Gerald Trites

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David Pugsley

Second Edition

e-Business

A Canadian Perspective for a Networked World



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e-Business A Canadian Perspective for a Networked World

Second Edition

To Sue, with love

-GDT

To the ever patient Naomi

-JEB

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Preface

Although e-business is a global phenomenon, Canadian businesses face legal and cultural issues that are unique to this country. *E-Business: A Canadian Perspective for a Networked World* is the first text to address e-business in a Canadian context.

E-Business: A Canadian Perspective for a Networked World is not simply a printed textbook. It is a combined textbook/website that reflects a Canadian perspective on the growing and exciting field of e-business. Although only a few years old, e-business has already been accepted by a wide variety of business and educational professionals as one of the most significant events to have taken place in business and in the wider world for several hundred years. Educational institutions are developing new courses, programs, and research efforts in an attempt to embrace this area.

The essential rationale of this combined textbook/website is to provide a dual vehicle for educational delivery—a core textbook and a dynamic website. The two interact with each other to deliver both the core concepts of e-business and recent developments that impact its evolution. The textbook sets out the concepts that guide e-business, and deals fully with the business strategies and models that have emerged. The website extends these core areas to deal with new developments and emerging trends. Linking textbooks to websites is an innovation inspired by the internet revolution that has been adopted by many authors, but this textbook/website has a much more tightly knit and dynamic relationship than is the norm.

There is absolutely no doubt that e-business is quickly changing and evolving. Conventional textbooks alone cannot fill the need to reflect current events in e-business courses. The motivation behind this project is to provide a dynamic tool for teaching e-business.

We have also provided a Canadian perspective, which we believe is important for Canadian students, despite the fact that e-business is often considered as an international or global phenomenon. While e-business is international, at least to the extent that various parts of the world have technologies and infrastructures that can support e-business, there are distinctly Canadian elements and issues that Canadian students need to learn. In addition, students can relate more closely to cases and examples that are Canadian.

Our legal structures and new statutes such as the Personal Information Protection and Electronic Documents Act (PIPEDA) are central to the Canadian experience with e-business. They are influenced by the activities of the Canadian government in establishing infrastructure, such as the Strategis initiatives of Industry Canada and the digitization of Canada Post. E-business in Canada is also influenced by the activities of Canadian business enterprises, such as the very successful BlackBerry, developed by Research In Motion of Waterloo, Ontario; ventures of Rogers Cablesystems and others into Web TV; the movement of the banks into virtual banking; and the Canadian capitalists that experienced the rise and subsequent decline of dot-coms in Canada. Books that are not Canadian simply do not discuss these important aspects of Canadian e-business.

The Combined Text/Website Approach

The textbook is similar to most textbooks in content in that it includes chapters that fully cover the major elements of e-business and case studies. This offers the instructor greater flexibility in crafting course curricula. The book addresses major contemporary trends that have emerged so far, such as integrated enterprise systems, collaborative commerce, mobile wireless systems e-procurement, and customer relationship management. Where it differs from other conventional textbooks is in the extent to which it interfaces with the website.

While the emphasis of the textbook is on the macro issues—those that change less frequently—the emphasis of the website is on the micro issues that are in a constant state of flux. Accordingly, the website presents new case studies, exercises, and problems based on current events. Presentation/discussion materials on new developments are added during the year and tied into the textbook, so that any course can easily encompass them and remain current.

textbook PART I E-Business Models and Strategy PART II E-Business Architecture PART III E-Business Applications PART IV Conducting E-Business to the Text Combined Text/Website Approach Online Study Guide Updates and Additions to the Text New Developments in E-Business Website

Organization of the Text

The book is divided into four parts comprising 14 chapters, an appendix of cases, and a glossary.

Part I E-Business Models and Strategies

This part places electronic business into an entire business perspective beginning with an introductory chapter (chapter 1) aimed at discussing some of the basics of e-business. It then addresses strategic planning and business models (chapter 2) to ensure that a business mindset is maintained throughout the book.

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A new Running Case Study featuring eBay has been included at the end of each part of the text. This case study has been designed to fit this book, with each part related to the major themes in each of the sections. This section includes part 1 of the eBay case with its focus on eBay's e-business strategy, its business model, and its value propositions.

Part II E-Business Architecture

This part reviews the architecture of e-business and explores the impacts on business and management of required technologies such as the internet, intranets, and extranets (chapter 3), enterprise-wide and inter-enterprise systems (chapter 4), security and controls (chapter 5), and billing and payment systems (chapter 6). This section includes part 2 of the eBay case with its focus on eBay's PayPal e-payment system.

Part III E-Business Applications

Starting with supply chain management (chapter 7), this part examines some of the crucial technologies in e-business such as e-procurement, trading exchanges, and auctions (chapter 8), customer relationship management (chapter 9) and business intelligence (chapter 10). It concludes with part 3 of the eBay case, addressing eBay's role in supply chain management.

