CHAPTER 2

REVIEW OF LITERATURE

"The Internet is a nearly perfect market because information is instantaneous and buyers can compare the offerings of sellers worldwide. The result is fierce price competition, dwindling product differentiation, and vanishing brand loyalty".

Robert Kuttner

2.1. Introduction

This chapter deals with the review of literature ranging from the year 1975 till 2006.

2.2. Review of Literature

Most of the literature today basically talks about the technology related aspects of web-based businesses and how to adapt that technology for online business. Very limited literature exists on the issues specific to the businesses, more specifically, in the Indian context. In the present study, efforts have been made to collect and compile information from various sources pertaining to the issues related to the successful adoption and seamless integration of web-based marketing strategy.

2.2.1. Global Scenario

Recently an article appearing in *Economic Times* cited a global survey that estimated that there are about 694 million web users (Reuters, 2006). The survey ‘ComScore
World Metrix’ estimated that there are 168.1 million users across the four Asian countries-China, Japan, India and Korea, form nearly 25% of the total online population. By contrast the US is home to 152 million users, or 22% of the world’s users.

Another article in the Times of India stated that the web has grown more in 2005 than it did at the height of the dotcom boom as stated by the monitoring firm Netcraft (Times news network, 2005). This figure exceeds the growth of 16 million sites seen in 2000 when the Net fever reached its most intense pitch. Netcraft said the rise was caused by small businesses going online, firms making the most of web advertising schemes and spammers. In its October 2005 survey, Netcraft found 74.4 million web addresses, a rise of more than 2.68 million from the September figure.

The Internet's interactivity allows companies to respond more quickly to customer requests. Moreover, the ever-increasing speed of the Internet allows companies to communicate more quickly with current and potential customers, which is essential to retaining current customers and attracting new ones. Consider the pure-play home furnishings business iHome, which is "addressing customer requests to receive decorating help on a budget . . . iHome's ability to get download time under 30 seconds" is the key to iHome's growth rate" (Slott, 2000). All of these benefit help to differentiate the image and customer experience of online firms.

Internet marketing is likely to have a major effect on product packaging. At present, marketers design most product packaging to appeal to consumers, be eye-catching, compete with other products on store shelves, and sell the product. As more commerce is conducted online rather than in retail stores, consumers might require products with more utilitarian packaging. Products purchased online will be shipped from the distributor directly to the consumer and, thus, never appear on retailers' shelves. As a result, these products will not need the expensive, colorful packaging that is necessary today for store display; nor will they need multiple layers of packaging (functional packaging inside the pretty display packaging). Instead, they'll only need a size and shape that is functional and useful for the consumer.
The Internet does more than permit one-to-one communication among consumers; it also facilitates one-to-many and many-to-many communications. Moreover, this phenomena is achieved at extremely low cost and independent of distance and time (Pitt et al. 2002). The shift from ‘one-way’ to ‘two-way’ information flows between producers and consumers (Blattberg et al., 1994), from the conventional ‘One-to-many’ model (Hoffman & Novak, 1996), from ‘supply-side’ to ‘demand-side’ thinking (Rayport & Sviokla, 1995), and the shift to the ‘fifth’ phase of marketing evaluation, characterized by ‘differentiated products in decentralized markets’ (Blattberg et al., 1994). One of the most widely heralded capabilities is its interactivity (Peterson and Merino, 2003). Today direct marketing involves direct communication with targeted customers to obtain immediate responses from them, often on a one-to-one interactive basis (Kotler & Armstrong, 1999) and it plays a broader role than simply selling products and services.

Table 2.1 shows this paradigm shift in different aspects.

Large and small companies are finding that online services are a great leveler; they can command the same attention and respect as major corporations. Savvy marketers are tapping into online services to initiate a new era in relationship marketing to create one-to-one relationships, as well as one-to-many relationships to increase word of advertising (Janal, 1995).

