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## **E-Commerce**

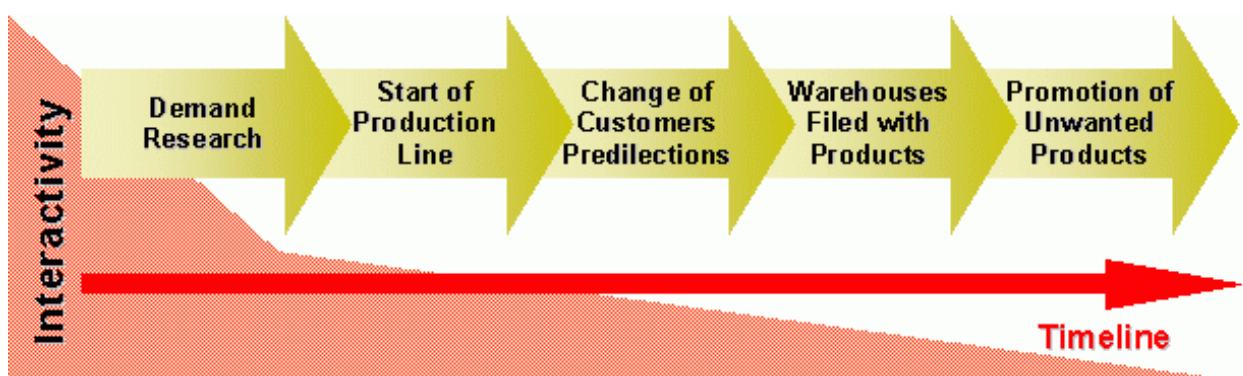
### **Main Distribution Channel in New Economy**

**Abstract.** According to consulting companies the e-commerce wave in the world is increasing. Nowadays knowledge about the influence of Internet on the model of doing business and the possibilities World Wide Web is crucial for the executive staff and specialists. In the past, inertia of manufacture cycles and supply chains was a heart of goods exchange. Clients market was divided into segments. In New Economy due to personalization a single user places a precise order by Internet while the supplier knows his exact needs. The change of economy paradigm is based on a changing meaning of 'globalization' term which evaluated from its organizational into communicational aspects. Facing these facts in the article author will introduce the most important issues of electronic commerce in B2B, B2C and C2C. Based on examples author will bring nearer the functionality of virtual sale sites of materials, service and products; methods of doing transactions on business branch platforms, auctions and virtual shopping centers.

During a purchase process of necessities of life, we do not pay attention to medium, which is seller. Situation is completely different when we buy expensive and luxurious products, we rather rarely undertake purchase decision without "buying" seller first. There is similar situation in business - we buy partner first. Is Internet able to replace proverbial business lunch? What added values it brings into economy? Trying electronic commerce we need to indicate a difference between "selling" in electronic and industrial economy and what is the point of new paradigm of doing business. Why, when we speak about new economy we overlook material aspects, connected with money? Why, in 1999 investors on magic word "Internet" were reacting like blind mob and then condemned New Economy in year 2000? <120> Is New Economy a myth, without nothing essentially important

behind it? Key to answer this question is to point some objective, ascendancy factors of Internet: interactivity, interactivity related to time and connected with that conception of mass customization<sup>1</sup>.

In old economy, in scope of marketing analysis of demand interactivity appear on a very basic level: on supply side questions are asked and on demand side questions are answered. Commission of search marketing research is relatively expensive and results come after a long period of time. Another problem is well-known logistic issue<sup>2</sup>: production managers are keen on manufacturing long series of homogenic products, while sales managers want to satisfy various and changing “whims” of consumers. Cycle of interactivity fading in time [drawing 1] is based on progressive divergence of supply and demand affairs. While customers’ expectations are known on a stage of research, after several months - or more often - after dozen or so these expectations are completely unacquainted with our interests and we have to change them using intensive promotion.



Drawing 1. Cycle of interactivity fading in time. Meaning of interactivity fall down after marketing researches.

