser to check out a news story and see a banner ad from your favorite clothing store. You venture over to Google to search for a new case for your smart phone, and up pops an ad for a newer version of your phone. You check out your newsfeed on your favorite social media site, and you see advertisements for a new restaurant and a pair of shoes you've had your eye on.

Online advertising, also known as online marketing, Internet advertising, digital advertising or web advertising, is a form of marketing and advertising which uses the Internet to promote products and services to audiences and platform users. Online advertising includes email marketing, search engine marketing (SEM), social media marketing, many types of display advertising (including web banner advertising), and mobile advertising. Advertisements are increasingly being delivered via automated software systems operating across multiple websites, media services and platforms, known as programmatic advertising.

Online advertisements are pervasive, showing up in all areas of our Internet, social media, and mobile experiences. But, what purpose do they serve? And, how many different types are there? Let's take a closer look.

In 2016, Internet advertising revenues in the United States surpassed those of cable television and broadcast television. In 2017, Internet advertising revenues in the United States totaled \$83.0 billion, a 14% increase over the \$72.50 billion in revenues in 2016. And research estimates from 2019's online advertising spend puts it at \$125.2 billion in the United States, some \$54.8 billion higher than the spend on television (\$70.4 billion).

## 11.2 WHAT IS ONLINE ADVERTISING :

Online advertising is any type of marketing message that shows up with the help of the Internet. That means it could appear in a web browser, search engine, on social media, on mobile devices, and even in email.

Savvy advertisers are increasingly making use of this forum for reaching consumers, for a number of reasons:

- It's relatively inexpensive
- It reaches a wide audience
- It can be tracked to measure success (or failure)
- It can be personalized for a target audience

Indeed, online advertising is only growing in scope, as new avenues for marketers pop up (think ads delivered through text message or marketing messages delivered to users in a certain area,

known as geo-targeting). But, while some of the ads are less common or just gaining traction, there are plenty that we're exposed to multiple times every day. Let's take a look at some of the most popular types of online advertising.

### **11.3 HISTORY OF ONLINE ADVERTISEMENT :**

In early days of the Internet, online advertising was mostly prohibited. For example, two of the predecessor networks to the Internet, ARPANET and NSFNet, had "acceptable use policies" that banned network "use for commercial activities by for-profit institutions". The NSFNet began phasing out its commercial use ban in 1991.

#### **1. Email :**

The first widely publicized example of online advertising was conducted via electronic mail. On 3 May 1978, a marketer from DEC (Digital Equipment Corporation), Gary Thuerk, sent an email to most of the ARPANET's American west coast users, advertising an open house for a new model of a DEC computer. Despite the prevailing acceptable use policies, electronic mail marketing rapidly expanded and eventually became known as "spam."

The first known large-scale non-commercial spam message was sent on 18 January 1994 by an Andrews University system administrator, by cross-posting a religious message to all USENET newsgroups. In January 1994 Mark Eberra started the first email marketing company for opt in email list under the domain Insideconnect.com. He also started the Direct Email Marketing Association to help stop unwanted email and prevent spam.

#### **2. Display ads :**

Online banner advertising began in the early 1990s as page owners sought additional revenue streams to support their content. Commercial online service Prodigy displayed banners at the bottom of the screen to promote Sears products. The first clickable web ad was sold by Global Network Navigator in 1993 to a Silicon Valley law firm. In 1994, web banner advertising became mainstream when HotWired, the online component of Wired Magazine, and Time Warner's Pathfinder sold banner ads to AT&T and other companies. The first AT&T ad on HotWired had a 44% click-through rate, and instead of directing clickers to AT&T's website, the ad linked to an online tour of seven of the world's most acclaimed art museums.

#### **3. Search ads :**

GoTo.com (renamed Overture in 2001, and acquired by Yahoo! in 2003) created the first search advertising keyword auction in 1998. Google launched its "AdWords" (now renamed Google Ads) search advertising program in 2000 and introduced quality-based ranking allocation in 2002, which sorts search advertisements by a combination of bid price and searchers' likeliness to click on the ads.

#### **4. Since 2010 :**

More recently, companies have sought to merge their advertising messages into editorial content or valuable services. Examples include Red Bull's Red Bull Media House streaming Felix Baumgartner's jump from space online, Coca-Cola's online magazines, and Nike's free applications for performance tracking. Advertisers are also embracing social media and mobile advertising; mobile ad spending has grown 90% each year from 2010 to 2013.

According to Ad Age Datacenter analysis, in 2017 over half of agency revenue came from digital work.

The March 2021 eBay advertisement for the first Asian Giant Hornet (*Vespa mandarinia*) nest in the US was controversial. The owner of the first nest discovered in the United States – in Blaine, Washington – demanded its return instead of allowing scientific investigation, and proceeded to sell it. A nearby beekeeper bought it to gift it back to the state entomology team which had exterminated it, for study.

### **11.4 TYPES OF ONLINE ADVERTISEMENT :**

#### **1. Display advertising :**

Display advertising conveys its advertising message visually using text, logos, animations, videos, photographs, or other graphics. Display advertising is ubiquitous across online systems including websites, search engines, social media platforms, mobile applications and email. Google and Facebook dominate online display advertising, which has become highly concentrated market, with estimates that they were responsible for 70% of overall US digital advertising revenue in 2016. The goal of display advertising is to obtain more traffic, clicks, or popularity for the advertising brand or organization. Display advertisers frequently target users with particular traits to increase the ads' effect.

#### **2. Web banner advertising :**

Web banners or banner ads typically are graphical ads displayed within a web page. Many banner ads are delivered by a central ad server.

Banner ads can use rich media to incorporate video, audio, animations, buttons, forms, or other interactive elements using Java applets, HTML5, Adobe Flash, and other programs. Frame ads were the first form of web banners. The colloquial usage of "banner ads" often refers to traditional frame ads. Website publishers incorporate frame ads by setting aside a particular space on the web page. The Interactive Advertising Bureau's Ad Unit Guidelines proposes standardized pixel dimensions for ad units.

### **3. Pop-ups / pop-unders :**

A pop-up ad is displayed in a new web browser window that opens above a website visitor's initial browser window. A pop-under ad opens a new browser window under a website visitor's initial browser window. Pop-under ads and similar technologies are now advised against by online authorities such as Google, who state that they "do not condone this practice".

### **4. Floating ad :**

A floating ad, or overlay ad, is a type of rich media advertisement that appears superimposed over the requested website's content. Floating ads may disappear or become less obtrusive after a pre-set time period.

### **5. Expanding ad :**

An expanding ad is a rich media frame ad that changes dimensions upon a predefined condition, such as a preset amount of time a visitor spends on a webpage, the user's click on the ad, or the user's mouse movement over the ad. Expanding ads allow advertisers to fit more information into a restricted ad space.

### **6. Trick banners :**

A trick banner is a banner ad where the ad copy imitates some screen element users commonly encounter, such as an operating system message or popular application message, to induce ad clicks. Trick banners typically do not mention the advertiser in the initial ad, and thus they are a form of bait-and-switch. Trick banners commonly attract a higher-than-average click-through rate, but tricked users may resent the advertiser for deceiving them.