The popularity of interactive media such as the World Wide Web (WWW) has been growing at a very rapid pace (GVU, 1999). From a marketing perspective, this has manifested itself primarily in two ways:

1. A drastic increase in the number of companies that seek to use the WWW to communicate with (potential) customers, and
2. The rapid adoption of the WWW by broad consumer segments for a variety of purposes, including pre-purchase information search and online shopping (Alba et al., 1997).

The interactive nature of web marketing offers consumers many opportunities to increase the efficiency of online shopping by improving the availability of product
information, enabling direct multiattribute comparisons and reducing prospective buyers information search costs (Alba et al., 1997).

**Table 2.1.: The New Marketing Paradigm Shift In Different Directions: From Marketplace To Marketspace**

<table>
<thead>
<tr>
<th>FROM</th>
<th>TO</th>
<th>SOURCES</th>
</tr>
</thead>
<tbody>
<tr>
<td>One to Many</td>
<td>Many-to-Many</td>
<td>Hoffman, and Novak (1996)</td>
</tr>
<tr>
<td>Communication Model</td>
<td>Communication Model</td>
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<tr>
<td>Mass Marketing</td>
<td>Individualised</td>
<td>Martin (1996)</td>
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<td></td>
<td>Marketing</td>
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<tr>
<td>Monologue</td>
<td>Dialogue</td>
<td>Blattberg and Deighton (1996)</td>
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<tr>
<td>Branding</td>
<td>Communication</td>
<td>Martin (1996)</td>
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<td>Supply side thinking</td>
<td>Demand side thinking</td>
<td>Rayport and Sviokla (1995)</td>
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<tr>
<td>Megabrand</td>
<td>Diversity</td>
<td>Martin (1996)</td>
</tr>
<tr>
<td>Centralised Market</td>
<td>Decentralised Market</td>
<td>Blattberg et al. (1994)</td>
</tr>
<tr>
<td>Customer as a Target</td>
<td>Customer as a Partner</td>
<td>McKenna (1995)</td>
</tr>
<tr>
<td>Segmentations</td>
<td>Communities</td>
<td>Armstrong and Hagel III (1996)</td>
</tr>
</tbody>
</table>

Source: Kiani (1997)
Websites are no longer limited to big companies and specific commercial sectors. Companies of any size and in any sector can benefit from the Internet; however, this is not a guarantee of success to any company adopting the Internet (Bell and Tang, 1998).

Considering the informative intensive nature of the Internet (Fortune, 1998), the Internet is a powerful tool for consumer's information search (Maignan & Lukas, 1997; McGaughey & Mason, 1998; Rowley, 2000). As technologies advance, searching for information through the web is today seen a major vehicle to compare information online (Dickson, 2000).

The Internet expands companies' (and customers') geographic range (from local to global) and business hours (24 hours a day), as well as the assortment of products available. Customers may order a wider variety of products, at any time, day or night, for shipment to any location in the world, in contrast to the limited product assortment and limited business hours of traditional brick-and-mortar companies. This expands the scope of product distribution in time and space and gives the firm another channel through which it can reach customers, display a diversified assortment of offerings, and differentiate itself.

Web has changed the way traditionally business were being done. It has brought companies closer to their customers, suppliers, shortened the distribution channel, thereby affecting pricing decisions, advertising, and promotion that saw a new outlet.

According to Peterson, Balasubramanian, and Bronnenberg (1997), the Internet provides the capability of inexpensively storing vast amounts of information in different virtual locations. Moreover, the Internet possesses a powerful capacity for efficiently and effectively searching, organizing, sharing and disseminating this stored information as well as information generated dynamically through various protocols. In many instances, the Internet enables the acquisition of what (Kraut et al., 1998) refer to as 'previously inaccessible information'.
The capabilities of the Internet are enormous, amorphous, and still yet largely unrealized. Presently, the Internet can communicate sensory data that are visual, auditory, olfactory and gustatory. Hence, it is necessary to think beyond the World Wide Web, e-mail, chat rooms, listservs, and the like, and not be encumbered by technical issues such as bandwidth and social issues such as privacy. Ultimately, the most defining characteristic of the Internet will be ubiquitousness (Peterson & Merino, 2003; Rao & Hymavathi, 2005).