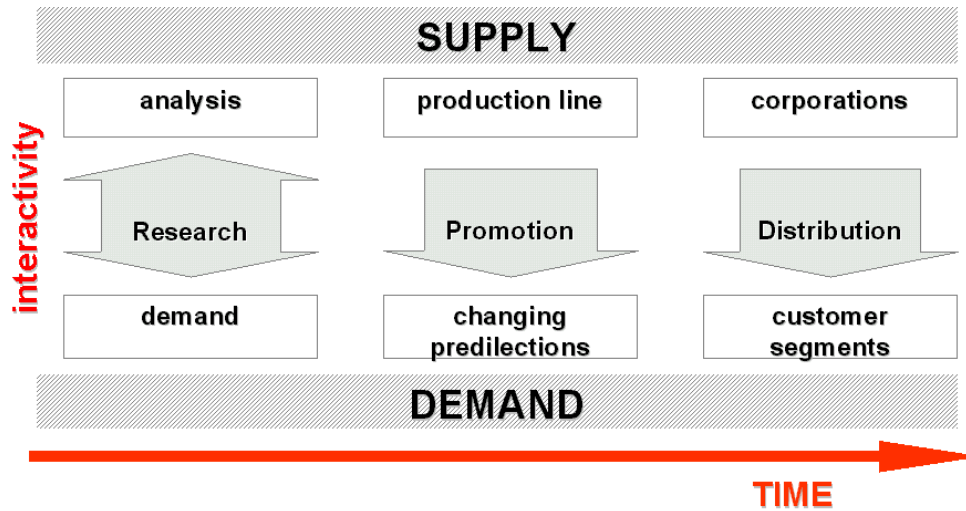
Promotion has a complexion of a mass activities, forming mass demand, which is satisfied by mass distribution. Following companies in delivery chain, buy each other, merge into <121> corporations, and from now on we deal with big corporations and global organizations [drawing 2].

In the Internet, on the supply side firms have equal chances. Each company has the same right to advertise their products on Internet portals, as a big corporation. In the same way customers have much bigger opportunity to compare products. They can type in the name of a product in search

<sup>1</sup> About apparent discrepancy underlying conception of "mass customization" writes Brown Keith T., *The Interactive Marketplace*, McGraw-Hill, USA 2001, pg 104.

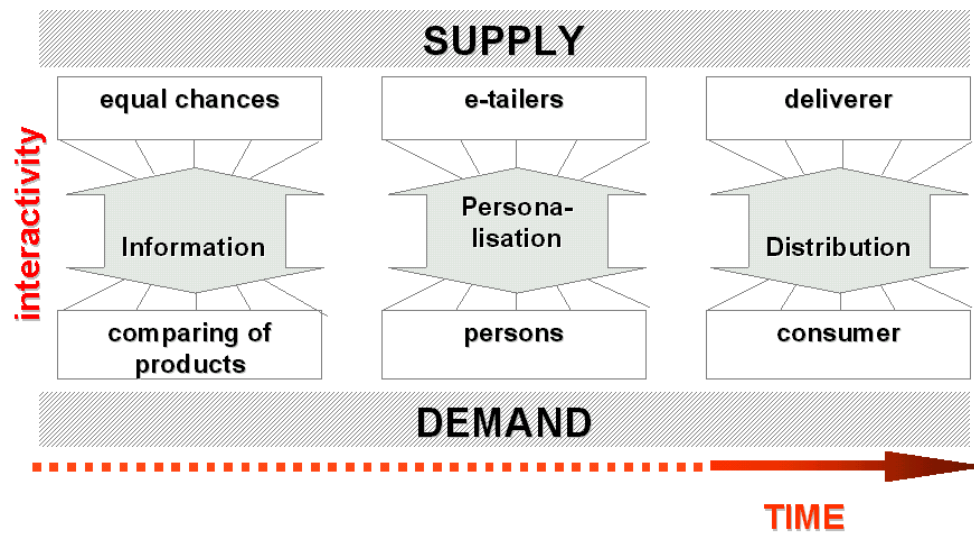
<sup>2</sup> Rutkowski K., F. J. Beier, *Logistyka*, SGH, Warszawa 1995, pg 14 .

engine, and they can have a look at a set of links to bids from all over the world. In New Economy, on demand side, retailers don't have "customers segments" but "actual person". Moreover, they receive strongly personal order and they can realize this personal order.



