CHAPTER - 5

EMERGING MODES OF BUSINESS

- **Introduction**

    Few decades back one can't think of sitting in one's own drawing room and getting railway ticket/ Air Ticket booked but now it is very common:-

    - Yes, You need not travel from your residence to railway station
    - Yes, You need not bother about traffic, signals etc. on your way to railway station
    - You need not wait for a long time in the long queue
    - Above all, You need not waste your most precious time

Yes we are discussing about online booking. ....

Now let us think of.....how it will be.....if we are able to get our needs delivered at our doorstep.

- **Concept Mapping**
    - **e – Business**
    - **e – Business vs. e – Commerce**
    - **Scope of e – Business**
    - **Online Transactions**
    - **e – Business Risks**
    - **Resources required for successful e – Business implementation**
    - **Outsourcing – Meaning**
    - **Features of Outsourcing**
    - **Scope of Outsourcing**
    - **Need for Outsourcing**
    - **Concerns over Outsourcing**

- **Basic & Key Concepts Explanation**

Key Terms

e – Business

    e – Business refers to the process of performing Business activities electronically through the means of internet.

Virus

Virus stands for **V**ital **I**nformation & **R**esources **U**nder **S**iege

e – Trading

e – Trading involves securities trading, i.e. online buying & selling of shares and other financial instruments.

Digital Cash

Digital Cash refers to electronic cash instead of actual money which exists only in cyberspace (also known as cyber currency)

Sweat Shopping

Firms that outsource seek to reduce their costs and get maximum benefit from the low –cost manpower. This is known as "Sweat Shopping".

e – Commerce

e – Commerce refers to a firm's interactions with its customers and suppliers over internet.

Secure Sockets Layer (SSL)

It is the technology used in encrypting and securing vital user information such as Credit/Debit card details etc. which are used in online transactions.

e – Procurement

It involves internet based – sales between business firms forming digital marketplaces facilitating online trading between multiple buyers and sellers.

Business Process Outsourcing (BPO)

The process of contracting out non-core business activities to 3rd parties in order to reduce costs and time involved.

Online Trading

The act of selling and buying anything online.

e – Bidding

Most shopping sites have "Quote your price" option whereby you can bid for goods and services. This refers to process of conducting auctions online.

Call Centres

Firms generally outsource their customer support to 3rd parties, which provide 24x7 Customer Support by the means of tele calling. The 3rd parties to whom this process is outsourced are called "Call Centres".

Captive BPO units

The outsourced - units over which the outsourcing firm has control.

Horizontals

The 3rd parties which undertake outsourcing contracts from many firms and doing a wide variety of jobs and processes are known as "Horizontals".

Verticals

The 3rd parties which undertake outsourcing contracts from other firms but are specialized to do only certain specific non-core to core activities.

B2B Commerce

Refers to electronically conducted business transactions between business to business.

B2C Commerce

Refers to electronically conducted Business transactions to Customers.

Intra-B Commerce

Refers to electronically conducted business transactions within a given business firm.

C2C Commerce

Refers to electronically conducted Business transactions between Consumer to Consumer.

- **e – Business vs. Traditional Business**

Basis of distinction	Traditional Business	e - Business
Ease of formation	Difficult	Simple
Physical Presence	Required	Not Required
Location Requirements	Need to be near market or Raw Materials	None
Cost of Setting Up	High	Low
Operation Cost	High	Low
Nature of Contact with suppliers & Customers	Indirect – Through Intermediaries	Direct
Nature of Internal Communication	Hierarchical -From top level management	Direct to all levels
Response time for meeting requirements	Long	Instant
Shape of Organizational Structure	Vertical	Horizontal

Business Processes & Length of Cycle	Sequential	Simultaneous
Opportunity for Inter-Personal Touch	Much More	Less
Opportunity for Pre-Sampling of Products	Much More	Less
Ease of Going Global	Less	Much
Government Support	Reducing	Much & Increasing
Nature of Human Capital	Semi Skilled or Unskilled Manpower needed	Technically highly qualified professionals needed
Transaction Risk	Low	High

- **e – Business**

    e – Business refers to all business transactions and functions conducted electronically.