The Internet has made this world an open enterprise. It has become important for companies to further expand market and their consumer targets (Newton, 2006). While integrating the Internet technology into the marketing strategy, business firms will be able to use the Internet as a tool to gain competitive advantage (Sallehhuddin et al., 2004).

2.2.2. The Indian Scenario

India has the world’s fifth largest Internet user base, close to 39 million Internet users (Parwan, 2005). India’s compounded annual growth rate of 35% is the highest among Asia-Pacific countries. Internet users in India are expected to grow to 100m by ’07. In the past one year, local Internet connections have grown by 10% to 6m. Broadband connections (with more than 256kbps) went up nearly 14 times to close to 0.7m subscriptions at the end of October ’05.

But cyber cafes remain the primary medium of access in India with nearly 70% of users accessing Internet from these places. According to a report from the Internet and Mobile Association of India (IMAI), the number of cyber cafes in India is close to 1.05 lakh, and is expected to rise to 2.62 lakh by ’10 (Parwan, 2005). According to a March report from TRAI, India has 180 ISPs. The top five ISPs have more than 84% of the market. According to Internet and network Service major Sify, cyber cafes form 24.5% of their total revenue.
With number of Indian consumers selling off their spare gift items, or old stuff online, a new trend has set in. However, selling over the net is still a small concept in India (Vasi, 2005).

A C Nielsen ORG MARG, Survey (2005), stated that globally people made 4.9 buys a month online while India’s average was 5.2.

Thus, Indians are making more purchases online than the global average. In fact, airline tickets have become the number one item on the shopping list, with over one third of Indians buying their tickets online (Parwan, 2005)

A C Nielsen ORG-MARG, attributes this higher number of online purchases to two factors. The advantages of convenience in terms of shopping and the ability to compare offers is one advantage. Two, the ability to purchase items not available nearby would matter to people.

According to Dobhal & Singh (2006), in India, the Internet is still in the very early stages- in many ways, even globally, the Internet is just beginning and the number of Internet users is globally expected to cross 1 billion mark and a lot of this growth is expected to happen in India.

In a recent Times of India article, India was ranked tenth behind countries like US, China, Japan and South Korea (Times News Network, 2006). This latest survey reveals that India figures among the top 10 nations with highest population of Internet users. Indian users as of today have an online population of 16.713 million.

The Internet as a medium presents great opportunities for marketers. In last decade, Internet has experienced exponential growth rate. Presently, there are 275 million Internet users across the world. Similarly, Internet users in India have crossed a million count, under a liberalizing telecommunication and ISP policy (Bharat, 2003; Srivastava, 2003). The Internet has brought about a dramatic change in the ways businesses are done in today’s world (Guda, 2005). In the present scenario, most of the business companies are using the Internet for a variety of communication tasks,
such as promotion of consumer awareness and interest, providing information and consultation, facilitating two-way communication with customers through e-mail, stimulating product trial and enabling customers to place orders (Neela, 2002; Rao & Hymavathi, 2005).

Researchers have also examined the adoption of innovations that specifically relate to information technology (Swanson, 1994).

In the past, personalized service and one-to-one relationships between merchants and consumers required the interaction of skilled personnel. Now, the Internet allows companies to "deliver their products and Service through low-cost channels that automate the process and remove the expensive human element" (Wells et al., 2000). By reducing a company's dependence on personnel to handle business transactions, the Internet leads to lower transaction and marketing costs, enabling a cost leadership advantage over offline companies. This "also results in cost reduction for the end user and at the same time acts as a differentiation by providing higher levels of service" (Chakravarthy, 2000). However, as more companies offer products and services online, this cost advantage between online and offline operations will gradually shrink over time.