Drawing 2. Fading of interactivity related to elapsing time from the moment of market research to the moment of distribution.

E-tailers don't keep ready-made computers on the warehouses' shelves, but they assemble them when they are required. It's true, that the biggest sore spot of New Economy is "old sore spot" of economy, that is distribution. Distribution based on carting lorries full of computers from one warehouse to another look completely different from executing specific orders by sending couriers all over the globe. This is the moment when the time takes part in the New Economy. And it gives you benefits [drawing 3]. <122>



Drawing 3. Supporting of interactivity and breaking the time factor by Internet.

In conclusion, change of paradigm in electronic economy is based on the change of conception of globalization from “global organizations” to “global information”<sup>3</sup>.

When we buy a computer program for our company’s for internal needs (e.g. financial or pay-roll) – that’s E-Business. When we coordinate the flow of materials through our warehouses and plants with use of EDI system – that’s also E-Business. When we make an offer to our contracting party and negotiate it using SMS (cell phone) or we decide to purchase prompted by cable television commercial, or we buy bank service using bank electronic card – this is E-Commerce. However, E-Business and E-Commerce in strict sense are transfer of business relations and trade on INTERNET platform, which gives all opportunities to realize new paradigm of “global information”, which was discussed before.

According to the state of present knowledge and consulting firms’ forecasts, value of electronic B2B trade between business partners is increasing and will continue to do so faster than electronic B2C retail trade<sup>4</sup>. Some, like AMR Research, claims even that in year 2004 in USA 29% of B2B transactions will take place on electronic market and the <123> value of these transactions will reach 5,7 trillion dollars<sup>5</sup>. Maybe that kind of optimistic forecast is completely untrue, and such information was used to rise prices of stock quotations on NASDAQ. However, there are some –

<sup>3</sup> Zabolski T., M. Waszczyk, *Perspektywy rozwoju Nowej Ekonomii* [w:] XII Ogólnopolski i Międzynarodowy Festiwal Reklamy „Nagrody Tytana”, Kraków 2001, s. 60-61.

<sup>4</sup> *eEurope 2000*, Andersen Consulting Report 2000, pg 12.

shown earlier – in favour for the Internet, circumstances, thanks to which we can make prognosis about considerable role of global net in economy.

Before we start talking about construction, and types of B2B electronic trade platforms, we need to point out that they should consist of following elements [drawing 4]: information, transaction, navigation, security and marketing.

Provided information are not only economic or legitimate news, but also exchange of information with use of so called chats and forums. To extend the information contents there are specialists' advices provided – both active (ask expert) and passive – calculator, for example to compute technical parameters, offers, etc.

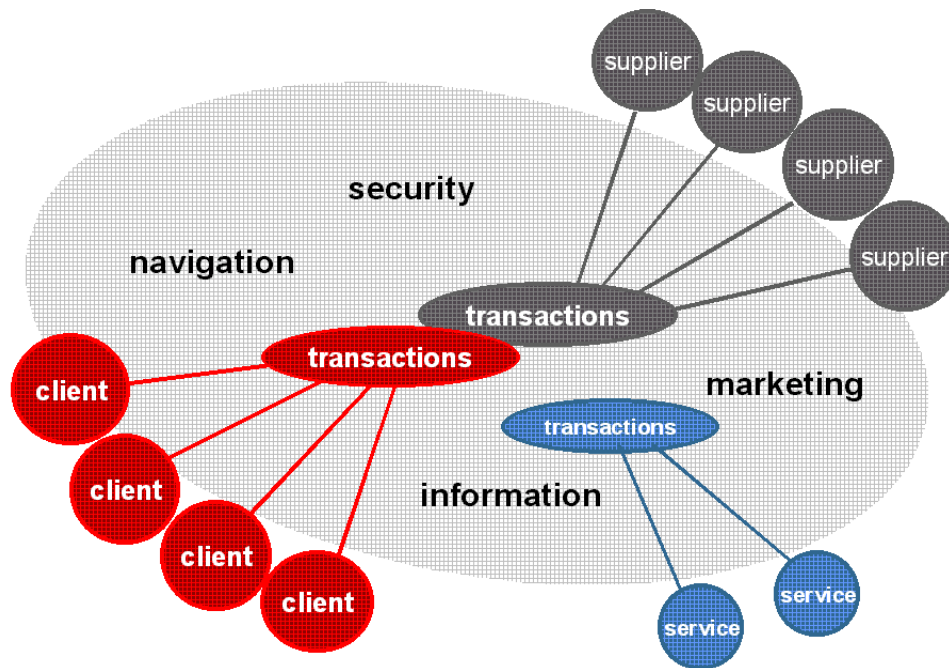
The essence of Internet trade platforms is the users possibility of making transactions throughout both double-side and one-side (english, dutch, first and second price) auctions<sup>6</sup>. Platforms can support transactions by providing and sending order forms, buffering and supporting payments, acreditives, bank and insurance agencies offers.

