

# SAMPLE

## Introduction: Scope and Nature of Ecommerce

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### Lesson Aim

Describe the nature and scope of ecommerce.

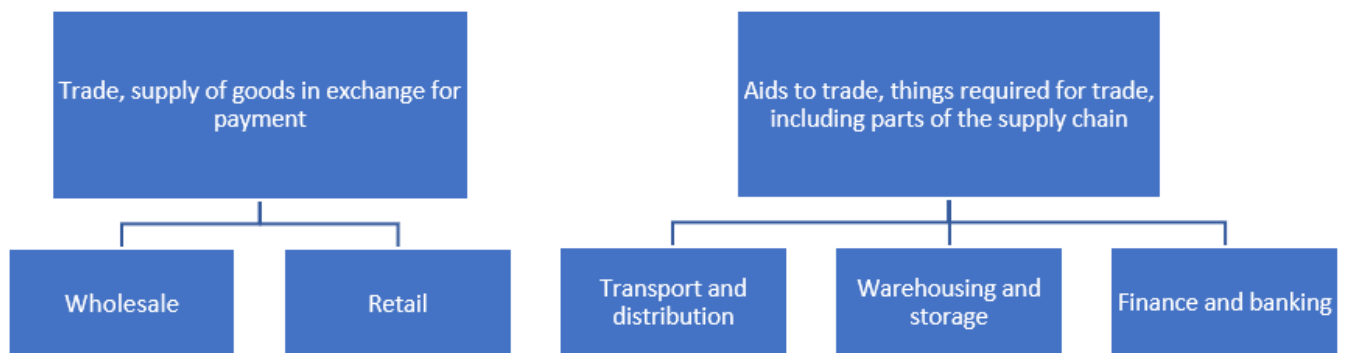
Define ecommerce, and differences to commerce.

Distinguish between ecommerce and digital marketing.

### INTRODUCTION

Commerce is a division of production, i.e. the making of goods or provision of necessary or desired services. When we engage in commerce, we engage in actions that bring products and services to consumers. Ecommerce – short for electronic commerce – refers to the actions taken for provision of goods and services via online channels. In common usage, it refers to transactions taking place online. Both are distinct from digital and online marketing. Marketing aids sales, through promotions and advertising. It advises the consumer of the existence of a given good or service. Ecommerce is concerned with the acts of sales and provision: i.e. bringing goods to the consumer in return for payment. The centre point of any commerce is making a sale.

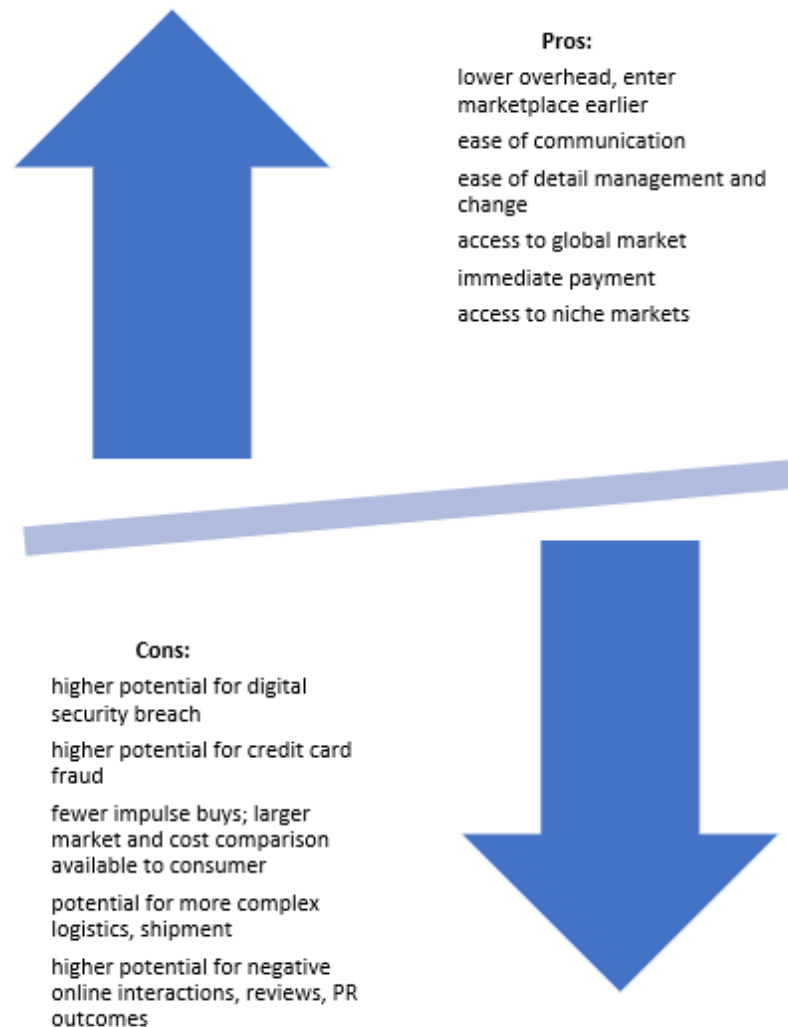
### Commerce Flow Chart:



It is important to understand that commerce is a voluntary activity, undertaken for reward. Commerce is a for-profit enterprise.

