WELCOME TO THE NEW E-COMMERCE

In the few years since 1995, electronic commerce has grown in the United States from a standing start to a $60 billion retail business and a $700 billion business-to-business juggernaut, bringing about enormous change in business firms, markets, and consumer behavior. Economies and business firms around the globe, in Europe, Asia, and Latin America, are being similarly affected. In the next five years, e-commerce in all of its forms is projected to continue growing at double-digit rates, becoming the fastest growing form of commerce in the world. Just as automobiles, airplanes, and electronics defined the twentieth century, so will e-commerce of all kinds define business and society in the twenty-first century. The rapid movement towards an e-commerce economy and society is being led by both established business firms such as Wal-Mart, JCPenney, and General Electric, and new entrepreneurial firms such as E*Trade, Expedia, and eBay. Students of business and information technology need a thorough grounding in electronic commerce in order to be effective and successful managers in the next decade. This book is written for tomorrow’s managers.

The focus of our book is on the new breed of e-commerce — what we call E-commerce II — that is emerging from the explosive entrepreneurial growth period of e-commerce that occurred from 1995 to Spring 2000 (E-commerce I). The defining characteristic of E-commerce II firms is that they are profitable, sustainable, efficient, and innovative firms with powerful brand names. Students must understand how to build these kinds of e-commerce businesses in order to prepare for entry into the E-commerce II period.

Since Spring 2000, many of the once high-flying dot.coms have failed, and what seemed like a never-ending supply of venture capital to support them turns out to be quite finite. It would be foolish to ignore the lessons learned in the E-commerce I period. Like so many technology revolutions in the past — automobiles, electricity, telephones, television, and biotechnology — there is an explosion of entrepreneurial
efforts, followed by consolidation, and yet continued rapid deployment. We do not shy
away from making critical, yet sympathetic, assessments of this early, exciting period
in e-commerce.

In 2001, e-commerce is alive, well, and growing very fast; bringing about extraor-
dinary changes to markets, industries, individual businesses and society as a whole.
Today, e-commerce has moved into the mainstream life of established businesses that
have the market brands and financial muscle required for the long-term deployment
of e-commerce technologies and methods. If you are working in an established busi-
ness, chances are the firm’s e-commerce capabilities and Web presence are important
factors for its success.

BUSINESS. TECHNOLOGY. SOCIETY.

We believe that in order for business and technology students to really understand
e-commerce, they must understand the relationships among e-commerce business
concerns, Internet technology, and the social and legal context of e-commerce. These
three themes permeate all aspects of e-commerce, and therefore in each chapter we
present material that explores the business, technological, and social aspects of that
chapter’s main topic.

Given the continued growth and diffusion of e-commerce, all students — regard-
less of discipline or function — must also understand the basic economic and busi-
ness forces driving e-commerce. E-commerce is creating new electronic markets
where prices are transparent, global, and highly efficient, though not perfect.
E-commerce is having a direct impact on the firm’s relationship with suppliers, cus-
tomers, competitors, and partners, as well as how we market products, advertise,
and use brands. Whether you are interested in marketing and sales, design, pro-
duction, finance, information systems, or logistics, you will need to know how
e-commerce technologies can be used to reduce supply chain costs, increase pro-
duction efficiency, and tighten the relationship with customers. This text is written
to help you understand the fundamental business issues in e-commerce.

We spend a considerable amount of effort analyzing the business models and
strategies of “pure-play” online companies and established businesses now forging
“bricks-and-clicks” business models. We explore why many early e-commerce firms
failed and the strategic, financial, marketing, and organizational challenges they
faced. We also describe how contemporary e-commerce firms learned from the mis-
takes of early firms, and how established firms are using e-commerce to succeed.
Above all, we attempt to bring a strong sense of business realism and sensitivity to the
often exaggerated descriptions of e-commerce. As founders of a dot.com company and
participants in the E-commerce I period, we have learned that the “E” in e-commerce
does not stand for easy.

E-commerce is driven by Internet technology. Internet technology, and informa-
tion technology in general, is perhaps the star of the show. Without the Internet,
e-commerce would be virtually nonexistent. Accordingly, we provide four specific chapters on the Internet and e-commerce technology, and in every chapter we provide continuing coverage by illustrating how the topic of the chapter is being shaped by new information technologies. For instance, Internet technology drives developments in payment systems, security, marketing strategies and techniques, financial applications, business-to-business trade, and retail e-commerce. We describe new wireless and mobile commerce technology, new telecommunications technologies that lower business costs, new software languages such as XML for expediting the flow of documents among business firms, new Internet technologies for making payments over the Internet, and new types of Internet-based information systems that support electronic business-to-business markets.