The Internet as a medium offers great opportunities for marketers. Exponential growth has been witnessed in the last decade (Sallehuddin et al., 2004). The coming up of Internet has really transformed the way business was being done, especially in the field of marketing (Sharma, Gupta & Manhas, 2002).

It would not be wrong to say that an organization adopting web based marketing needs to pilot its approaches, master new technologies, challenge conventional market definitions, survive an initial period of low revenues and perhaps cannibalise core businesses.
2.2.3. Websites and Their Impact on Web Marketing

As websites are the medium for web marketing, it would be appropriate at this stage to explore the categorization of web sites and identify the stage at which the web site belongs to. According to Hanson (2000), there are currently three major web site stages: publishing, database retrieval, and personalized interaction.

Stage I: Publishing Sites

A stage I web site publishes the same information to all. It is like online newspaper or magazine, with material retrieved by clicking on the links. What is limited is the dialogue between the Web site and user. A stage I site broadcasts. Information flows from the web site to the viewer, with only the clicks of readers and viewers providing any feedback.

Modern web tools make Stage I website easy and inexpensive to develop. Almost any document can be converted and moved online. Software Programs make it possible to manage Stage I website almost as easy as using a word processor. Because of this, a company’s first web site often reflects a Stage I publishing approach. With experience and investment, the company moves to Stage II.

Stage II: Databases and Forms

Stage II web sites combines the publishing power of Stage I with the ability to retrieve information in response to user requests. The responses are dynamically turned into web pages or e-mail. Interactivity and dialogue have started, although this activity is limited to a series of ‘ask-respond’ interactions.

Much basic e-commerce is accomplished with Stage II capabilities, where e-commerce means using the Internet to buy and sell products or services.
Stage III: Personalisation

A stage III web site dynamically creates a page catering to a specific individual. It moves beyond and ‘ask-respond’ interaction into a dialogue and may anticipate user choices and suggest possible alternatives. A stage III site does more than just react to requests typed into forms or selected by clicking on an image.

Many companies today are laying the foundation of their online marketing or web marketing with Stage I and Stage II sites and adding personalized capabilities as they gain experience, develop compelling applications, or take advantage of new tools.

In a volatile business environment, companies must introspect. A re-look at their macro environment is much called for. It would assist them to ascertain whether in the times to come, their businesses would survive or perish. In the last decade or so, we have witnessed many a big, well-known business houses crash at the onslaught of global competition (Hanson, 2000).

Because consumers can obtain information and service they need from their homes or offices by just browsing the Internet, a value-added website has become crucial factor in persuading customers to visit a company’s store and learn about its products and service and in convincing them to stay with the company. Thus, a website plays a pivotal role in gaining and holding customers by luring them to the site (Norton, 2003).

Some experts indicate that the web is more conducive to relationship marketing than direct mail and catalogs (Geissler, 2001; Krol, 1999) because through websites companies can present new opportunities to establish, build and manage relationships with their customers (Norton, 2003).

The information provided on the web could be either seen to be a pull or push mechanism. A ‘pull’ mechanism includes information on the web that customers can
retrieve according to their interest. While ‘push’ mechanism includes user specific information that companies send through e-mail (Norton, 2003).

As consumers can obtain information, products and service from their homes or offices through the Internet, and as consumer’s use of the Internet for shopping is increasing, the attributes of a website storefront becomes important in attracting customers and keeping them in the electronic marketplace. Internet websites provide companies new opportunities and challenges to establish and manage relationships with their customers (Geissler, 2001). To establish relationships with online customers, retailers must understand customers’ experience with websites and how they interact with and evaluate the websites (Nielsen, 1999).

Zellweger (1997) maintains that, because many consumers recognize the web as both an information resource and a means to purchase products, information and service offered on the web can create demand for the web itself as an alternative to traditional sales channel. Many researchers indicate that the number of online shoppers and total sales through the Internet are still marginal compared to those in traditional retailing, in part because of website interfaces and lack of ease in navigating (Baty & Lee, 1995; Hoffman, Novak and Chatterjee, 1995; Ridgon, 1996; Jarvenpaa & Todd, 1997; Lohse & Spiller, 1998).