The most important thing for platform users is security: possibility of choice between partner or group of partners with whom he wants to make business. B2B Internet platforms also have orders of strictly controlled registration and login procedures. <124>

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<sup>5</sup> Bermudez J., B. Kraus, D. O'Brien, B. Parker, L. Lapide, *B2B Commerce Forecast: \$5.7T By 2004*, AMR Inc. Special Report 2000.

<sup>6</sup> Fingar P., H. Kumar, T. Sharma, *Enterprise E-Commerce*, Meghan-Kiffer Press Tampa, Florida, USA 2000, pg 38-39: "English auction [...] seller announces reserve price or some low bid. Bidding increases progressively until demand falls. The winning bidder pays highest valuation [...]. Dutch auction [...] seller announces a very high opening bid. The bid is lowered progressively to match supply [...]. First-price [...] auction has a bidding period in which participants submit one sealed bid in ignorance of all other bid. [...] The winning bidders [pay exactly amount they bid]. Second-price auction [...] The item is awarded to highest bidder at a price equal to the highest unsuccessful bid[...]"



Drawing 4. Construction of B2B trade platform.

Another, but also very important matter is ergonomically set up navigation – business users don't have time for unnecessary clicking. There must be a possibility of researching platforms' information resource and take accurate number of sorting criteria. A very important function is notification. If on the platform is a product offer, which clients are interested in, they can get information about it on them e-mail immediately.

As it was mentioned before – marketing research consumes a lot of money and time in old economy. General Motors, Ford Motor Company, and Daimler-Chrysler have built a platform [www.covisint.com](http://www.covisint.com), which Nissan and Renault joined later on. Those firms are going to merge to their marketplace 90.000 tradesmen from all over the world. When the need for “screw”, “upholstery” or “seal” occur for cars in production, company can open a tender on a platform at once and receive as a feedback, strictly parameterized bids, from amongst which winning tradesman is chosen using the auction mechanism. General Motors is going to save this way about 3.000 dollars on a production of the year 2001 car. Also, they are going to while away new product development time from 42 to 12-18 months<sup>7</sup>. On their website [www.covisint.com](http://www.covisint.com) consumers can design a car of their dreams – isn't it a swift and cheap marketing research?

B2B transactions in Internet take place on platforms, which provide information, navigation and guarantee security and level of marketing service merge interests of platform users. But the most

<sup>7</sup> Baer M., J. Davis, Some Assembly Required, Business 2.0, February 20, 2001, pg 78-79.

important is fact that platforms give us an opportunity of separate price negotiations with our partners, who are our tradesmen, and separate negotiations with our customers [drawing 4].

Everyone, who have worked in trade company knows how much trouble cause the simplest purchase, which in fact is less complicated than sell: tons of paper, hundreds of telephone calls, working hours – these are costs, which firm owner bears during even the simplest purchase.