### **7. News Feed Ads :**

"News Feed Ads", also called "Sponsored Stories", "Boosted Posts", typically exist on social media platforms that offer a steady stream of information updates ("news feed") in regulated formats (in similar sized small boxes with a uniform style). Those advertisements are intertwined with non-promoted news that the users are reading through. Those advertisements can be of any content, such as promoting a website, a fan page, an app, or a product.

## **11.5 ADVERTISEMENT SALES AND DELIVERY MODELS :**

The process by which online advertising is displayed can involve many parties. In the simplest case, the website publisher selects and serves the ads. Publishers which operate their own advertising departments may use this method. Alternatively ads may be outsourced to an advertising agency under contract with the publisher, and served from the advertising agency's servers or ad space may be offered for sale in a bidding market using an ad exchange and real-time bidding, known as programmatic advertising.

## 1. Programmatic advertising :

Programmatic advertising involves automating the sale and delivery of digital advertising on websites and platforms via software rather than direct human decision-making. Advertisements are selected and targeted to audiences via ad servers which often use cookies, which are unique identifiers of specific computers, to decide which ads to serve to a particular consumer. Cookies can track whether a user left a page without buying anything, so the advertiser can later retarget the user with ads from the site the user visited.

As advertisers collect data across multiple external websites about a user's online activity, they can create a detailed profile of the user's interests to deliver even more targeted advertising. This aggregation of data is called behavioral targeting. Advertisers can also target their audience by using contextual to deliver display ads related to the content of the web page where the ads appear. Retargeting, behavioral targeting, and contextual advertising all are designed to increase an advertiser's return on investment, or ROI, over untargeted ads.



Advertisers may also deliver ads based on a user's suspected geography through geotargeting. A user's IP address communicates some geographic information (at minimum, the user's country or general region). The geographic information from an IP can be supplemented and refined with other proxies or information to narrow the range of possible locations. For example, with mobile devices, advertisers can sometimes use a phone's GPS receiver or the location of nearby mobile towers. Cookies and other persistent data on a user's machine may provide help narrowing a user's location further.

This involves many parties interacting automatically in real time. In response to a request from the user's browser, the publisher content server sends the web page content to the user's browser over the Internet. The page does not yet contain ads, but contains links which cause the user's browser to connect to the publisher ad server to request that the spaces left for ads be filled in with ads. Information identifying the user, such as cookies and the page being viewed, is transmitted to the publisher ad server.

Broadly speaking, there are three types of data obtained through such a data management platform :

- First party data refers to the data retrieved from customer relationship management (CRM) platforms, in addition to website and paid media content or cross-platform data. This can include data from customer behaviors, actions or interests.
- Second party data refers to an amalgamation of statistics related to cookie pools on external publications and platforms. The data is provided directly from the source (adserver, hosted solutions for social or an analytics platform). It is also possible to negotiate a deal with a particular publisher to secure specific data points or audiences.
- Third party data is sourced from external providers and often aggregated from numerous websites. Businesses sell third-party data and are able to share this via an array of distribution avenues.

## **11.6 SEARCH ENGINE MARKETING (SEM) :**

Search engine marketing, or SEM, is designed to increase a website's visibility in search engine results pages (SERPs). Search engines provide sponsored results and organic (non-sponsored) results based on a web searcher's query. Search engines often employ visual cues to differentiate sponsored results from organic results. Search engine marketing includes all of an advertiser's actions to make a website's listing more prominent for topical keywords. The primary reason behind the rising popularity of Search Engine Marketing has been Google. There were a few companies that had its own PPC and Analytics tools. However, this concept was popularized by Google. Google Ad words was convenient for advertisers to use and create campaigns. And, they

realized that the tool did a fair job, by charging only for someone's click on the ad, which reported as the cost-per-click for which a penny was charged. This resulted in the advertisers monitoring the campaign by the number of clicks and were satisfied that the ads could be tracked.

Search engine optimization, or SEO, attempts to improve a website's organic search rankings in SERPs by increasing the website content's relevance to search terms. Search engines regularly update their algorithms to penalize poor quality sites that try to game their rankings, making optimization a moving target for advertisers. Many vendors offer SEO services.

Sponsored search (also called sponsored links, search ads, or paid search) allows advertisers to be included in the sponsored results of a search for selected keywords. Search ads are often sold via real-time auctions, where advertisers bid on keywords. In addition to setting a maximum price per keyword, bids may include time, language, geographical, and other constraints. Search engines originally sold listings in order of highest bids. Modern search engines rank sponsored listings based on a combination of bid price, expected click-through rate, keyword relevancy and site quality.

### **1. Social media marketing :**

Social media marketing is commercial promotion conducted through social media websites. Many companies promote their products by posting frequent updates and providing special offers through their social media profiles. Videos, interactive quizzes, and sponsored posts are all a part of this operation. Usually these ads are found on Facebook, Instagram, Twitter, and Snapchat.

### **2. Mobile advertising :**

Mobile advertising is ad copy delivered through wireless mobile devices such as smart phones, feature phones, or tablet computers. Mobile advertising may take the form of static or rich media display ads, SMS (Short Message Service) or MMS (Multimedia Messaging Service) ads, mobile search ads, advertising within mobile websites, or ads within mobile applications or games (such as interstitial ads, "advergaming," or application sponsorship). Industry groups such as the Mobile Marketing Association have attempted to standardize mobile ad unit specifications, similar to the IAB's efforts for general online advertising.

Mobile advertising is growing rapidly for several reasons. There are more mobile devices in the field, connectivity speeds have improved (which, among other things, allows for richer media ads to be served quickly), screen resolutions have advanced, mobile publishers are becoming more sophisticated about incorporating ads, and consumers are using mobile devices more extensively. The Interactive Advertising Bureau predicts continued growth in mobile advertising with the adoption of location-based targeting and other technological features not available or relevant on personal computers. In July 2014 Facebook reported advertising revenue for the June 2014 quarter of \$2.68 billion, an increase of 67 percent over the second quarter of 2013. Of that,



mobile advertising revenue accounted for around 62 percent, an increase of 41 percent on the previous year.

### **3. Email advertising :**

Email advertising is ad copy comprising an entire email or a portion of an email message. Email marketing may be unsolicited, in which case the sender may give the recipient an option to opt out of future emails, or it may be sent with the recipient's prior consent (opt-in). Businesses may ask for your email and send updates on new products or sales.

### **4. Chat advertising :**

As opposed to static messaging, chat advertising refers to real-time messages dropped to users on certain sites. This is done using live chat software or tracking applications installed within certain websites with the operating personnel behind the site often dropping adverts on the traffic surfing around the sites. In reality, this is a subset of the email advertising but different because of its time window.

### **5. Online classified advertising :**

Online classified advertising is advertising posted online in a categorical listing of specific products or services. Examples include online job boards, online real estate listings, automotive listings, online yellow pages, and online auction-based listings. Craigslist and eBay are two prominent providers of online classified listings.