Swaminathan, Lepkowska-White & Rao (1999) mention that consumers evaluate websites when they make purchase decisions and, therefore, a website’s characteristics or attributes play an important role in determining online transactions through a site.

Some researchers suggest that online shopping experiences at certain sites, which are influenced by website characteristics, help form consumers’ attitudes towards the sites and the likelihood of future purchases from them (White & Manning, 1997; Jarvenpaa & Todd 1997; Ahola et al., 2000; Turban & Lee, 2001).
2.2.4. Business Models

All Internet businesses can be placed into two broad categories - pure plays and bricks-and-clicks (also known as surf-and-turf and clicks-and-mortar) (Krishnamurthy, 2003). *Pure-play* businesses or net centric, such as Amazon.com, eBay (commerce), and Slate.com (content), have an online presence only. On the other hand, *bricks-and-clicks* businesses combine a physical presence with an online presence, as do, for example, Barnes & Noble and bn.com, Nordstrom department stores and Nordstrom.com (commerce), the *New York Times* and nytimes.com (content). Pure-play businesses use the capabilities of the Internet to create a new business. Bricks-and-clicks businesses use the Internet to supplement their existing businesses. Businesses also can be classified on the basis of the type of buyer (business or consumer) or seller (business or consumer) Krishnamurthy, 2003 as depicted in Table 2.2.

<table>
<thead>
<tr>
<th>Seller</th>
<th>Business</th>
<th>Consumer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>B2B (e.g. I2.com)</td>
<td>B2C (e.g. Amazon.com)</td>
</tr>
<tr>
<td>Consumer</td>
<td>C2B (e.g. Ideas.com)</td>
<td>C2C (e.g. eBay.com)</td>
</tr>
</tbody>
</table>

(Source: Krishnamurthy, 2003)

Based on these two classification schemes, the models discussed are as follows:

1. Pure-Play B2C Business Models
2. Bricks-and-Clicks Business Models
4. Pure-Play C2C
5. C2B Business Models
As per the latest data from the Internet and Mobile Association of India (IAMAI), e-commerce turnover is estimated at Rs 1,180 crore in 2005-06. And it is expected to increase almost 100% to Rs 2,300 crore in 2006-07. “The year-on-year growth at an average is expected to be more than 100% for the next three years,” IAMAI President, Preeti Desai said. A whopping 4.40 lakh B2C (business-to-consumer) transactions are made per month through the Net. Besides buying goods, these transactions include booking hotels, net banking, bill payments, stock trading, job search and matrimonial search. “The number will go up to an average of 7.90 lakh B2C transactions a month in the next fiscal” (Pratap, 2005).

The growth of web-based electronic commerce has generated a number of approaches to create a model of how it influences business. Some models are process oriented, others are technology based. Each perspective lacks the underlying strategic business application aspects necessary to develop effective strategies to compete in today’s environment. Using a business oriented perspective to define the key boundaries of the web, Figure 2.1 illustrates these relationships and lays the framework of strategic planning (Griffith & Palmer, 1999).

Figure 2.1: Web-Based Commerce Model with Key Relationships

![Web-based Commerce Model with Key Relationships](source: Griffith and Palmer, 1999)
The following table illustrates the underlying technology benefits and costs (Griffith and Palmer, 1999).