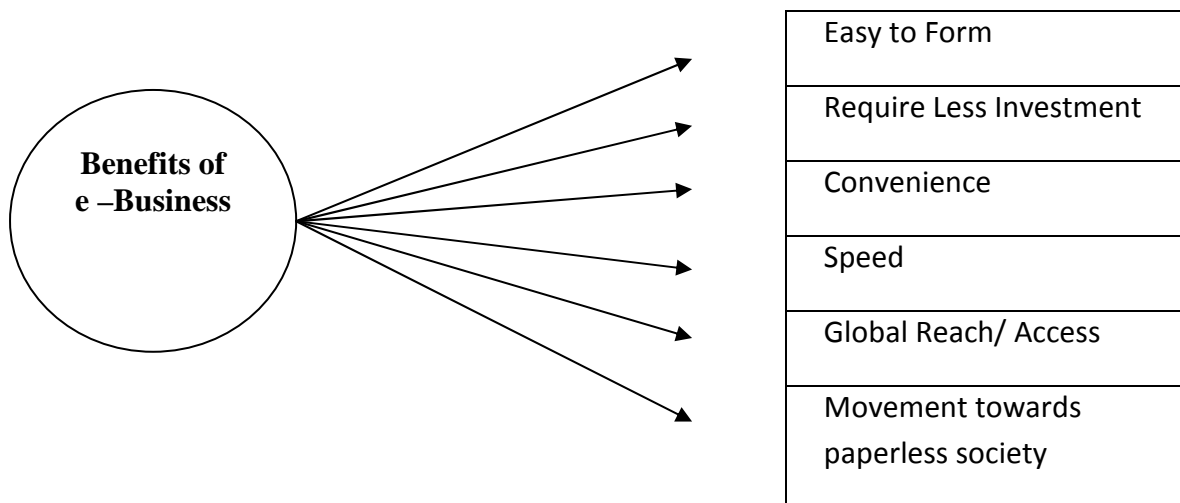- **e – Business vs. e – Commerce**

    e – Business is more inclusive term than e – Commerce while e – Commerce refers to a firm's interactions with its customers and its supplier over the internet.   e – Business, apart from e – Commerce includes all other electronically conducted business activities such as inventory management, production, product development, accounting, finance, etc.,

- **Scope of e – Business**

    The scope of e – Business is quite vast, it includes the following :-

    1. B2B Commerce :- Refers to electronically conducted business transactions between business to business.
    2. B2C Commerce :- Refers to electronically conducted Business transactions to Customers.
    3. Intra-B Commerce:- Refers to electronically conducted business transactions within a given business firm.
    4. C2C Commerce :- Refers to electronically conducted Business transactions between Consumer to Consumer.

- **Benefits of e – Business**

Benefits of e –Business	Easy to Form
	Require Less Investment
	Convenience
	Speed
	Global Reach/ Access
	Movement towards paperless society

1. **Easy to form**

   Very easy to start e – business because host of procedures required for traditional business are not required for e – Business

2. **Requires Less Investment**

   Both big and small business gets the benefits of internet equally. Thus even one start of small business with less investment can derive the benefit of e – Business.

3. **Convenience**

   Internet offers the convenience of 24 hours X 7 days a week with a less investment – i.e. one can access anything, anywhere, any time.

4. **Speed**

   Any business transaction can be made simply at the click of the mouse button, for e.g. Electronic Funds Transfer takes place at the speed of light
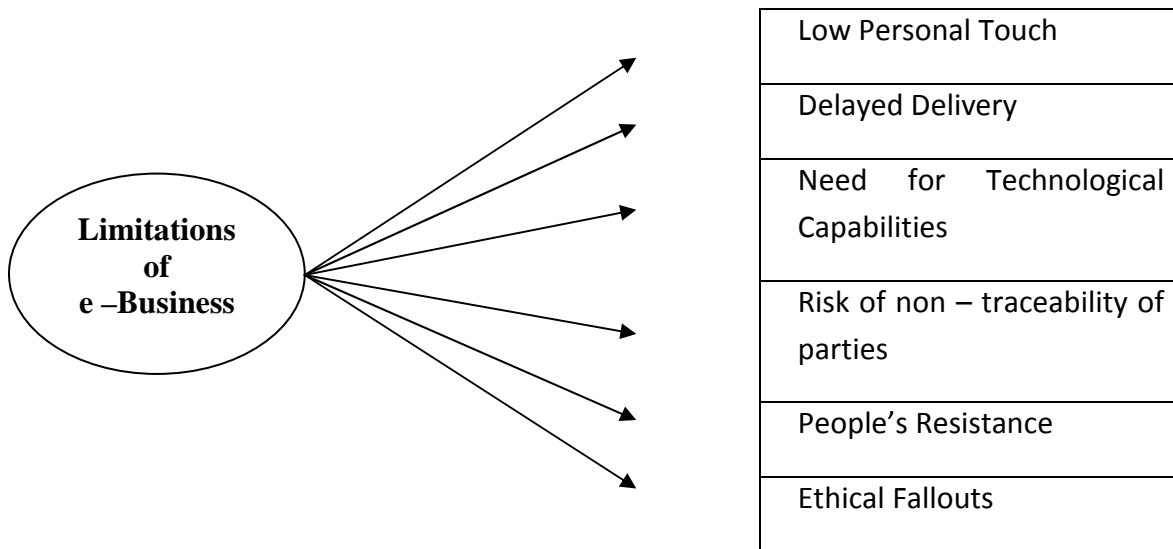
5. **Global reach/access**