### **6. Adware :**

Adware is software that, once installed, automatically displays advertisements on a user's computer. The ads may appear in the software itself, integrated into web pages visited by the user, or in pop-ups/pop-unders. Adware installed without the user's permission is a type of malware.

### **7. Affiliate marketing :**

Affiliate marketing occurs when advertisers organize third parties to generate potential customers for them. Third-party affiliates receive payment based on sales generated through their promotion. Affiliate marketers generate traffic to offers from affiliate networks, and when the desired action is taken by the visitor, the affiliate earns a commission. These desired actions can be an email submission, a phone call, filling out an online form, or an online order being completed.

### **8. Content marketing :**

Content marketing is any marketing that involves the creation and sharing of media and publishing content in order to acquire and retain customers. This information can be presented in

a variety of formats, including blogs, news, video, white papers, e-books, infographics, case studies, how-to guides and more.

Considering that most marketing involves some form of published media, it is almost (though not entirely) redundant to call 'content marketing' anything other than simply 'marketing'. There are, of course, other forms of marketing (in-person marketing, telephone-based marketing, word of mouth marketing, etc.) where the label is more useful for identifying the type of marketing. However, even these are usually merely presenting content that they are marketing as information in a way that is different from traditional print, radio, TV, film, email, or web media.

### **9. Online marketing platform :**

An online marketing platform (OMP) is an integrated web-based platform that combines the benefits of a business directory, local search engine, search engine optimisation (SEO) tool, customer relationship management (CRM) package and content management system (CMS). eBay and Amazon are used as online marketing and logistics management platforms. On Facebook, Twitter, YouTube, Pinterest, LinkedIn, and other Social Media, retail online marketing is also used. Online business marketing platforms such as Marketo, MarketBright and Pardot have been bought by major IT companies (Eloqua-Oracle, Neolane-Adobe and Unica-IBM).

Unlike television marketing in which Nielsen TV Ratings can be relied upon for viewing metrics, online advertisers do not have an independent party to verify viewing claims made by the big online platforms.

The European Union defines online platforms as "information society services that allow business users to offer goods or services to consumers, with a view to facilitating the initiating of direct transactions between those business users and consumers; they are provided to business users on the basis of contractual relationships between the provider of those services and business users offering goods or services to consumers." Almost half of the small and medium sized businesses who responded to an EU survey in 2018 said that they use online marketplaces to sell their goods and services.

## **11.7 BENEFITS OF ONLINE ADVERTISEMENT :**

### **1. Cost :**

The low costs of electronic communication reduce the cost of displaying online advertisements compared to offline ads. Online advertising, and in particular social media, provides a low-cost means for advertisers to engage with large established communities. Advertising online offers better returns than in other media.

## **2. Measurability :**

Online advertisers can collect data on their ads' effectiveness, such as the size of the potential audience or actual audience response, how a visitor reached their advertisement, whether the advertisement resulted in a sale, and whether an ad actually loaded within a visitor's view. This helps online advertisers improve their ad campaigns over time.

## **3. Formatting :**

Advertisers have a wide variety of ways of presenting their promotional messages, including the ability to convey images, video, audio, and links. Unlike many offline ads, online ads also can be interactive. For example, some ads let users input queries or let users follow the advertiser on social media. Online ads can even incorporate games.

## **4. Targeting :**

Publishers can offer advertisers the ability to reach customizable and narrow market segments for targeted advertising. Online advertising may use geo-targeting to display relevant advertisements to the user's geography. Advertisers can customize each individual ad to a particular user based on the user's previous preferences. Advertisers can also track whether a visitor has already seen a particular ad in order to reduce unwanted repetitious exposures and provide adequate time gaps between exposures.

## **5. Coverage :**

Online advertising can reach nearly every global market, and online advertising influences offline sales.

## **6. Speed :**

Once ad design is complete, online ads can be deployed immediately. The delivery of online ads does not need to be linked to the publisher's publication schedule. Furthermore, online advertisers can modify or replace ad copy more rapidly than their offline counterparts.

## **11.8 CREATE EFFECTIVE ONLINE AD CAMPAIGNS :**

Online advertising is one of the most effective ways for businesses of all sizes to expand their reach, find new customers, and diversify their revenue streams.

With so many options available – from PPC and paid social to online display advertising and in-app ads – online advertising can be intimidating to newcomers, but it doesn't have to be. WordStream makes online advertising easy, and we've helped thousands of businesses grow by leveraging the power of paid search and paid social advertising.

## 1. Online Advertising: Paid Search :

When you think of online advertising, the chances are pretty good that you're thinking of paid search advertising. Paid search— also known as pay-per-click advertising, or PPC – is one of the most common and effective types of online advertising.



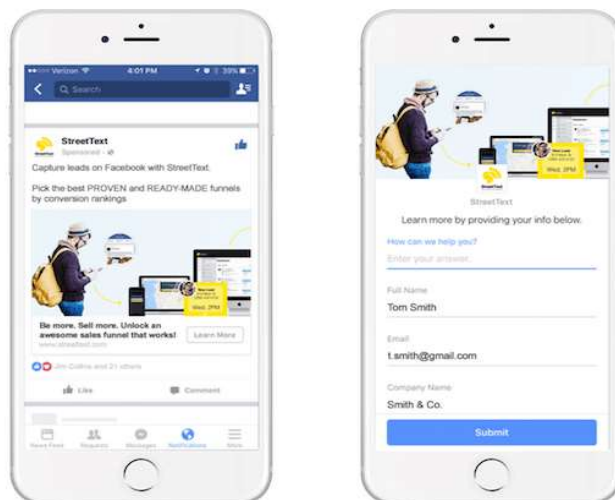
## 2. Image via Google :

Paid search allows you to bid on relevant terms and phrases that may cause text-based ads to be displayed to users when they enter specific search queries into Google or Bing. These terms and phrases are known as keywords, and they form the basis of PPC advertising. Advertisers bid on keywords as part of an ad auction. This ensures that all advertisers have a fair chance of their ads being displayed to users, rather than those with the biggest advertising budgets.

Keywords should be highly relevant to your business, organized and structured into logical ad groups separated by campaign type, and aligned with the correct match type in order to be displayed to the right visitors, at the right time, for the right campaign.

### Online Advertising : Paid Social

While paid search may have transformed Internet advertising, paid social is transforming the web of tomorrow.



Social networking remains the most popular online pastime for adults all over the world, and advertisers have evolved their strategies to target consumers where they spend their time, namely on social networks such as Facebook and Twitter. Paid social advertising functions similarly to paid search, with the notable exception that advertisers, not users, take the initiative – advertisers must “search” for users, rather than the other way around.

One of the greatest strengths of paid social advertising is the granularity with which advertisers can target prospective customers, and this principle underpins many social advertising platforms and products. Advertisers can target users with hundreds of parameters, from demographic data (such as age, gender, income, level of education, and marital status) to browsing preferences and social behavior.