**Table 2.3: A Comparison of Key Web-Based Commerce Relationships**

<table>
<thead>
<tr>
<th>Technology Applications</th>
<th>Business-to-Customer</th>
<th>Business-to-Business</th>
<th>Marketspace</th>
<th>End Run</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Product description and specification; order entry system</td>
<td>EDI; EFT; Product replenishment</td>
<td>Product development and configuration, order entry</td>
<td>Direct customer ordering system</td>
</tr>
<tr>
<td>Benefits</td>
<td>Wider search capability for customer; customer convenience</td>
<td>Rapid exchange of information; lower lead times</td>
<td>Rapid information sharing; greater information coordination</td>
<td>Rapid delivery; lower costs</td>
</tr>
<tr>
<td>Costs</td>
<td>Staffing 24 hour store front; security</td>
<td>Translation; security</td>
<td>Possible end run opportunity</td>
<td>Reduced service; lack of producer access to channels</td>
</tr>
</tbody>
</table>

(Source: Griffith and Palmer, 1999)

1. **B2C Pure Play Business Models**

Pure-play business models in the B2C sector can be broadly classified as: (Krishnamurthy, 2003)

- Direct sellers
- Intermediaries
- Advertising-based models
- Community-based models
- Fee-based models
Purchasing via the Internet is one of the most rapidly growing forms of shopping, with sales growth rates outpacing buying traditional retailing (Levy & Weitz, 2001).

According to Kierkowski et al. (1996), the most significant challenge for web marketers will be to manage the interdependencies between their online marketing efforts and the rest of the organization and existing outside partners, such as distributors and retailers.

**Direct Sellers**

There are two types of direct sellers—e-tailers and manufacturers. E-tailers, such as Amazon.com, collect orders from consumers and either directly ship the products or pass the order on to wholesalers to manufacturers for delivery.

Manufacturers that sell directly are using the power of the Internet to reach consumers directly. A prime example of this is Dell.com. The airlines too are directly selling to consumers from their web sites, circumventing traditional intermediaries (e.g. the travel agents). This process of eliminating intermediaries is known as disintermediation.

Disintermediation is not new. As shown in Figure 2.2, there are a wide variety of channel structures. The left-most channel with three intermediaries is common in food and meat markets. The channel with a wholesaler supplying to retailers that then supply to consumers is standard in the beer market, for example. For many supermarket and drugstore products, the manufacturers deal directly with retailers. Moreover, catalog companies have sold directly to consumers for a while. In fact, before there was Dell.com, Dell quite successfully sold computers by catalog.
Intermediaries

Online intermediaries are the largest number of B2C companies today. These companies facilitate transactions between buyers and sellers and receive a percentage of the value of each transaction.

B2C intermediaries are of two types—brokers and infomediaries. Brokers facilitate transactions between buyers and sellers. Infomediaries act as a filter between companies and consumers. Individuals provide the infomediary with personal information and, in turn, receive targeted ads and offers. Companies can buy aggregated market research reports and target individuals based on data held private by the infomediary. Brokers make money by charging a fee on each transaction, while

Source: Krishnamurthy, 2003
infomediaries make money by selling market research reports and helping advertisers target their ads.

Advertising-Based Businesses

These businesses have ad inventory on their site and sell it to interested parties. There are two guiding philosophies in such businesses - high-traffic or niche.

Community-Based Model

Community-based models allow users worldwide to interact with one another on the basis of interest areas. Examples include:

- Yahoo! Clubs provide users with a free space that includes a discussion board, e-mail, chat, and file uploads. Clubs may be moderated or not.

- Talkcity allows users interested in any topic to chat with one another.

These businesses make money by accumulating loyal users and then targeting them with advertising. In a way, they are a subset of the advertising-based business. AOL is perhaps an anomaly because it charges its users a flat fee per month and provides them access to community services such as chat and e-mail.

Fee-Based Model

This type of business charges viewers a subscription fee to view its content. There are many variations:

- All content is fee-based (e.g. wsj.com)

- Some content is fee-based (e.g. Salon Premium offers special content at a price).
- Niche content is fee-based (e.g. mlb.com charges a fee for sport events).

Swaminathan, Lepkowska-White & Rao (1999) investigated factors that influenced business-to-consumer Internet transactions. They found that convenience shoppers tended to use the Internet more frequently to purchase goods and spend money in their Internet purchases. On the other hand, the higher the need of the consumer for social interaction, the lesser the chances of online transaction. Alba et al. (1997) also found that the Internet is less attractive to consumers who value social interaction because of the more limited social contact relative to that in brick and mortar stores.