   In e – Business both businessmen and consumers have no national boundaries because internet is without such boundaries. In absence of such internet, globalization may be restricted in scope and speed.

6. **Movement towards paperless society**

   Cutting thousands and thousands of trees to make paper adversely affects the environment but internet has considerably reduced the dependence on paper.

- **Limitations of e – Business**

Low Personal Touch
Delayed Delivery
Need for Technological Capabilities
Risk of non – traceability of parties
People's Resistance
Ethical Fallouts

1. **Low Personal Touch**

   Interpersonal touch between businessmen and the consumer is very important. e – Business may be high tech but the lacking interpersonal interaction is truly one of its shortcomings.

2. **Delayed Delivery**

   Sometimes order may be placed at once through internet but delivery may be delayed, which may disturb the customers.

3. **Need for technological capability and competence of parties**

   If any one party – either buyer or seller is not familiar with digital technology, e – Business becomes difficult.

4. **Risk of Non-Traceability of parties**

   Cyber personalities participate in e – Business, when any one is in remote area – Traceability may be one the biggest problem.

5. **People's Resistance**

   In general, people resist changes and halt will be more if any organization prefers to go fully online.

6. **Ethical Fallout**

   In e – Business, unless until you have high degree of protection, any one can keep an electronic eye on your transaction, even intrude into your privacy – which is ethically incorrect.

- **Despite limitations, e – Commerce is the way**

Yes, it is absolutely true, because when you wish to buy something especially from other countries or from distant seller, problems faced by you in traditional business is more than e – Commerce – thinking in terms of travelling – carrying money – time required – speed involved – mode of payment etc.

Therefore, despite limitations e – Commerce is the way.

- **Online Transactions**

Involves three stages:-

1. **Pre-Purchase/ Sale Stage** – Including advertising and information seeking.
2. **Purchase / Sale Stage** – Comprising of price negotiation, closing deal & payment.
3. **Delivery Stage** – Involves physical delivery of goods.

The first two steps – involves only interaction and thus can be effectively done online.

- **Steps involved in online purchase**
    1. **Registration**

        Register yourself with online vendor by filling up registration form – i.e. now you have an account with the online vendor and you receive your account's password and an online shopping cart.

    2. **Placing an Order**

        You can pick and drop the items of your choice in the online 'shopping cart' (Just an online record) – choose check out and payment option.

    3. **Payment Options**
        a. **Cash on Delivery(COD)**

            Pay cash at the time of physical delivery of goods

        b. **Cheque**

            Vendor arranges the pick up of the buyer's cheque(s) – Upon realization the delivery is made

        c. **Net-Banking Transfer**

            Electronic transfer of funds from the buyer to the seller, after which the seller makes the delivery

        d. **Credit/Debit Cards**

            These are also called 'Plastic Money', the buyer enters the respective card's details and the transaction is made. Credit cards allow the buyer to make purchases on credit, whereas Debit cards make use of the buyer's existing money.

        e. **Digital Cash**

This form of currency exists only in cyberspace. The buyer deposits money into the Digital Cash account and this money are utilized for making purchases online.

- **e – Business Risks**

    There are three types of possible risks as listed below:

1. **Transactions Risks**

    - Seller may deny that customer ever placed the order or the customer may deny that he ever placed the order. It is called "Default on Order taking/ Giving".
    - Goods may be delivered at wrong address or wrong goods may be delivered which is referred as "Default on Delivery".
    - Seller may claim/complain that he didn't receive payment while customer may claim that payment was over. This is referred as "Default on Payment".

2. **Data Storage and Transmission Risk**

    - VIRUS – Virus can create annoyance, disrupt functioning, damage target data even may cause complete destruction of the system.
    - Interception – Data maybe intercepted in the course of transmission by others. If it goes in the wrong hands it may be detrimental to the business.