Part IV Conducting E-Business

This part explores the materials needed to integrate the operation of e-business within the broader business context, including marketing issues (chapter 11), metrics for e-business performance measurement (chapter 12), legal, regulatory, and taxation issues (chapter 13), and small business operations (chapter 14). Part 4 of the running case on eBay, featuring privacy issues, concludes this section.

New to This Edition

In addition to a thorough review and update of the entire text, the following changes have been made to this edition:

- Chapter 1, the introductory chapter, has been reorganized and revised to provide more complete coverage of e-business and to reflect a consistent and comprehensive pedagogy.
- The E-Strategy, New Business Models, Canadian Snapshots, and E-Business in Global Perspective boxes have all been reviewed and updated. Many new ones have been added throughout the book.
- The discussion of strategies and models in chapter 2 has been substantially rewritten and improved to reflect a stronger grounding in contemporary research.
- A new chapter on e-business metrics (chapter 12, "Metrics for Performance Measurement in E-Commerce") has been added to the book.

• A new case on Intel has been added to the book. Other cases have been updated and reorganized: the Sears case from the previous edition's website has been updated and moved into the text, while the cases on Chapters and Starbucks have been updated and moved to the website.

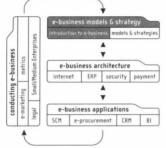
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- A new multi-themed Running Case Study on eBay that explores different aspects of e-business following key themes in each part has been added to the text. This case provides a teaching tool that enables the concepts in each of the parts of the book to be highlighted and taught in a linked fashion using actual industry examples.
- New material has been added to reflect the increased importance of PayPal in the area of internet payment systems.

Features of the Text

A special effort has been made with this book to incorporate features that will facilitate learning and enhance an understanding of e-business.

- E-Business Mind Maps at the beginning of each chapter provide students with a visual overview of the organization of the text, and show where each chapter fits into the dynamic of e-business as a whole. The mind map illustrates the dynamic relationship between the foundation of e-business (models and strategies), the tools of e-business (architecture), how these tools are used (application), and the environment in which they are used (conducting e-business).
- Learning Objectives at the beginning of each chapter summarize the skills and knowledge to be learned in that chapter.
- **Chapter Introductions** provide an overview of the material discussed in each chapter.
- **Key Terms** are boldfaced in the text, defined in the margin of the text, and listed at the end of each chapter. For easy reference, all the key terms and their definitions are collated in a glossary at the end of the text.
- Weblink Icons appear in the margin, providing URLs for the companies discussed in the text.







 E-Strategy Boxes emphasize the importance of the strategic employment of e-business. • New Business Models Boxes highlight how technology has impacted business models and illustrate how rapid changes in e-business require that business models be flexible and adaptable to remain competitive.



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Canadian Snapshots Boxes highlight Canadian businesses to demonstrate how
competition and the Canadian marketplace are changing. These boxes demonstrate how e-businesses have developed within the Canadian context and some of
the difficulties they have faced.



- E-Business in Global Perspective Boxes address global issues and opportunities
 in e-business. These boxes provide examples of either international companies or
 companies competing globally, and discuss issues of technology related to the
 management of e-business.
- Chapter Summaries recap the issues discussed in the chapter.



- Tools for Online Learning Boxes direct students to our website for self-testing material, updates to the text, streaming CBC videos and accompanying cases, and up-to-date information on new developments in e-business.
- **eBay Running Case Study** addresses particular issues found in eBay that are covered in each of the four parts of the text.
- Appendix of Cases includes five decision-based case studies with discussion questions to be used in the classroom or for assignments. These cases provide a mechanism for many of the topics in the text to be applied to current and interesting situations facing e-business managers today. Additional cases are available on the website.



Organization of the Website

While the textbook provides students with a core resource for their studies, the website ensures that the text content is up to date and integrated with the internet for improved learning. The website also provides additional material that complements the text so that instructors and students interested in a particular area may expand the learning experience related to particular topics of interest.

For this new edition, students and instructors will find the following features organized by chapter:

· Learning Objectives

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- Self-Test Questions (provide students with immediate feedback)
- Internet Exercises
- · Review Questions and Exercises
- · Problems for Discussion
- Chapter Summaries
- Weblinks
- Key Terms and Definitions
- CBC Videos and Cases
- Additional Topics in E-Business

Course Design

A major purpose of this text is to facilitate a dynamic course design. The topic is so fast-moving that from the time of course design to delivery there are often significant changes. While the course design can focus on the textbook as a core, the use of the website can vary to reflect current needs.

This text/website is intended primarily for undergraduate courses or first courses in e-business at the Master's level. Essentially, it is for survey courses provided to students who have minimal previous exposure to the subject. There is sufficient material to support a one-semester course.