E-commerce is not only about business and technology, however. The third part of the equation for understanding e-commerce is society. E-commerce and Internet technologies have important social consequences that business leaders can ignore only at their peril. E-commerce has challenged our concepts of privacy, intellectual property, and even our ideas about national sovereignty and governance. Advertising networks maintain profiles on millions of U.S. and foreign online shoppers. Entire e-commerce industries — such as digital music — are based on challenging the intellectual property rights of record labels and artists. And many countries — including the United States — are demanding to control the content of Web sites displayed within their borders. As a result of these challenges to existing institutions, e-commerce and the Internet are the subject of increasing investigation, litigation, and legislation. Business leaders need to understand these societal developments, and they cannot afford to assume any longer that the Internet is borderless, beyond social control and regulation, or a place where market efficiency is the only consideration. In addition to an entire chapter devoted to the social and legal implications of e-commerce, each chapter contains material highlighting the social implications of e-commerce.

FEATURES AND COVERAGE

Real-World Business Firm Focus  From Akamai Technologies to Zoomerang.com, E-commerce: Business. Technology. Society contains well over one hundred real-company examples that place coverage in the context of actual dot.com businesses. You'll find these examples in each chapter, as well as in special features such as chapter-opening and chapter-closing cases, and “Insight on” boxes.

E-Commerce in Action Cases  Part IV of the book analyzes the business strategies and financial operating results of seventeen e-commerce companies in retail, services, B2B, auctions, portals, communities, and digital media content. Among the companies we analyze are Yahoo, Buy.com, JCPenney, Lands'End, FashionMall, E*Trade.com, Hotjobs.com, Expedia.com, eBay.com, FreeMarkets, and Ariba. For each company, we perform a brief strategic and financial analysis of the firm and assess the
near-term future prospects for the firm. These cases are ideal real-world instructional guides for students interested in understanding the financial foundation of e-commerce firms, their strategic visions and customer value propositions, and their changing strategic objectives.

In-depth Coverage of B2B Commerce We devote an entire chapter to an examination of B2B commerce. In writing this chapter, we developed a unique and easily understood classification schema to help students understand this complex arena of e-commerce. This chapter covers Net marketplaces, including e-distributors, e-procurement companies, exchanges and industry consortia, as well as the development of private industrial networks and collaborative commerce.

Current and Future Technology Coverage Internet and related information technologies continue to change rapidly. What was once a shortage of telecommunications capacity has now turned into a surplus, PC prices have continued to fall, new client-side devices have emerged, and Internet high-speed connections are continuing to show double-digit growth. While we thoroughly discuss the current Internet environment, we devote considerable attention to describing Internet II technologies and applications such as the advanced network infrastructure, fiber optics, wireless Web and 3G technologies, WiFi, IP Multicasting, and future guaranteed service levels.

Up-to-date Coverage of the Research Literature We have sought to include where appropriate references and analysis of the latest e-commerce research findings, as well as many classic articles, in all of our chapters. We have drawn especially on the disciplines of economics, marketing, and information systems and technologies, as well as law journals and broader social science research journals and sources.

Special Attention to the Social and Legal Aspects of E-commerce We have paid special attention throughout the book to the social and legal context of e-commerce. Chapter 9 is devoted to a thorough exploration of four ethical dimensions of e-commerce: information privacy, intellectual property, governance, and protecting public welfare on the Internet. We have included an analysis of the latest Federal Trade Commission and other regulatory and nonprofit research reports, and their likely impact on the e-commerce environment.

OVERVIEW OF THE BOOK

The book is organized into four parts.

Part 1, “Introduction to E-commerce,” provides an introduction to the major themes of the book. Chapter 1 defines e-commerce, distinguishes between e-commerce and e-business, defines the different types of e-commerce, and introduces the two periods of E-commerce I and E-commerce II. Chapter 2 introduces and defines the concepts of business model and revenue model, describes the major e-commerce
Part 2, “Technology Infrastructure for E-commerce,” focuses on the technology infrastructure that forms the foundation for all e-commerce. Chapter 3 traces the historical development of Internet I — the first Internet — and thoroughly describes how today’s Internet works. A major focus of this chapter is the new Internet II that is now under development and will shape the near-term future of e-commerce. Chapter 4 builds on the Internet chapter by focusing on the steps managers need to follow in order to build a commercial Web site. This e-commerce infrastructure chapter covers the systems and analysis and design process that should be followed in building an e-commerce Web site, the major decisions surrounding the decision to outsource site development and/or hosting, and how to choose software, hardware, and other tools that can improve Web site performance.

