# Introduction

Information technology is the bloodstream that feeds the business process.

Jacques Nasser, CEO of Ford Motor Company, was intent to transform the company into a global E-business enterprise and a major E-commerce player. But soon, they discovered, liked other automakers, they are unable to switch its distribution channel to the Internet overnight. Although there are signs showing myriads of benefits of ordering online is bypassing dealers, the company still has to rely on physical dealers to sustain its businesses.

In this assignment, we will look at the pros and cons of conventional- and web-based businesses. The points elaborated are mostly advantageous to one and post disadvantageous to the other. And due to the maximum limit, we can only stress on a few important ones.

# Business Owners' Perspective

## Mass Customization

Casual-wear outfitter Lands' End introduced a 3D virtual model in 1998, and in 1999 Lands' end live pioneered text chat between customers and sales reps. Last year the site launched My Personal Shopper, a clothing recommendation service. It uses a method called *conjoint analysis* to rate shopper preferences for certain colours or styles, then, make suggestions based on the findings.

Dell lets consumers configure PCs at Dell.com and PremierDell.com, for the company's corporate customers, hosts more than 60,000 customized sites that let buyers purchase products and track order histories.

## Lower Inventory Costs

By having mass customization, most web-based businesses can now relieve in their inventory management. They need not keep standardized stocks on hand and incurred the risks of stocks becoming out-dated.

Orders are available through Valuechain.dell.com to Dell component suppliers, which get real-time instructions on what parts to deliver, when and where. Dell says this helps turn its small inventory about 60 times a year, keeping old component technology from getting stuck in the pipeline.

Ford hired United Parcel Service to speed delivery of vehicles. UPS system uses wireless tracking of vehicle identification numbers. With the technology, dealers can go online to pinpoint any vehicle's location. Ford says the system has reduced its vehicle inventory by $1 billion and cut inventory carry costs by $125 million a year.

### Information Sources for Marketing Research

Web-based businesses have the advantage to gain useful information from their websites. For example, Wal-mart keeps information regarding what is typed into its search engine in databases, and uses advanced data-mining techniques[1] to explore customer preferences and for further information to improve their marketing efforts. Other techniques including chat system and e-mail. Ford has relied on various applications, including databases and a web-based tool to understand the profit potential of each model and how much to spend to market it requires lots of data and analysis. *Which combinations of features do consumers most want? How much will it cost to produce them? How much should they cost? What are the vehicle preferences of buyers in different regions? How would rebates, low-interest financing and volume discounts affect sales versus profits?* Ford's pretax profit soared 250%.

Conventional businesses can do so but need extra efforts, as recording has to be made each time customers make consultations.

### Lower Operating Costs

A business on the web is an easy way for transactions in commerce to take place at low costs. Businesses can reduce the cost of getting information out to customers by doing a large amount of web-based publishing. Items that can be made available on the net are item catalogues, inventory updates, quarterly and yearly reports, and much more. The web allows businesses the flexibility to quickly make information available and update it almost instantaneously. Companies can link to individuals and other business with ease and access a lot of information in a relatively short amount of time. Besides, a business on the web has their site available to the consumer in any country

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[1] See Appendix I for various data mining applications.

with Internet for 24 hours a day, but not available in conventional business. As a result, the web allows a business to offer their products to a wider market and use the flexibility of the web to connect and transact more easily with potential buyers.

A business with web presence has the potential of cutting cost drastically in areas such as communications and human resources. When transactions are carried over the web, fewer employees are required and no phone charges amount for the company. Also, since the data entry over the web can be added right into the database, paperwork and unnecessary data entry can be eliminated.

## *Exposed to Cyberlaw*

Privacy has been a controversial issue ever since e-commerce activities began. It covers all fields from transmission of credit/debit card information, tracking customers' online activities, and revealing or selling customer information. One of the most popular issue is the use of cookies, a file so tiny that most of us doesn't aware of its existence. These files are usually inserted to users' personal computer, without their consent, when they visit some websites. Thus, violating law of privacy. Unlike conventional businesses, more types of laws govern cyberspace business environment.

Currently, laws involving electronic commerce are just beginning to be written and there are possible loopholes for both the buyers and the sellers to take advantage of one another. Laws of conventional business are better in protecting both the buyers and sellers.

## *Regional Market Coverage*

Peapod (USA), Greengrocer.com and Woolsworth (Australia) are some popular of businesses selling groceries through the Internet. They all have only regional market

coverage due to their product characteristics and high transportation costs. Peapod, for example, covers only five market segments in US[2], where it has its bricks-and-mortar stores that also act as distribution points for Internet orders. According to the company, it is not viable to cover international market since huge investments involving high risks, and selling groceries online is a new concept to many countries.

However, there are also some exceptions for this issue. For example, 1800-Flowers, a web-based florist can provide delivery to different corners of the world, according to customers' requirements.

## *Security Issues in Electronic Transactions*

Another drawback is the lack of security in electronic transactions that could lead to many problems for Internet based commerce. Having servers connected to the public creates possible security issues. Hackers can break into almost any server and raid information, which wouldn't be available in non-web businesses. To combat the security problems large amounts of money will be spent on encryption mechanisms, which need to be updated every time a hacker learns to break the codes. Visa and MasterCard have jointly spend millions in developing Secure Electronic Transaction (SET), a more advanced encryption protocol, to replace the commonly used Secure Socket Layer (SSL), which now has higher possibility to be broken by hackers.

Web-based business has the potential of taking the personal touch a human voice can give away from the customers. The customer service could possibly be harder to organize.