Potential course designs can include:

- 1. A chapter-by-chapter, textbook-driven course, with occasional references to the website, lectures, and discussion of problems in class;
- **2.** A topic-driven course, with blended use of the text and the website materials, lectures, and discussion of problems in class;
- 3. A case-driven seminar course, focusing on particular topics;
- **4.** A web survey that is directed by the organization of the course, but with an emphasis on selected websites.

Accordingly, the text/website can be used to support conventional, lecture-/discussion-based courses as well as seminars using cases and/or web materials.

The authors have found that for undergraduates, a combined lecture- (maximum half-hour) and discussion-based course (with a variety of other tools) provides the best approach for engaging students. Some classes can focus on problems, others on cases, and others on website materials. Of course, combinations of these resources can be used in many classes.

The result is that the resource offers a variety of potential course designs and considerable flexibility in their delivery.

Supplements

The following supplements have been carefully prepared to accompany this new edition:

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- *Instructor's Resource CD-ROM:* This resource CD includes the following instructor supplements:
 - Instructor's Manual: This manual includes additional background material for cases and exercises as well as a solutions manual.
 - Test Item File: This test item file contains over 300 test questions, organized by chapter, with the level of difficulty (i.e., easy, moderate, or difficult) indicated for each question. The test item file has been revised and updated. In addition, the solutions have been carefully reviewed for accuracy.
 - PowerPoints: PowerPoint presentations consist of customizable slides for lectures. The slides have been revised and improved both visually and from a content viewpoint.
 - Most of these instructor supplements are also available for download from a password-protected section of Pearson Education Canada's online catalogue (vig.pearsoned.ca). Navigate to your book's catalogue page to view a list of available supplements. See your local sales representative for details and access.
- *CBC/Pearson Education Canada Video Library for E-Business:* This video library is a special compilation of video segments from news magazines of the Canadian Broadcasting Corporation. Each video segment has been carefully selected to illustrate topics relevant to e-business. These video segments are accompanied by case studies on the website, and can be viewed online.

Pearson Advantage. For qualified adopters, Pearson Education is proud to introduce the **Pearson Advantage**. The Pearson Advantage is the first integrated Canadian service program committed to meeting the customization, training, and support needs for your course. Our commitments are made in writing and in consultation with faculty. Your local Pearson Education sales representative can provide you with more details on this service program.

Innovative Solutions Team. Pearson's Innovative Solutions Team works with faculty and campus course designers to ensure that Pearson technology products, assessment tools, and online course materials are tailored to meet your specific needs. This highly qualified team is dedicated to helping schools take full advantage of a wide range of educational technology by assisting in the integration of a variety of instructional materials and media formats.



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Part 1

E-Business Models and Strategies

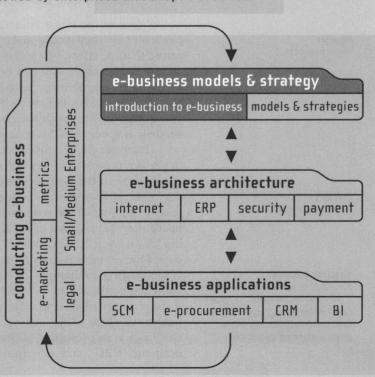
CHAPTER 1

Introduction to E-Business

LEARNING OBJECTIVES

When you complete this chapter you should be able to:

- 1. Define e-business.
- 2. Identify and explain the foundations of e-business.
- 3. Describe how e-business fits into the traditional business environment.
- 4. Identify and evaluate the major strategies followed by enterprises that adopt e-business.
- 5. Explain the benefits of e-business.
- Discuss the challenges facing e-business and how they are being addressed.



INTERNET

A global network based on a common digital communication standard.

Amazon.com www.amazon.com

eBay.com www.ebay.com

E*TRADE Financial

Research In Motion www.rim.net

Napster www.napster.ca

Covisint www.covisint.com

TRADING EXCHANGE

An online marketplace, usually on a website, that enables suppliers and customers to carry out their business electronically, often using auctioning techniques.

Introduction

The reach of the **internet** into so many aspects of our lives is revolutionizing our world. What we have seen so far is only the beginning of a fundamental change that many people have compared to the Industrial Revolution in its scope and potential impact. New types of business have emerged that we wouldn't have thought of only a few years ago. Businesses that have been around for decades have found they need to use the internet to remain competitive. Ultimately, business and a great deal else in society will be changed forever.

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During the early years of e-business, the media reported phenomenal success stories about the "new economy." With new dot-com companies opening daily, it seemed that upstart companies could launch directly into global markets through the internet and could raise billions on the stock markets with little or nothing in the way of hard assets. They made billionaires of their owners, many of whom had yet to see their thirtieth birthday. Stories abounded of Amazon.com, eBay, E*TRADE Financial, and Canadian phenomena like Research In Motion. The idea of being able to launch a successful business on the web without needing large amounts of capital to finance hard assets was an appealing one. The cost of entry seemed minimal; the rewards grand.