Chapter 5 focuses on Internet security and encryption, building on the e-commerce infrastructure discussion of the previous chapter by describing the ways security can be provided over the Internet. This chapter defines security, describes the major threats to security, and then discusses both the technology and policy solutions available to business managers seeking to secure their firm’s sites. Chapter 6 focuses on payment systems. This chapter identifies the stakeholders in payment systems, the dimensions to consider in creating payment systems, and the various types of systems, and then describes in some detail digital wallets, digital cash, digital credit cards, digital checking, smart cards, B2B payment systems, and electronic billing and presentation systems.

Part 3, “Business Concepts and Social Issues,” focuses directly on the business and social–legal issues that surround the development of e-commerce. Chapter 7 focuses on e-commerce consumer behavior, the Internet audience, and introduces the student to the basics of online marketing and branding, including online marketing technologies and marketing strategies. Chapter 8 is devoted to online marketing communications, such as online advertising and e-mail marketing.

Chapter 9 provides a thorough introduction to the social and legal environment of e-commerce. Here, the student will find a description of the ethical and legal dimensions of e-commerce, including a thorough discussion of the latest developments in personal information privacy, intellectual property, Internet governance, jurisdiction, and public health and welfare.

Part 4, “E-commerce in Action,” focuses on real-world e-commerce experiences in retail, services, business-to-business, auctions, portals, communities, and digital media. Chapter 10 takes a close look at the experience of firms in the retail marketplace, including both “pure-play” online firms such as Amazon, and mixed strategy “clicks and bricks” firms such as Wal-Mart and JCPenney. Chapter 11 examines the online services industries, with an in-depth look at online financial (banking, broker-
age, real estate and insurance), travel, and career services. Chapter 12 explores the world of B2B commerce, describing both electronic Net marketplaces and the less heralded, but very large arena of private industrial networks and the movement toward collaborative commerce. Chapter 13 explores the online world of auctions, portals, and communities. We describe a number of successful ventures here, including eBay.com and Yahoo, and communities such as iVillage and Alloy Online. Chapter 14 explores the world of online content and digital media, and examines the online publishing, entertainment, and learning industries.

CHAPTER OUTLINE

Each chapter contains a number of elements designed to make learning easy as well as interesting.

Learning Objectives  A list of learning objectives that highlights the key concepts in the chapter guides student study.

Chapter-Opening Cases

Each chapter opens with a story about a leading e-commerce company that relates the key objectives of the chapter to a real-life e-commerce business venture.
“Insight on” Boxes  Each chapter contains real-world vignettes, drawn from the popular press, illustrating the themes of technology, business, and society. These vignettes create an integrated framework and coverage throughout the book for describing and analyzing the full breadth of the field of e-commerce. The boxes probe such issues as Web accessibility for the physically challenged, wireless privacy, hiring “tiger teams” of hackers to locate security threats, and online marketing’s targeting of children.

Marginal Glossary
Throughout the text, key terms and their definitions appear in the text margin where they are first introduced.

Real-Company Examples
Drawn from actual e-commerce ventures, well over 100 pertinent examples are used throughout the text to illustrate concepts. Full-color screenshots further enliven the presentation.
Chapter-Closing Cases Each chapter concludes with a robust case study based on a real-world organization. These cases help students synthesize chapter concepts and apply this knowledge to concrete problems and scenarios such as evaluating the legality of Napster and assessing the business model behind Priceline.com.

Chapter-Ending Pedagogy Each chapter contains end-of-chapter materials designed to reinforce the learning objectives of the chapter.

Key Concepts Keyed to the learning objectives, Key Concepts present the key points of the chapter to aid student study.

Review Questions Thought-provoking questions prompt students to demonstrate their comprehension and apply chapter concepts to management problem solving.

Projects At the end of each chapter are a number of projects that encourage students to apply chapter concepts. Many make use of the Internet and require students to present their findings in an oral presentation or written report. For instance, students are asked to evaluate publicly available information about a company’s financials at the SEC Web site, assess payment system options for companies across international boundaries, or search for the top ten cookies on their own computer and the sites they are from.

Web Resources A Web section at the end of the chapter directs students to resources that can extend their knowledge of each chapter with projects and exercises and additional content at www.LearnE-commerce.net.

Chapter-Closing Cases

REI: A Homegrown Success Story

Washington-based Recreational Equipment, Inc. (REI) is the world’s largest online retailer of outdoor gear. Here’s how they succeeded while so many others have failed.