### **11.9 ONLINE ADVERTISING - CAMPAIGN ELEMENTS :**

There is much more to online advertising than simply placing an ad on the Internet and hoping for the best. The most effective advertising campaigns combine numerous interconnected elements, all of which perform unique functions to maximize the campaign’s potential. Not every online advertising campaign will have every element, but the following components of a digital marketing initiative will be common to many campaigns.

#### **1. Text and Visual Ads :**

Google Ads and Bing Ads offer advertisers the choice of either text-based ads or more visual advertisements, such as banners. Text-based ads are often referred to simply as PPC ads, whereas banners and similar ad formats are commonly referred to as display ads. In addition, social media platforms such as Facebook offer highly visual advertising formats that include some ad copy, which can be thought of as a combination of both. There are dozens of advertising formats available to today’s advertisers, allowing you to choose the format and advertising network that best suits the needs of your campaigns.

#### **2. Landing Pages :**

Landing pages are specialized, optimized web pages that visitors are taken to upon clicking an ad. Landing pages can feature specific products featured in the advertisements themselves, or they may include prompts for users to provide the advertiser with more information, such as web forms. Landing pages can be used to convince prospects to complete an action, such as making a purchase, or function as another step in a longer “funnel,” such as requesting additional information or downloading a piece of content for lead generation purposes.

#### **3. Call Tracking :**

To many advertisers, phone calls are the most valuable source of leads. For this reason, advertisers can choose to track phone calls generated from online advertising campaigns.

#### **4. Sponsored Content :**

Many advertisers choose to utilize sponsored content as an element of their online advertising campaigns. Sponsored content can take many forms, from advertorial-style editorial content featured on websites (commonly known as native advertising), to sponsored updates on social media platforms. Both Facebook and Twitter offer advertisers this feature, with both platforms boasting a wide range of sponsored update options, such as Facebook's Promoted Posts and Twitter's Sponsored Tweets.

#### **5. Analytics :**

Advertisers do not simply publish ads to the web and hope for the best – they must know exactly how well their ads are performing, and from where their traffic is coming. This is why analytics is a crucial component of any online advertising strategy. Analytics tools offer a wealth of information about an advertising campaign, from impression share and click-through rate to cost-per-conversion and trends over time. Analytics tools are also invaluable in determining how consumers discover and ultimately interact with your website, a process known as attribution modeling.

#### **6. Email Marketing :**

Email marketing is one of the most common elements in an online advertising campaign. Some advertisers launch email-only campaigns to highlight time-specific offers or content downloads, whereas others use email to complement their other digital marketing channels. Email marketing can be highly effective, making it a popular choice for today's advertisers.

#### **7. Remarketing :**

Consumers rarely discover a website and decide to make a purchase immediately. The customer journey can be lengthy and complex, and take place across multiple devices and websites over prolonged periods of time. For this reason, remarketing has become one of the most important tools in a digital marketer's toolbox. Remarketing allows you to track users who have visited your website – but failed to convert or take action – once they leave your site, and serve ads to them on other websites. This not only significantly increases brand awareness, but also provides numerous further opportunities for the user to revisit your website and convert at a later time. Remarketing can be enabled on search and display campaigns, as well as social advertising initiatives.

### **11.10 CONCERNS :**

#### **1. Security concerns :**

According to a US Senate investigation in 2014, there are security and privacy concerns for users due to the infrastructure of online advertising.[90] This is because of the potential for malware to

be disseminated through online advertisements and for such malvertising to be inserted and triggered without sufficient protection or screening. Ransom ware gangs were spotted using carefully targeted Google search advertising to redirect victims to pages dropping malware.

## **2. Banner blindness :**

Eye-tracking studies have shown that Internet users often ignore web page zones likely to contain display ads (sometimes called "banner blindness"), and this problem is worse online than in offline media. On the other hand, studies suggest that even those ads "ignored" by the users may influence the user subconsciously.

## **3. Fraud on the advertiser :**

There are numerous ways that advertisers can be overcharged for their advertising. For example, click fraud occurs when a publisher or third parties click (manually or through automated means) on a CPC ad with no legitimate buying intent. For example, click fraud can occur when a competitor clicks on ads to deplete its rival's advertising budget, or when publishers attempt to manufacture revenue.

Click fraud is especially associated with pornography sites. In 2011, certain scamming porn websites launched dozens of hidden pages on each visitor's computer, forcing the visitor's computer to click on hundreds of paid links without the visitor's knowledge.

As with offline publications, online impression fraud can occur when publishers overstate the number of ad impressions they have delivered to their advertisers. To combat impression fraud, several publishing and advertising industry associations are developing ways to count online impressions credibly.

## **4. Heterogeneous clients :**

Because users have different operating systems, web browsers and computer hardware (including mobile devices and different screen sizes), online ads may appear to users differently from how the advertiser intended, or the ads may not display properly at all. A 2012 comScore study revealed that, on average, 31% of ads were not "in-view" when rendered, meaning they never had an opportunity to be seen. Rich media ads create even greater compatibility problems, as some developers may use competing (and exclusive) software to render the ads.

Furthermore, advertisers may encounter legal problems if legally required information doesn't actually display to users, even if that failure is due to technological heterogeneity. In the United States, the FTC has released a set of guidelines indicating that it's the advertisers' responsibility to ensure the ads display any required disclosures or disclaimers, irrespective of the users' technology.

## **5. Ad blocking :**

Ad blocking, or ad filtering, means the ads do not appear to the user because the user uses technology to screen out ads. Many browsers block unsolicited pop-up ads by default. Other software programs or browser add-ons may also block the loading of ads, or block elements on a page with behaviors characteristic of ads . Approximately 9% of all online page views come from browsers with ad-blocking software installed, and some publishers have 40%+ of their visitors using ad-blockers.

## **6. Anti-targeting technologies :**

Some web browsers offer privacy modes where users can hide information about themselves from publishers and advertisers. Among other consequences, advertisers can't use cookies to serve targeted ads to private browsers. Most major browsers have incorporated Do Not Track options into their browser headers, but the regulations currently are only enforced by the honor system.

## **7. Privacy concerns :**

The collection of user information by publishers and advertisers has raised consumer concerns about their privacy. Sixty percent of internet users surveyed said they would use Do Not Track technology to block all collection of information if given an opportunity. Over half of all Google and Facebook users are concerned about their privacy when using Google and Facebook, according to Gallup.

Many consumers have reservations about online behavioral targeting. By tracking users' online activities, advertisers are able to understand consumers quite well. Advertisers often use technology, such as web bugs and respawning cookies, to maximize their abilities to track consumers. According to a 2011 survey conducted by Harris Interactive, over half of Internet users had a negative impression of online behavioral advertising, and forty percent feared that their personally-identifiable information had been shared with advertisers without their consent. Consumers can be especially troubled by advertisers targeting them based on sensitive information, such as financial or health status. Furthermore, some advertisers attach the MAC address of users' devices to their 'demographic profiles' so they can be retargeted (regardless of the accuracy of the profile) even if the user clears their cookies and browsing history.