3. **Threat to intellectual property & Privacy**

    - Once the information is made available over the internet, it moves out of the private domain. So any secret formulae or research findings, improved/ new method of production and other such intellectual properties may be stolen by others.
    - When data furnished goes in the hands of others they may start dumping with lot of advertising & promotional literature into our
       e-mail box.

- **Outsourcing**

    Features of Outsourcing

    1. **Outsourcing involves contracting out**

        Non – Core activities such as maintaining cleanliness, gardening, housekeeping etc. maybe contracted out to the outside agencies so that the business can concentrate on core activities.

    2. **Generally non-core business activities are outsourced**

        For some organizations, non-core activities may be their core activities e.g. House Keeping for hotel business, so every organization used to identify its own non – core activities and outsource them.

3. **Processes may be outsourced to a captive unit or 3rd Party**

Multinational Companies (MNCs) normally outsource different processes such as recruitment, selection, training, pay roll, customer support etc. to business units created especially for this purpose and ensure efficiency.

- **Scope of Outsourcing**

Outsourcing comprises four key segments:

- Contract Manufacturing
- Contract Sales
- Contract Research
- Informatics

The following diagram shows the scope of outsourcing in each segment

Scope of Outsourcing

- Informatics 15%
- Contract Research 19%
- Contract Manufacturing 56%
- Contract Sales 10%
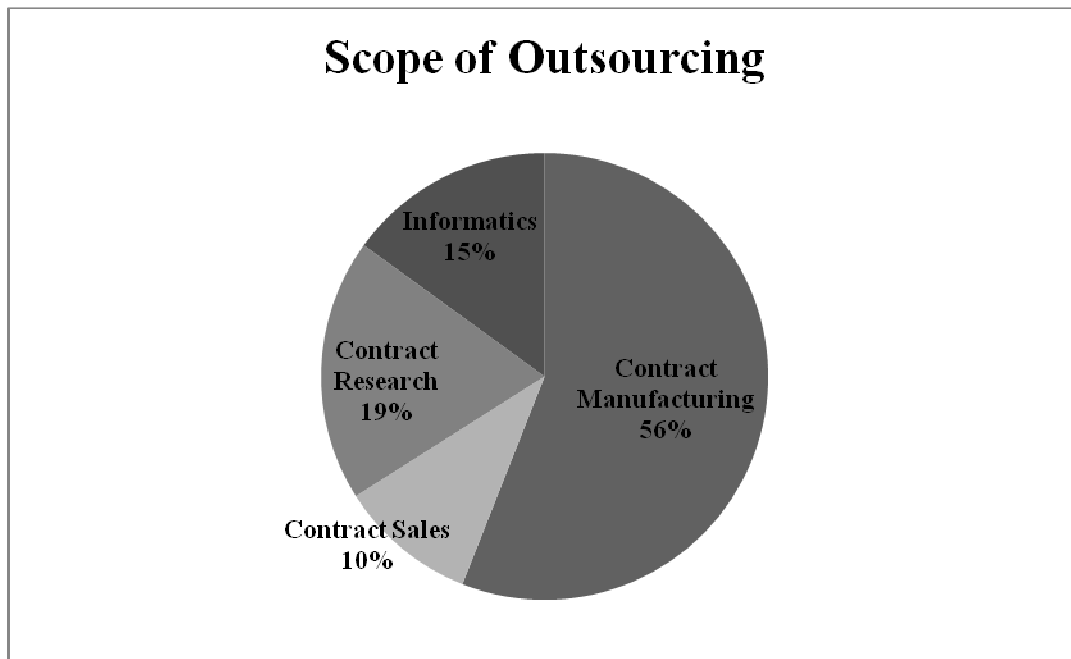
- **Need for Outsourcing**

Outsourcing is being resorted to not out of compulsion but also out of choice. The major reasons of outsourcing are as follows:

1. **Focusing of attention**

By contracting out some of the non – core activities, the business may have sufficient time to focus its attention on core-activities.

2. **Quest for excellence**

Outsourcing does not mean contracting out some of our work to any outsider but it means contracting out to a specialist who can perform the contracted work in an excellent way.

3. **Cost Reduction**

   Due to global competition, not only a firm needs to ensure global quality but also global competitive pricing. For this the company needs to reduce its cost of operation by contracting out the work to specialists who are cost-efficient.

4. **Growth through alliance**

   A business may have a ownership stake in the other business to whom it is interested to contract out its own work. By doing so not only the profit of the outsourcing business goes up but it can have a share in the profit of the contracted business, as it is a stakeholder in that.