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[2] See Appendix II for further information regarding the company.

## *Physical Characteristics of Services and Products Offered*

One of the problems that technology has yet to overcome is the transference of certain services to the online scene. While consultation services are always applicable, there are some things that still require a more hands-on approach. Services such as hairdressing, beauticians and masseurs are among those that come to mind.

The obvious problem is that such services require a combination of skilled labor and contact between the customer and the service provider. While Tele-medicine has overcome some of the resulting difficulties, it must be borne in mind that medical treatments are in certain ways generic, whereas services such as those mentioned earlier are very customized.

## *Intense Competition in Cybermarket*

With easier accessible products and services related information, in addition to websites that provide customers price comparisons[3] such as Price.com, AddAll.com (specialize in books), Cheapestviagrasaleprices.com, Pricerunner.com and Easytorecall.com, the competition of Internet market is intense. Besides enable consumers to have instant access to and over one million products, comparing prices before buying will help saving consumer's time and money.

Price.com provide consumers with a list of carefully selected vendor sites and allow the consumers to compare prices, over 170 vendors information, and additional features to make their shopping experience easier and more efficient.

AddAll.com allows the consumers to do book searching, price comparison and services provided by 41 on-line bookstores. This means that consumers can find the best offer for the book that they want without needing to visit 41 book sites, one by one. It

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[3] This is commonly known as "**comparison shopping**".

also provides new, used and rare book searches, price displayed in the currency of consumer's choice, along with the delivery charge and sales tax applicable. Consumers can compare delivery times and choose the shipping option that works best for them.

Cheapestviagrasaleprices.com is an example net site that allows consumers to compare the prices of drugs offered by 10 Internet pharmacies ranked by Internet. The prices are the bottom-line prices for each provider, including fees like consultation, administration, processing, and shipping cost to deliver the consumers' prescription via 2nd-day delivery.

Besides the points stated above, there are other issues/factors that have different impact on both conventional and web-based businesses, e.g. in terms of delivery of goods, advertising[4], lower startup costs, etc.

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[4] See Appendix III for the pros and cons of various advertising methods in terms of generating revenues.

# Customers' Perspective

## *One-Stop Shopping Facilities*

Both conventional based and web-based businesses could possess this capability. For example, *One Utama* in Damansara, Kuala Lumpur, and *Amazon.com*. *One Utama* shopping mall has cinemas (TGV), supermarket (Jaya Jusco), bookstores (MPH), hotel, furniture retailer (IKEA form Sweden), etc. Moving further from its bookish start, *Amazon.com* now provides travel services, online car-buying services, lawn furniture sales, pharmaceuticals, beauty aids.

However, when making comparisons between, web-based businesses provide greater convenience, time and energy saving shopping environment. For *Amazon.com*, the company provides electronic sitemaps, enabling customers to take a single glance to know what services are available. With just a single click, they can make the order. For physical shopping mall, although maps are provided, running from shop-to-shop takes time and energy!

## *Interaction with Product and Service Providers*

Two criteria for one to involved in e-transaction: computer-literate and have PC connected to Internet. Due to communication through computer usage, there is lacking of real life communication between customer and the people in-charge. Customer services are harder to be organized because there will be no physical interaction between them. Sales assistants will not entertain consumer if consumer use online shopping, which could make them, feel insecure.  E.g. during purchases of expensive goods such as cars, most customers would prefer to have face-to-face interaction with both the sales

representatives and their vehicles. Conventional businesses provide this capability otherwise not available through online marketing with today's technology.

## *Impulse Purchases*

According to the consumer behavior, people who purchase when they go shopping would tend to buy more because of the theory of impulse purchase. Impulse purchase is a sudden, powerful, persistent and unplanned urge to buy something immediately, without much regard for the consequences. Let's say when a customer goes shopping and suddenly smell the good taste of the bakery, they would buy it on the spot if they like the bakery. However, the web-based business cannot achieve this type of competitive advantage because what customer can face is just a square and boring computer screen.

Similarly, with existing technology, we are still unable to have impulse purchases through the Internet; conventional businesses still have their advantage in this aspect.

## *Psychological Obstacles of Buying Online*

Consumers are more likely to buy and to spend more online if they feel their privacy is safe. However, consumers at large still do not trust the Web as a payment channel. They feel it is not safe to feed a credit card number into the net when buying through the Web. There is no assurance that the credit card number will not be collected somewhere in the Web and be used to some malicious purpose. In other words, there is loss of privacy. This is true especially online shops are collecting as much data as they can about every customer in hopes of being able to use that data to sell more products to the consumer or being able to sell the data to marketing firms.

In addition, there are other aspects such as environmental difference (compare to traditional shopping methods), lack of physical contact with people and things, etc. It's an issue covering a variety of aspects.

## Conclusion

As a conclusion, we know that conventional based business and web-based business are different in many aspects. Undeniable, web based business, like electronic-commerce is currently play a significant role in providing competitive advantage and has a strategic impact to the business. It can achieve this by selling low price product, product customization and differentiation, 24 hours accessible and is borderless. It fully centralized all the products around the world. But on the other hand, web based business has its own drawbacks. Privacy and security problems, lack of physical interaction, restrain by the words communication not real life communication, bored shopping environment, slow delivery times, product services is harder. As a result, there appear full cyber marketers, partial cyber marketers. For partial cyber marketers, they fell that e-commerce cannot ensure their success; it is only a complement or supporting activities. Therefore, they sell through traditional means as well as electronically. In fact, every one can choose whatever means they think that best fit them as long as nicely planned, organized, leading and controlling.