## **11.11 SUMMARY :**

Online advertising allows you to show your ads to the people who are likely to be interested in your products and services, while filtering out folks who aren't. And you can track whether those people clicked your ads.



**11.12 KEYWORDS :**

Online advertising - also known as online marketing, Internet advertising, digital advertising.

Digital Marketing - To use of digital channels to market products and services in order to reach consumers.

Social Media - A computer - based technology that facilitates the sharing of ideas, thoughts and information through virtual networks and communities.

**11.13 SELF - ASSESSMENT QUESTIONS :**

1. What is online advertisement? Explain the history of online advertisement?
2. Discuss about the types of online advertisement?
3. Explain the benefits of online advertisement?
4. Examine the search engine marketing in online advertisement?

**11.14 SUGGESTED READINGS :**

1. Schaefer, M. (2015). The content code: Six essential strategies for igniting your content, your marketing, and your business Mark W. Schaefer
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4. Kingsnorth, S. (2019). Digital marketing strategy: An integrated approach to online marketing. Kogan Page Publishers.

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## **LESSON - 12**

# **PAYMENT GATEWAY**

### **OBJECTIVES OF THE LESSON :**

- ✓ To learn about online payment
- ✓ To study the payment gateway
- ✓ To find out the transaction process
- ✓ To read about the best payment methods

### **STRUCTURE OF THE LESSON :**

- 12.1 Introduction
- 12.2 Payment Gateway
- 12.3 Online payments work with a payment gateway
- 12.4 Integrate with a payment gateway
- 12.5 Payment gateway benefit
- 12.6 Typical transaction processes
- 12.7 In easy words, a transaction processes with the following steps
- 12.8 Grow our Business With Paytm All in One Payment Gateway
- 12.9 Payment gateway platforms in India
- 12.10 Best payment methods to accept online payments
- 12.11 e - Commerce Payment Gateway
- 12.12 Process that takes place in Ecommerce Payment Gateways
- 12.13 Online Payments Features When Taking Ecommerce Platforms
- 12.14 Summary

12.15 Keywords

12.16 Self - Assessment Questions

12.17 Suggested Readings

## **12.1 INTRODUCTION :**

A payment gateway is a technology used by merchants to accept debit or credit card purchases from customers. The term includes not only the physical card-reading devices found in brick-and-mortar retail stores but also the payment processing portals found in online stores.

A payment gateway is a merchant service provided by an e-commerce application service provider that authorizes credit card or direct payments processing for e-businesses, online retailers, bricks and clicks, or traditional brick and mortar. The payment gateway may be provided by a bank to its customers, but can be provided by a specialised financial service provider as a separate service, such as a payment service provider.

A payment gateway facilitates a payment transaction by the transfer of information between a payment portal (such as a website, mobile phone or interactive voice response service) and the front end processor or acquiring bank.

Payment gateways are a service that helps merchants initiate ecommerce, in-app, and point of sale payments for a broad variety of payment methods. The gateway is not directly involved in the money flow; typically it is a web server to which a merchant's website or POS system is connected. A payment gateway often connects several acquiring banks and payment methods under one system.

## **12.2 PAYMENT GATEWAY :**

The recent growth of online payments is a testament to how crucial payment gateways are for your business.

Payment gateways are services that process your business' card transactions. They're an asset to your business because they ensure safe and smooth transactions, and reduce losses associated with late payments.

In simple terms, a payment gateway is a network through which your customers transfer funds to you. Payment gateways are very similar to the point-of-sale terminals used at most brick and mortar stores. When using a payment gateway, customers and businesses need to work together to make a transaction.

The payment gateway is a key component of the electronic payment processing system, as it is the front-end technology responsible for sending customer information to the merchant acquiring bank, where the transaction is then processed.

Payment gateway technologies are always evolving to reflect new consumer tastes and technical capacities. In the past, terminals would accept credit cards using magnetic strips and required paper signatures from the customer. With the development of chip technologies, the signature phase could be removed in favor of a personal identification number (PIN) entered directly into the payment gateway hardware. Today, contactless purchases are also available, with many customers now using their phones as a payment device instead of plastic credit cards.

The architecture of a payment gateway will differ depending on whether it is an in-store gateway or an online payment portal. Online payment gateways will require application programming interfaces (APIs) that allow the website in question to communicate with the underlying payment processing network. In-store payment gateways will utilize a POS terminal that connects to the payment processing network electronically using either a phone line or an Internet connection.

### **12.3 ONLINE PAYMENTS WORK WITH A PAYMENT GATEWAY :**

Before we get into the actual process, here are some terms you'll want to understand:

#### **1. Merchant Account :**

A merchant account is a separate bank account that businesses use for their receivables. During a transaction, your customer's payment is initially transferred to your merchant account, where it stays until you move it to your business' regular bank account. You need both a payment gateway and a merchant account to accept online payments.

#### **2. Payment Processor :**

When a business charges a customer for a purchase, a payment processor is the service that authorizes the customer's card details to make sure that they have enough funds in their account to pay. If they do, then the payment processor authorizes the transaction and the payment is sent to the business' account, and if not, the transaction is rejected.

The steps below explain how online payments work with a payment gateway:

#### **Step 1**

When accepting online payments, start by setting up your website and connecting it to a payment gateway.

#### **Step 2**

Your customer makes a purchase from your website by clicking your payment link and entering their credit card or debit card details.

### Step 3

The order and card details are sent to the payment gateway. The card information is securely transmitted to the payment gateway, so that only your customer and their bank will be able to access their card details.

### Step 4

Next, the payment gateway verifies your customer's card details and checks if they have sufficient funds to make the payment. If they do, then the payment gateway proceeds with the transaction. Additionally, the payment gateway prevents fraudulent activities with the help of anti-fraud tools.

### Step 5

The payment gateway then takes over and sends a request to the customer's issuing bank to initiate the transaction. The issuing bank then sends these funds to the merchant bank who then deposits them into the merchant account.

### Step 6

The status of the transaction will be sent as a notification to the merchant. The payment gateway that you are using determines how long it takes to receive your payment. Most payments are received in real time, almost immediately after the transaction is complete, but some may take as long as 21 days if there are any errors in processing.



## **12.4 INTEGRATE WITH A PAYMENT GATEWAY :**

We have a few options for how to integrate with a payment gateway, depending on how you'd like to receive payments from your customers.

The first category of integration redirects your customer away from your business' website to pay. This is appropriate for businesses that don't receive much online traffic. After your customer clicks on the payment link, they are taken to your payment processor's page to enter their card details and make the payment, after which they are redirected to your website. An example of this type of payment gateway is PayPal. These payment gateways can be customized—for instance, adding your business' name or logo to the checkout page. The drawback of this method is that your business cannot control the entire user experience since the gateway is external.

With the next category, your customer stays within your website throughout the entire payment process and the payment itself is handled by a payment gateway. Once your customer enters the details within your business's site, the information is sent to the payment gateway's URL, where the actual transaction happens. Since your customer stays on your website throughout the purchase and is not redirected, this type of payment gateway is better for businesses that receive most of their revenue through online payments, because it provides a better customer experience. However, as you will be asking for your customer's payment details through your own website, you need to take the necessary precautions to make sure their information is safe.