2. The Bricks and Clicks Business Model

In many spheres, it makes sense to combine online capabilities with the advantages of traditional bricks-and-mortar firms. This might be through either a partnership (e.g. AOL and Wal-Mart, Drugstore.com and Rite Aid) or by ownership (e.g. Barnes & Noble and bn.com). Such bricks-and-clicks companies treat the Internet as one channel to reach consumers and then integrate it with existing channels. (Krishnamurthy, 2003)

In the retail industry, bricks-and-clicks have several advantages:

- For some product categories, such as product, furniture, and apparel, individuals have to touch, feel, sit on, or try on a product before buying. With these products, selling exclusively online is an expensive proposition. With a bricks-and-clicks partnership, users can visit a bricks-and-mortar store to experience the product and order it there. They could use the Internet to locate the store, track their order status, and get an e-mail when something similar becomes available again.
Delivering products is a hassle for dot-com stores. Frequently, the consumer is not home to receive a delivery and later has to stand in line at the post office or shipment center to receive the product. If the product is simply left outside the home, weather or miscreants may damage it. Delivery partnerships can help avoid these problems by allowing users, for example, to place orders online and pick up the items at a local store.

Similarly, returning products can be tricky. A bulky product such as a couch can be difficult and expensive to return if the consumer does not like it. Here again, partnering with bricks-and-mortar stores is an ideal solution: these stores can sell the returned item to another consumer in the store, or, if it must be shipped back to the manufacturer, they could add it to other items to create a complete shipping load, reducing the cost of shipping per item.

Salespeople help customers in bricks-and-mortar environment by answering product-related questions, providing feedback about the suitability of a product, and suggesting other products that work as well. Combining the power of face-to-face selling with the informational display at online retailers can lead to great results.


Business markets are unique in many ways. According to researchers (Wise & Morrison, 2000; Kaplan & Sawhney, 2000; Krishnamurthy, 2003) they may exhibit any of the following characteristics:

- High value of purchases (e.g. airplanes)
- Large order size (e.g. 900 computers)
- Items purchased (e.g. lathe machines, paints)
- Purchase specificity (e.g. technical specifications)
- Team buying (buying center)
- Team selling - especially for high value products
- Vendor / value analysis (e.g. vendor qualification)
- Leasing
- Competitive bidding (e.g. sealed bids)
- Derived demand (e.g. reduced demand for airline flights reduces the demand for airplanes from Boeing)
- Cyclical demand
- Number and location of buyers
- Use of buying specialists
- Special Service required

Businesses buy from, sell to, and partner with other businesses. The interactions among businesses and the scope for B2B e-commerce is shown in Table 2.4. The activities can be classified as supply chain management, demand management, and support activities.
Exchanges between firms in the B2B setting take place in two areas - EDI / Extranets and B2B marketplaces.

### Table 2.4: The Business-to-Business Electronic Commerce Scope

<table>
<thead>
<tr>
<th>Transaction-oriented Activities</th>
<th>Supply Chain Management Activities</th>
<th>Demand Activities</th>
<th>Management Activities</th>
<th>Support Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Purchasing</td>
<td>• Selling</td>
<td>• Customer Service</td>
<td>• Planning</td>
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<tr>
<td>• Paying</td>
<td>• Collecting</td>
<td>• Production</td>
<td>• Training</td>
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<td>/ Service</td>
<td>• Human Resources</td>
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<td>Information</td>
<td>Management</td>
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<td></td>
<td></td>
<td>and Support</td>
<td>• Skills</td>
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<td></td>
<td></td>
<td>• Product</td>
<td>Management</td>
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<td>Configuration</td>
<td>• Skills</td>
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<tr>
<td></td>
<td></td>
<td>• Product Design</td>
<td>Management</td>
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<td>• Sales Forecasting</td>
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<td>• Sales Analysis</td>
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<tr>
<td>• Sourcing</td>
<td>• Inventory Management</td>
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<tr>
<td>• Forecasting</td>
<td>• Production Planning and Control</td>
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</tr>
<tr>
<td>• Scheduling</td>
<td>• Transportation Planning and</td>
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Source: Krishnamurthy, 2003