Reality presented a harsher picture. Amazon lost money until 2003 and even then profits were minimal (see the E-Strategy box). Research In Motion went through a reality check when tech stocks took a nosedive in 2000 and only recovered in 2003, and truly became a Canadian success story in 2004. The financial community and intelligent investors generally confirmed what they really knew all along:

- 1. A business still needs to make profits to survive and grow, and
- 2. Many of the traditional business fundamentals continue to make sense in this new electronic world, even though the specific business models are changing and evolving.

Some of the business models of the dot-com companies did not include any plans on how they would make money on a long-term basis. Napster, the original music sharing utility, was a case in point. The company offered the service free of charge to the users, and did not have any other plans, such as advertising, that would generate money to keep it going. Only after Napster had been in operation for some time, and had been challenged in the courts, did it begin to charge fees. It is quite possible that if the courts had not curtailed the company's activities, the original Napster would not have survived for economic reasons.

Increasingly, the mystique of the internet has faded and business is embracing it as a powerful and essential tool for achieving strategic goals and remaining competitive in the new economy.

The glitzy realm of "new economy" businesses represented by the dot-coms is only one part of the world of e-business. While the dot-coms lost some of their lustre they did not lose all of it, because there still are amazing successes happening. Also, large "old economy" companies have been moving heavily into e-business. One example is the adoption by banks of internet banking. Another example is the **trading exchange** Covisint (see the E-Business in Global Perspective box), launched by the automobile industry to streamline its sources of supply and make it more competitive, and since acquired by Compuware Corporation. Such business-to-business (B2B) activity represents by far the biggest part of e-business at this stage in its evolution, although business to consumer (B2C), business to government (B2G) and government to business (G2B) all are showing signs of

E-Strategy

Amazon.Com: Transforming E-Strategy—from Clicks to Bricks

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Amazon.com was one of the first companies to sell books on the web. Certainly it was the most widely noticed of the internet startups and one that caused traditional bookstores like Barnes & Noble to also open websites to sell their product. Amazon started in 1995 with the idea it would be able to take orders over the web and fill them by ordering from suppliers as demand required. Part of the strategy was to be able to supply books without incurring the infrastructure costs that other businesses had to bear, therefore enabling the company to sell at lower prices.

The reality that emerged was that it took Amazon until 2003 to get out of a loss position and actually report a profit for the year. For a time, Amazon's shares rose despite its losses, but in 2000 the dot-com market corrected itself and Amazon's shares declined considerably. The shares of the company have since begun to recover.

The reason Amazon had trouble making money was that the

company had to spend far more on marketing and infrastructure than it had foreseen. The marketing expenditure had been hard to predict because internet marketing was a new field. Infrastructure costs arose because Amazon found that it was having trouble delivering orders on a timely basis and eventually had to make the decision to develop some of its own warehousing and distribution infrastructure to address this issue. Amazon still relied heavily on order by demand, but began buffering this approach with some warehouse buying. Of course, that was completely contrary to the original strategy. To deal with the additional costs, the company had to implement a strategy that would generate higher revenues.

Over the past few years, Amazon has undergone a heavy expansion. The company has moved away from being solely a book seller to include numerous other products, like music, DVDs, and clothes. Much of this expansion was done though partnerships with other reputable companies such as Target or gourmet food company Dean & Deluca. In addition, the company expanded into international markets and entered the Canadian market in partnership with Canada Post. Amazon now offers eBay-style auctions and lets customers list their own items alongside its own. In response to the realities of the marketplace. Amazon transformed a clearly defined strategy of minimizing infrastructure costs to sell books at a lower price, to a strategy that incorporated increased infrastructure costs through warehousing and offered new product lines to pay for this expansion.

Adding new products and catering to new markets was a logical way for Amazon to make effective use of its expanded infrastructure. This evolution in strategy allowed Amazon to add to revenues with minimal incremental cost. It is a classic case of transforming internet business strategy.



Amazon.com www.amazon.com

Questions

- 1. What are the challenges arising from Amazon's need to expand into new markets?
- 2. Has Amazon's fundamental business model changed significantly in its early years? Why or why not?

SOURCE: www.amazon.com.

impressive growth. In addition, there is a wide range of other activities, discussed more fully in chapter 2. These include business to employee (B2E), government to consumer (G2C), government to business (G2B), and numerous variations on this theme.

Another good example of an old "bricks" company moving to the internet is Sears Roebuck, which has been a major retailer for many years, but now has one of the top-rated e-business websites on the internet, grossing over US\$18 billion

Sears www.sears.com

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