The next type of payment gateway uses an API (Application Programming Interface). This type is similar to the previous one, in that customers enter their card details directly into the business's online payment page, but here their payment is processed using an API. These payment gateways can be customized with your business' name and logo and offer complete control over the user experience. Businesses using these need to take care of PCI compliance and SSL certification on their own.

Overall, payment gateways simplify the online payment process for your business and help you receive payments faster, more conveniently, and with better security. If you are considering receiving online payments, or want to enhance the method you are already using, then a payment gateway is what you're looking for.

## **12.5 PAYMENT GATEWAY BENEFIT :**

### **1. Convenience :**

When you integrate with a payment gateway, it means that your customers can make purchases at any time, whether you're minding the store or not. Allowing your customers to shop at their leisure adds convenience for them and for you.

## **2. Faster payments :**

As a business owner, you know that it is hard to get paid at all. Instead of having the hassle of agreeing to pay on a certain day and then forgetting to do so, many customers prefer to just pay instantly and get it over with. Payment gateways allow them to do just that, making it a win-win situation for both you and your customers.

## **3. Better security :**

Customers' number one concern with online payments is security. As of 2017, loss resulting from credit card fraud in the United States amounted to 2.5 billion dollars.

Using payment gateways severely reduces the risk of credit card fraud for three main reasons :

- The customer's card information is securely transmitted to the payment gateway. This means that only the customer and their issuing bank will be able to access their information.
- Every payment gateway must be compliant with PCI DSS standards, which means that they follow particular security standards to ensure that your customers' card information is processed securely.
- Card services provide an additional security protocol called 3-D Secure. This requires the customer to create a password for every card that they use to make an online payment.

## **4. Key Takeaways :**

- Payment gateways are the consumer-facing interfaces used to collect payment information.
- In physical stores, payment gateways consist of the point of sale (POS) terminals used to accept credit card information by card or by smartphone.
- In online stores, payment gateways are the "checkout" portals used to enter credit card information or credentials for services such as PayPal.
- Payment gateways are distinct from payment processors, which use customer information to collect payments on behalf of the merchant.
- There are also payment gateways to facilitate payment in cryptocurrencies, such as Bitcoin.

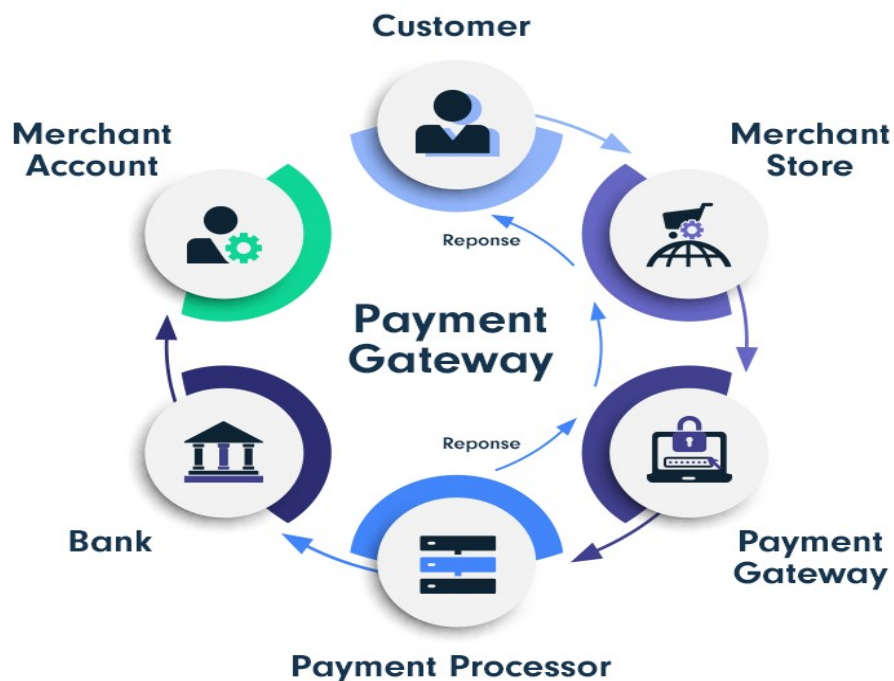
## **12.6 TYPICAL TRANSACTION PROCESSES :**

When a customer orders a product from a payment gateway-enabled merchant, the payment gateway performs a variety of tasks to process the transaction.

1. A customer places an order on website by pressing the 'Submit Order' or equivalent button, or perhaps enters their card details using an automatic phone answering service.
2. If the order is via a website, the customer's web browser encrypts the information to be sent between the browser and the merchant's webserver. In between other methods, this may be done via SSL (Secure Socket Layer) encryption. The payment gateway may allow transaction data to be sent directly from the customer's browser to the gateway, bypassing the merchant's systems. This reduces the merchant's Payment Card Industry Data Security Standard (PCI DSS) compliance obligations without redirecting the customer away from the website.
3. The merchant then forwards the transaction details to their payment gateway. This is another (SSL) encrypted connection to the payment server hosted by the payment gateway.
4. The payment gateway converts the message from XML to ISO 8583 or a variant message format (format understood by EFT Switches) and then forwards the transaction information to the payment processor used by the merchant's acquiring bank.
5. The payment processor forwards the transaction information to the card association (I.e.: Visa/MasterCard/American Express). If an American Express or Discover Card was used, then the card association also acts as the issuing bank and directly provides a response of approved or declined to the payment gateway. Otherwise [e.g.: MasterCard or Visa card was used], the card association routes the transaction to the correct card issuing bank.
6. The credit card issuing bank receives the authorization request, verifies the credit or debit available and then sends a response back to the processor (via the same process as the request for authorization) with a response code (I.e.: approved, denied). In addition to communicating the fate of the authorization request, the response code is also used to define the reason why the transaction failed (I.e.: insufficient funds, or bank link not available). Meanwhile, the credit card issuer holds an authorization associated with that merchant and consumer for the approved amount. This can impact the consumer's ability to spend further (because it reduces the line of credit available or it puts a hold on a portion of the funds in a debit account).
7. The processor forwards the authorization response to the payment gateway.
8. The payment gateway receives the response, and forwards it onto the website, or whatever interface was used to process the payment, where it is interpreted as a relevant response, then relayed back to the merchant and cardholder. This is known as the Authorization or "Auth."
9. The entire process typically takes 2–3 seconds.



10. The merchant then fulfills the order and the above process can be repeated but this time to "Clear" the authorization by consummating the transaction. Typically, the "Clear" is initiated only after the merchant has fulfilled the transaction (I.e. shipped the order). This results in the issuing bank 'clearing' the 'auth' (I.e. moves auth-hold to a debit) and prepares them to settle with the merchant acquiring bank.
11. The merchant submits all their approved authorizations, in a "batch" (end of the day), to their acquiring bank for settlement via its processor. This typically reduces or "Clears" the corresponding "Auth" if it has not been explicitly "Cleared."
12. The acquiring bank makes the batch settlement request of the credit card issuer.
13. The credit card issuer makes a settlement payment to the acquiring bank (the next day in most cases).
14. The acquiring bank subsequently deposits the total of the approved funds into the merchant's nominated account (the same day or next day). This could be an account with the acquiring bank if the merchant does their banking with the same bank, or an account with another bank.
15. The entire process from authorization to settlement to funding typically takes 3 days.