REI is a somewhat unusual company. It was founded in 1938 by Lloyd and Mary Anderson, mountain climbers from Seattle, Washington. The Andersons imported a special ice axe from Austria for themselves and decided to set up a cooperative to help their friends and other fellow outdoor enthusiasts acquire high-quality climbing and camping gear at reasonable prices. Today REI is the largest consumer cooperative in the United States, with 1.8 million members paying a one-time membership fee of $15 that entitles them to an annual dividend equal to about 10% of their annual purchases. An estimated 85% of the company’s earnings are paid out as that member dividend. And the Andersons have proven that it was worthwhile. REI is currently the world’s largest online retailer of outdoor gear.

REI first started exploring the Internet in the summer of 1995. Netscape had just gone public, and the E-commerce era was just beginning. As with many business success stories, REI’s online venture began with senior executives who recognized the potentially transformative power of the Web, and the mixture of opportunity and possible threat that it represented.

Many traditional “bricks and mortar” retailers at that time feared cannibalization of their retail and/or catalog sales if they introduced an online sales outlet. Their nightmare was that starting an online store would merely “steal” their own customers from their regular sales channels. But REI wasn’t deterred. As Dennis Madsen, REI’s president and chief executive officer, said, “We knew that if we could not serve our customers who were looking to shop with us online, they would turn to someone else online. It was never a question for us. Being online meant better serving the customer. Our experiences have proven that cannibalization is largely a myth and that our multi-channel customers are our best customers.

REI charged Matt Hyde, who had previously helped start REI Adventures, the company’s travel service, with the mission of launching REI’s first Web site on a budget of approximately $500,000. At the time, Netscape was the only company offering a complete e-commerce suite, so REI chose Netscape’s Merchant Server software installed on an IBM RS/6000 server. And although Hyde recognized that REI was a retailer by trade, not a programming shop, he chose to keep design of the site in-house and have REI’s own developers work with outside consultants to develop the site.

REI launched its first Web site in September of 1995. The site featured a limited catalog of about 200 products and took several months to develop. But the site was a success from day one. REI’s online sales more than doubled each year during the first four years of operation, and today REI operates 60 retail stores in 24 states, three online stores, an international mail order operation, and REI Adventures, a travel agency.

REI has since expanded its catalog of products and is now the world’s largest online retailer of outdoor gear. REI has also expanded its online services to include REI’s Outward Bound program, REI’s REI Magazine, and REI’s REI Shirts program.

REI’s success is a testament to the power of the Internet and the importance of being online. REI has proven that being online is not a question of cannibalization, but rather a question of better serving the customer. And today REI is the world’s largest online retailer of outdoor gear.
Companion Web Site Integrating Technology and Learning  Available at www.LearnE-commerce.net, the Web site provides online access to innovative teaching and learning tools. This best-of-breed Web site in the e-commerce educational marketspace offers significant additional content, including:

- Weekly updates on the topics relevant to the materials in each chapter
- Timely reviews of the research literature
- Streaming video lectures for each chapter
- Editorials by the authors
- Additional exercises and Web-based projects

The Companion Web site system includes an online syllabus builder that allows instructors to create a calendar of assignments for each class and to track student activity and quiz grades with an electronic gradebook.

In addition to the Companion Web site, the Web content is available in CourseCompass™, WebCT, and BlackBoard versions. CourseCompass™ is a nationally hosted, dynamic, interactive online course management system powered by BlackBoard, leaders in the development of Internet-based learning tools. This easy-to-use and customizable program enables professors to tailor content and functionality to meet individual course needs. To see a demo, visit www.coursecompass.com. Please contact your local sales representative for more information on obtaining Web content in these various formats.

SUPPORT PACKAGE

The following supplementary materials are available to qualified instructors at the text’s Web site, www.LearnE-commerce.net. Contact your Addison-Wesley sales representative for information about obtaining a password. (You can also request an Instructor’s Resource CD-ROM with these materials from your sales representative.)

Instructor’s Manual  This comprehensive manual pulls together a wide variety of teaching tools so that instructors can use the text easily and effectively. Each chapter contains an overview of key topics, a recap of the key learning objectives, lecture tips, discussion of the chapter-ending case, and detailed answers to the Case Study Questions, Review Questions, and Student Projects. To aid instructors, the manual also includes a variety of suggested course syllabi and a detailed description of the resources available at the text’s Web site.

Test Bank  For quick test preparation, the Test Bank contains 50 questions per chapter in multiple-choice, true/false, and short-essay format emphasizing critical/creative thinking about the issues evoked by the chapter. The Test Bank is available in Microsoft Word and in Addison-Wesley’s easy-to-use testing software (Test-Gen EQ.
with QuizMaster-EQ for Windows and Macintosh), which allows instructors to view, edit, and add questions.

**PowerPoint Lecture Presentation** Slides illustrate key points, tables, and figures as well as Web site information from the text in lecture note format. The slides can be easily converted to transparencies or viewed electronically in the classroom.

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