As Rutkowski illustrates “Logistics”, every saving is equivalent of sale. If remunerativeness is 2%, saving of 20.000 ZL is equal 1 million ZL of sale<sup>8</sup>. Michael Dell – E-Commerce pioneer - states that while in 1993 with 3 milliard dollars turnover, cost of products in warehouses were 220 million dollars, whereas four years later – thanks to development of E-Commerce plane – with four time higher turnover, this cost remained almost at the same level. Time of products flow through warehouses was whiled away about ten times<sup>9</sup>.

Retailing trade in Internet may assume form of individual or common solutions. If owner of a well known brand wants to open a shop in Internet – let him do it in his own domain – every interested person will find a way there easily. If Maciej Waszczyk wants to do the same thing and create the Internet shop [www.maciejwaszczyk.com](http://www.maciejwaszczyk.com), finding this site by Internet would be for user much more difficult. That’s why Internet passages were created. There you can create an online shop in few minutes, and from this moment it appears in the most commonly visited Internet site – portal<sup>10</sup>. In Internet shop the most important is not login, but product offer – that’s what Internet user finds when he opens website shop or passage website. The second important element is common (in the Internet passage) basket, which is used by system to distribute offers to particular shops. <126>

Contracting the transactions between private clients in Internet takes place on auctions and news services, that is one-side auctions. As Ernst & Young states that [www.ebay.com](http://www.ebay.com) auction was the most often visited E-Commerce site in 1999 in USA and Canada, English [www.qxl.co.uk](http://www.qxl.co.uk) is on the second place in UK. Although in the countries examined by Ernst & Young, most purchases were made in [www.amazon.com](http://www.amazon.com) , Ebay holds still the second place in USA, third in Canada. QXL holds the second place in England<sup>11</sup>. According to the authors of “Enterprise E-Commerce” this form of

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<sup>8</sup> Rutkowski, *Logistyka...*, pg 23.

<sup>9</sup> Fingar, *Enterprise...*, pg 26.

<sup>10</sup> Now in Poland number of Internet passages is about 20. The best known, and having the biggest functionality is Wirtualna Polska Internet mall [pasaz.wp.pl](http://pasaz.wp.pl) with common for all shopes basket, navigation, promotion and search. The mall of Wirtualna Polska has the online storebuilder with the possibility to build your own Internet shop in several steps using your personal computer.

<sup>11</sup> *Global Online Retailing*, An Ernst & Young Special Report, E&Y January 2000, pg 18.

electronic trade has a chance to become dominating in Internet<sup>12</sup>. It happens so, because if you want to conduct an offline auction, you need to gather people in one place and time, rent a space – it costs and cause a lot of trouble. Online auction, thanks to their exciting character and Internet properties slowly becomes a dominating form of trade. Enough to say that the biggest and first auction on [www.ebay.com](http://www.ebay.com) in the first period of year 2001 recorded benefits of 21 million dollars with income of 154 million dollars<sup>13</sup>.

The most passionating and popular are English auctions, where the starting price is usually set on a very low level and the participants – knowing each others votes – exceed it by minimum price – until the winning price is called so high that nobody has a courage to beat it. With advantage of this type of auction on a C2C and B2C plane there is no sense to put in new models<sup>14</sup> in retail trade. It looks differently on a B2B plane, where each model finds its plane.

Looking at the way of conducting the transactions, it's necessary to point out that the most important stages are the ones connected with overtopping and graduating other users after transaction is made. The overtopping is the most exciting element of auction. Making comments is a tool used to build auction society, by giving each others opinions as “good partner in doing business” or “bad” one. Building societies on auctions depend on trust to sides of transactions not only to auctioneer. Breaking of “limited trust”<sup>15</sup> between selling and buying in Internet is one and most important challenge of New Economy.

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<sup>12</sup> Fingar, *Enterprise...*, pg 40, 84.

<sup>13</sup> Schwartz J., Ebay Bucks Online Trend With a Strong First Quarter, The New York Times, April 20, 2001.

<sup>14</sup> From authors own research on 33 auction sites comes conclusion that 97% of auctions use English model while 85% use this model as the only one (November 2000).



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