### B2B Marketplaces

The term ‘net markets’ broadly describes all online marketplaces where buyers and sellers congregate to exchange goods and service for money. Such markets are also called ‘Butterfly markets’ or ‘Butterfly hubs’ (Kaplan & Sawhney, 2000; Ramsdell, 2000).

Net markets can be organized either horizontally or vertically. Horizontal markets cut across many industries, typically providing a common service, such as financial services; benefits management; and maintenance, repair, and operating (MRO) equipment. Popular horizontal markets include Ariba Network and Commerce One's MarketSite.net.
Vertical markets concentrate on one specific industry, such as agriculture or chemicals, and seek to provide all of the service it needs. Popular examples are VerticalNet, Chem-connect, and Covisint.

E-commerce also includes business-to-business (B2B) electronic connections that make purchasing easier for big corporations (CNET, Inc., 2000). B2B e-commerce has existed in the form of electronic data interchange since the 1970s, allowing companies to reduce transmission costs (Shetty, 1999).

Through the adoption of Internet technology, companies may communicate better with their partners, saving procurement and labor costs and reducing the time for processing (Hoy & Margolin, 1996; Lundstorm, 1997; US Department of Commerce, 1998 a). By improving communication, e-commerce technologies enable businesses to reduce inventory they keep in stock and to manage it better, which in turn lowers operating costs. By reducing the time it takes for companies to transmit, receive and process routine business communications, such as purchase orders, invoices and shipping notifications, e-commerce through the Internet reduces the length of the production cycles (Shetty, 1999). Connecting electronically allows companies to reduce the time that information takes to reach the bottom of the supply chain.

4. Pure Play C2C Business Models

C2C businesses involve exchanges between or among two or more individuals. Auctions and peer-to-peer applications and the eBay case are an example of the C2C businesses extensively.

5. Pure Play C2B Business Models

C2B models involve interactions originating from the consumer. This represents a new form of conducting business with the voice of the consumer shaping the interaction. The consumer is not, strictly speaking, the seller per se in all C2B businesses, but in all cases the consumer originates the transaction.
Such businesses fall into the following categories:

- **Idea collector.** Individuals have wonderful ideas about how to improve existing products, features that can be added to new products, and other spheres related to their lives. A company that can motivate consumers to submit their ideas, may be able to buy new ideas at a reasonable price. This is the premise of the C2B company Ideas.com.

- **Reverse auctions.** Companies such as Priceline.com and pricemate.com allow consumers to submit binding bids (i.e. covered by credit card) for the purchase of products such as airline tickets.

- **Complaint centers.** EComplaints.com allows individuals to post complaints about a business, view others' complaints about any given business, and interact directly with the business in question. The company presents a business' response time and effectiveness for public display, and makes its money by selling aggregated complaint research data.

- **Paid advertising models.** Companies such as Cybergold and Alladvantage.com sought to pay consumers to view targeted ads. The advertisers would get better targeting and consumers would get to see ads for products they cared about. Due to a variety of issues (e.g. consumers not viewing ads, non-updated profiles), however, this idea has yet to succeed.

The Internet promises to be a commonplace feature of conducting business in the near future (Brown, Culkin & Fletcher, 2001). Berthon et al. (1996 a; 1996 b) developed a new concept and calls this as a five phase model of marketing on the Web. **Figure 2.3** presents five sequential stages/phases suggesting the flow of surfer activity on a web site. These stages are: awareness, attraction, visit/contact, purchase and re-purchase.
All of these business models attempt to empower the consumer in their interactions with corporations.

Source: Adapted from Berthon et al. (1996a; 1996b)