Many payment gateways also provide tools to automatically screen orders for fraud and calculate tax in real time prior to the authorization request being sent to the processor. Tools to detect fraud include geolocation, velocity pattern analysis, OFAC list lookups, 'deny-list' lookups,

delivery address verification, computer finger printing technology, identity morphing detection, and basic AVS checks.

### **12.7 IN EASY WORDS, A TRANSACTION PROCESSES WITH THE FOLLOWING STEPS :**

1. When the customer enters their card detail in the payment gateway, the payment gateway transfers it securely to the Merchant's account.
2. Then a request is sent through your merchant account to the payment processor.
3. The payment processor then sends the request to the issuing(customer's) bank.
4. If the transaction is approved the customer's account is debited and the funds are transferred to Merchant's(Acquiring) bank.

### **12.8 GROW OUR BUSINESS WITH PAYTM ALL IN ONE PAYMENT GATEWAY :**

Our Online Payment Gateway offers the best features to help businesses deliver a great payment experience to customers and retain them forever.

1. Accepts Extensive Set Of Digital Payment Sources By choosing to add Payment Gateway by Paytm, you can offer your customers a wide range of payment sources from UPI to Debit/ Credit Cards, Net Banking, Paytm Wallet, and even EMI.
2. Secure Payments For Your Business Our anti-fraud technology powers the Paytm Payment Gateway process to keep your business safe and PCI-DSS compliant with 128-bit encryption.
3. Convenient Checkout With Saved Cards Functionality Our All in One Payment Gateway offers an easy-to-integrate checkout system that lets you save cards across businesses, saves your customers from the hassle of filling their details repeatedly, and enables instant payments.
4. No Need For Opening A New Bank Account For Settlements With Paytm Payment Gateway integration, you can choose the bank account where you want all your payments settled by simply providing the bank account details.
5. Powerful Merchant Dashboard Empowers You To Do More Paytm's powerful Merchant Dashboard is perfect for monitoring the performance of your business. It allows you to view and manage payments received, bank settlements, refunds, etc. With its intuitive interface, you can easily streamline your payment process. Also, it gives you access to critical payment statistics and real-time reports.

6. Developer-Friendly Payment Gateway Integration Our Payment Gateway for websites offers checkout API integration for your existing website and lets you receive payments seamlessly in your Android or iOS apps.

## **12.9 PAYMENT GATEWAY PLATFORMS IN INDIA :**

There are many payment gateway platforms in India. Paytm Payment Gateway is one of them, which is trusted by some of India's biggest unicorns. Paytm Payment Gateway also powers the Paytm app. A payment gateway platform like Paytm Payment Gateway can help businesses accept online payments through their website or app.

A good payment gateway platform supports payments acceptance through numerous payment sources like credit card, debit card, UPI, netbanking, Paytm Wallet and more. When a business is choosing a payment gateway platform, they should consider factors such as payment sources, transaction success rates, transactions per second (TPS), pricing, international payments acceptance, etc.

## **12.10 BEST PAYMENT METHODS TO ACCEPT ONLINE PAYMENTS :**

An online business can accept payments from their customers through various payment methods like credit card, debit card, net banking, UPI and wallets. The best payment methods to accept payments depend on the preferences of your customers.

For example, as more and more Indians use UPI, you must ensure that your business is also able to accept online payments through UPI in an easy and pocket-friendly manner.

Similarly, Paytm Wallet is also a preferred payment method of millions of Indians. You can use Paytm Payment Gateway to accept payments through Paytm Wallet as well.

### **1. Free online payment gateway in India :**

Pricing is an important factor to consider when choosing an online payment gateway in India. A free payment gateway means that there should be no setup or annual maintenance fee for your business. You should be able to integrate a payment gateway at zero costs and then pay only for the transactions that take place.

Paytm Payment Gateway is the most cost-effective payment gateway in India. It has zero setup fees and no annual maintenance costs.

### **2. Add Payment Gateway In your Website :**

The steps to add a payment gateway in your website vary from one gateway to another. For Paytm payment gateway, the steps are quite simple and are defined as follows :

- **Up your online store:** Third-party software handles the creation of the ordering page and all the code for transferring payment information to the gateway. Making this code from scratch is an advanced web development task.
- **Add payment sources:** Insert your payment gateway information for the payment source you plan to accept (Visa, Mastercard, etc.). Your payment gateway determines which cards are accepted.
- **Test the payment gateway:** You will typically be provided Sandbox or Test accounts by the payment gateway. These let you make sample transactions to make sure that the process you've set for receiving payments is working smoothly. Check your payment gateway's support site for details on testing your payment gateway integration.

### 3. Different Types of Payment Gateway for Your Business :

There are several types of payment gateways available for businesses, each having a unique payment mechanism. Some of them are :

- Hosted Payment Gateways lead your customer away from your site's checkout page, i.e., when a consumer clicks the gateway link, they are redirected to the online Payment Services Provider or the PSP page.
- In Self-Hosted Payment Gateways, payment details are gathered from the customer within the business website itself. After the details are requested, the details are sent to the payment gateway's URL.
- In API-Hosted Payment Gateways, customers enter their credit/debit card information directly on the website's checkout page. Payments are then processed using HTTPS queries or an API (Application Programming Interface).
- Local Bank Payment Gateway Integration redirects the customer to the payment gateway's website (the bank's website) to insert their payment details and contact details and make the payment.

### 4. Leverage The Paytm Advantage :

1. Free Payment Gateway Account Setup
2. Real-Time Bank Settlement
3. No Annual Maintenance
4. Online Submission Of Business Documents Supported
5. 50+ Banks Supported For Net Banking
6. Email & Phone Support

## **5. Choosing the best payment gateway in India :**

There are many factors to consider when choosing the best payment gateway for your business in India. Some of these factors include :

1. Pricing
2. Transaction success rates
3. Ease of integration
4. Payment sources supported
5. Settlements
6. International payments
7. Extended services like links and subscriptions

Paytm Payment Gateway stands out in all of these factors. You can choose the best payment gateway for your website or app by going with Paytm Payment Gateway. You get the lowest pricing, best success rates, easiest integrations, all payment modes, T+1 settlements, international payments from 200+ countries and a lot more.

## **6. GST applicability on payment gateway charges ;**

MDR refers to the charges that a merchant has to pay to a payment gateway to accept online payments. Different payment sources have different MDR or charges. GST is also applicable to this MDR. You can view detailed pricing of Paytm Payment Gateway by going to our pricing page.