5. **Fillip to economic development**

   Outsourcing stimulates entrepreneurship, employment & exports thus it helps the economy to develop. For example, as far as global outsourcing in software development and IT enabled services are concerned, India has 60% of the global outsourcing share.

- **Concerns over Outsourcing**

   Outsourcing has its own benefits and has to stay globally but it has its own limitations as discussed below:

1. **Confidentiality**

   Outsourcing depends on sharing a lot of vital information and knowledge. If the outsourcing partner passes it on to competitors it can harm the business to a greater extent. Not only that even the outsourcing partner may start a competent business.

2. **Sweat Shopping**

   As the firms that outsource seek to lower their costs, they try to get the maximum from the low-cost manpower of the host countries, this may result in sweat shopping and the firm that goes in for outsourcing may look for 'doing' skill rather than development of 'thinking' skill.

3. **Ethical Concerns**

   In the name of cost cutting, unlawful activities such as child labour, wage discrimination maybe encouraged in other countries.

4. **Resistance in home countries**

   Contracting out ultimately result in contracting out of employments; this may create resistance in the home countries. Particularly if the home country is suffering from problem of unemployment.

Short Answer type Questions

For answers, refer "Key Terms"

1. What is e – Business?
2. What does VIRUS stands for?
3. What is meant by e – Trading?
4. What is called Digital Cash?
5. What do you mean by Sweat Shopping?
6. What is e – Commerce?
7. What is SSL or Secure Sockets Layer?
8. What is meant by e – Procurement?
9. What is meant by the term "BPO"?
10. What is Online Trading?
11. What is meant by e – Bidding?
12. What are called Call Centres?
13. What are called Captive BPO units?
14. What are called 'Horizontals'?
15. What are called 'Verticals'?
16. What does B2B - Commerce stands for?
17. What does B2C – Commerce stands for?
18. What does Intra-B Commerce mean?
19. What does C2C stands for?

Long Answer type Questions

1. Briefly explain benefits of e – Business.
2. Briefly explain any 5 limitations of e – Business.
3. Briefly explain different payment mechanisms available for online shopping.
4. Briefly explain the "Need for Outsourcing".
5. Briefly explain the "Concerns of Outsourcing".
6. State any five differences between Traditional Business & e – Business
7. Differentiate between Traditional Business & e – Business on the basis of:
   a. Ease of Formation
   b. Physical Presence
   c. Opportunity for Interpersonal touch
   d. Opportunity for Pre-Sampling of Products
   e. Ease of going Global

Possible 6Mark Questions

1. Explain the need for Outsourcing
   Ans. Refer to Concepts Explanation – Need for Outsourcing

2. State the Concerns over Outsourcing

Ans. Refer to Concepts Explanation – Concerns over Outsourcing

- **Question of Higher Order Thinking Skills (HOTS)**
  1. 'Outsourcing results in cost reduction'. How? Explain with an example.

     Ans. *Refer to Concepts Explanation –> Need For Outsourcing – Cost Reduction*
  2. Mr. X placed an online order with Mr. Y, vendor of vacuum cleaner but even after ten days the product was not delivered. On enquiry he comes to know that it was delivered at a wrong address. Identify the risk involved in it and briefly explain other such possible risks.

     Ans. *Refer to Concepts Explanation – Transaction Risks*
  3. Your friend is of that opinion that 'Traditional business involves handling and carrying more cash by both buyers and sellers which was highly risky but online payment mechanism is safer'. Is he correct? Explain any four such online payment mechanisms.

     Ans. *Refer to Concept Explanation – Steps involved in Online Purchase – Payment Options/Mechanisms*

- **Gist of the Lesson:**

  ❖ *Traditional way of conducting business activities is very slow, unsafe and costly, require more investment, require physical presence of parties involved and going global is tough.*

  ❖ *Emerging modes of business, e – Business is faster, safer and economical, requires lesser investment & doesn't require physical presence of parties involved and facilitates going global.*

  ❖ *Thus every business is switching over to electronic mode.*

  ❖ *e – Business has its own risks too like transaction risks (delivery to wrong address, place), data storage and transmission risk and threat to intellectual property and privacy.*

  ❖ *In spite of various risks e- commerce is the way because going global is a must for survival and only e – business can help us to do so.*

  ❖ *Outsourcing refers to contracting out non-core activities, it helps the firm to focus its attention onto core activities, cost reduction & fulfill their quest for excellence.*

  ❖ *Outsourcing has its limitations too such as lack of confidentiality, sweat shopping, ethical concerns, resistance from home countries because it may aggravate unemployment.*