## **7. Integrating or adding online payment gateway on apps :**

A payment gateway can help businesses accept online payments on their app. A good payment gateway will support apps on Android and iOS. Paytm Payment Gateway has feature-filled mobile SDKs that allows easy integration and superfast checkout experience. Paytm Payment Gateway has an easy integration process that will help you take your business online quickly.

### **12.11 ECOMMERCE PAYMENT GATEWAY :**

An Ecommerce platform's client interface is the payment gateway, which is an ecommerce platform's interface with customers for accepting credit cards. Consumers and businesses can both benefit from a payment gateway, which simplifies and expedites payments in an increasingly cashless world.

If we're running a B2B business or direct to consumer, the best payment gateway depends on the industry and targeted audience. The payment gateway that will meet our needs depends on the type of business our are running.

Our customers expect a smooth and secure checkout experience when they shop online. With streamlined eCommerce payment processing, it will reduce costs, reduce card abandonment, and encourage sales.

### **1. India's Best Ecommerce Payment Gateway :**

The Indian e-Commerce Payment Gateway is one of the largest in the world. While India's digital payment sector is booming and boosting the economy, Indian businesses are creating sophisticated payment ecosystems, such as Neo-Banking.

Efforts are being made by the government to modernize and standardize India's e-commerce operations when it comes to payment collections, privacy, data protection, and international trade rules.

UPI, Payment Links and digital wallets are becoming increasingly popular in India's e-commerce payment market, which was previously dominated by cash. Payments by UPI took the top spot among consumers, with a volume share of 64% in volume and 50% in value. In India, digital wallets represent another fast-growing payment method, accounting for a quarter of all e-commerce payments.

As a leading provider of payment management tools for ecommerce platforms, Easebuzz assists ecommerce platforms with access to and management of payments, refunds, transfers, subscriptions, invoices and many other types of transactions.

With Easebuzz, you can solve complex ecommerce business problems related to payments, such as Split payments, Auto recurring payments (eNACH/paper-e-mandate/UPI2.0), Auto refunds on split transactions, Subaggregator Model, Slices, and Easebuzz Capital.

### **2. Best Payment Gateway Role in Ecommerce :**

In e-commerce, a payment gateway is a process used for accepting and processing payments over the internet. In order to receive payments, customers are required to provide credit or debit cards, expiration dates, and CVV codes. After this step, the buyer proceeds to pay. The money is deposited into the merchants' accounts.

### **3. How Payment Gateways Helps Ecommerce Platforms :**

- Online Payment gateways enable merchants and customers to approve transactions online.
- It authorized transactions between merchants and customers through this system.
- E-commerce platforms that offer payment gateways can facilitate the existence of their platforms, which enables them to improve the shopping experience for their customers.

- Besides providing fast and secure payments, e-Commerce platforms expedite ease of use and success throughout the entire process.
- E-commerce Payment Gateway services can be offered by banks or third-party providers authorized by banks.

#### **4. Ecommerce Payment Gateway : How Does it Work?**

Ecommerce businesses accept electronic payments from customers. These payments must go through a few steps before they reach the seller.

### **12.12 PROCESS THAT TAKES PLACE IN E- COMMERCE PAYMENT GATEWAYS :**

#### **1. Checkout :**

Checkout is completed and payment information is entered.

#### **2. Transmitting Information :**

Using a secure payment gateway, the credit card or other payment details are captured and encrypted.

#### **3. Acceptance by issuer :**

If the purchase has been made with a credit card, the payment processor confirms the transaction with the issuing bank. One thing to keep in mind is that it is not uncommon for the bank to contact the customer as well.

#### **4. Approval of Transaction :**

Payment Processors inform the customer that a successful purchase has been made after the bank has verified the payment. Shipping and fulfillment receive the information after it has been verified by the bank.

#### **5. Transfer of Funds :**

Although the transactions are complete for the customers, the seller's account does not receive the funds immediately. In a few days, the money will be deposited into their eCommerce accounting software, making the transaction official.

### **12.13 Online Payments Features When Taking E- commerce Platforms :**

#### **1. Security of Customers :**

Security is the most important feature consideration when buying products and services online. Because the customer provides some personal information, it's only reasonable to worry about security. Buying goods and services online shouldn't be done without security in mind.

## **2. RBI and Government Guidelines :**

Payments online are secure due to guidelines and norms established by the government and RBI. One of these standards is PCI-DSS. PCI-DSS is a set of operational and technical guidelines for accepting and processing online payments. Payment processing companies complying with PCI-DSS standards ensure all customer information is protected while being transported.

## **3. Methods of Payment :**

Recently, many customers prefer to pay with their debit cards or credit cards, while others prefer to use digital wallets. If the payment option they prefer is not available on the checkout page, the customer may simply move to another e-commerce platform.

## **4. How Payment Gateway Integration with Ecommerce Helps :**

Having a seamless, comfortable experience from beginning to end is most appealing to customers. As a merchant, you ensure that customers are guided smoothly through the entire purchase process from the moment they click or go on your website, app or Webstore.

A payment gateway integrated into the website allows both merchants and customers to receive instant notifications, cutting down on administrative tasks. Since the payment gateway is integrated, employees do not need to handle and interact with the payment process.

By offering this feature, customers of your e-commerce platform can make payments online without being redirected, increasing your credibility with your customers.

## **5. Integration of Payment Gateways for Easy-Checkouts :**

The Checkout page or shopping cart page is equally crucial as you focus on improving the browsing experience and payment process. There are several things you should consider when designing this page. You should give clear instructions to the customer on how to proceed.

In order to simplify the checkout process, it is best if only the most basic information is requested on the checkout page. Product and payment information, along with payment options, must be readily available on the checkout page.

## **6. Speedy Transaction Processing :**

A faster transaction processing speed gives customers a hassle-free shopping experience. A quicker transaction processing speed ensures the smooth flow of funds between the retailer and the customer.

Payment gateways like Easebuzz simplify accepting online payments and speed up transactions processes for e-commerce platforms providers. Besides the above-listed features, Easebuzz also provides additional services such as free web-store creation, SMS-based invoicing, customized decks and free payment collection links. Secure and Convenient Ecommerce Payment Gateway for Your Business.



**12.14 SUMMARY :**

To compete successfully in the growing virtual shopping industry, payment gateways are essential tools for all merchants. The right payment gateway can save money, increase profits, and yield long-term success for your business to help you outlast the competition. Consider your business needs and growth goals to choose the best e-commerce payment gateway for your business.

**12.15 KEYWORDS :**

1. Online Payment - A payment gateway is indispensable when it is about an e Commerce business.
2. Payment Gateway - Payment gateway, to put it short, is software that transfers funds from a customer's account to merchant's account.
3. e - Commerce payment gateway - Payment gateway performs the important role in processing and authorizing the payment or transactions between customer and merchants.

**12.16 SELF - ASSESSMENT QUESTIONS :**

1. Discuss about the payment gateway?
2. Explain the online payment feature in e - commerce platforms?
3. Talk about the best payment gateway system?
4. What is payment gateway? Discuss the typical transaction processes

**12.17 SUGGESTED READINGS :**

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