From a theoretical standpoint, commerce is about surplus and exchange. You, the seller/merchant have a surplus of a good or service. You exchange this with the consumer, who has a surplus of something you want (usually currency), in a transaction or sale. For our purposes, where the surplus comes from – the making of the goods, the earning of money – is only relevant when affecting the merchant. In most cases, the merchant does not need to know how the consumer acquired the money used for the exchange. The merchant does need to pay attention to how they have created the materials to be exchanged. (Note that in some aspects of commerce and ecommerce, both sides have equal weight. This is important in ongoing study and application outside of sales and business.)

## Pros and Cons of Ecommerce



### Important Definitions

Understanding general terminology is an important part of studying ecommerce, as a small business owner or a continuing student. The meaning of the terms discussed here is relatively consistent, but ecommerce is fast-growing field. Definitions will evolve as the field evolves. Each of these definitions has a direct bearing on a business' cash flow.

### Means of Production

Means of production refers to the things needed to create the goods or services for sale. These resources can be physical, such as raw materials, or non-physical/intangible, such as time. Facilities and machinery required are also included in means of production.

### Production

This is the act of making something that is consumed. Consumables are usually divided into goods and services. Production includes processes and planning. For a clothing business, production would be the cutting of fabric to a pattern, stitching the fabric, finishing the clothes, then packaging them. It covers all the steps up to storing goods, ready for distribution.

### Goods

These are an output of production. Goods can be physical or intangible. Intangible goods do not have physical form, and include products such as music downloads, ebooks, streamed media, or purchasing an item, add on, or upgrade within an app or digital ecosystem. Intangible and virtual goods are an essential part of ecommerce.

## Services

These are also an output of production. Many of the things we regularly consume count as services, from having our taxes done to hiring someone to do yard work. The exchange itself is intangible, though the consequences of the service rendered is often material. A key distinction between goods and services is the idea of ownership. A consumer can own a good, like a jar of peanut butter. A consumer can't own a service, like yard work. Services are experiential; the lawn may be mown, but the grass will grow back. To have it cut again, the consumer will have to purchase labour – i.e. a service. Some examples of services that people offer online include coaching, counselling and career counselling, all of which can be offered via an electronic medium, such as video conferencing.

## Trade

Trade is the exchange of goods or services for a given value. Although most trade uses currency in exchange for goods or services, there are other types of exchange and barter. Media promotion is a common example of trade by barter in the online world.

## Supply Chain

A supply chain is the overall network of supply to a company, seller, or provider. E.g. The supply chain for a company selling peanut butter will begin with the peanuts (raw materials), then flow to the transport company carrying peanuts to the processing plant. The peanuts are processed, then packaged. The packaging – glass or plastic vessels – is also part of the supply chain, as the vessels must also be manufactured and shipped to the plant. Finally, the peanut butter is sold in a shop to a customer.

For our purposes, the supply chain will refer to the network up until it reaches the seller. (In some contexts, the supply chain ends with the consumer.) Proper management of the supply chain is an essential part of cost and risk management.

Traditionally, supply chains can be long and involve many different parties. In ecommerce, supply chains can be very short – the seller and the producer of a virtual good are the same person/entity, reducing the need for warehousing and retailing functions. They can also be winding, taking advantage of drop shipping and other retail innovations.

## Distribution

Distribution connects goods and/or services to the consumer. These may be directly distributed by the seller or service provider or via a distribution chain including transport and/or other channels. A distribution chain ends with the consumer.

## Transport

Transport is an important part of supply and distribution. For some small businesses with ecommerce components or portals, transport remains traditional. For others, transport needs are smaller or involve direct interaction with overseas producers and distributors. Managing cost, deciding on a transport mode (air, sea, land), contracting with transport companies or directly collecting goods/materials are all part of physical supply and distribution.

Virtual and intangible goods also require transport. Files, media, and streaming must all be created, then supplied to the consumer. Both supply and distribution may require a certain amount of bandwidth, reliable internet connectivity, or use of a specific platform (e.g. the app used by a streaming service). Access via a code or login may also be considered part of transport.

## Consumer/Buyer

For our purposes, the consumer/buyer is the person consuming the good or service supplied. Technically, the consumer is the person who uses the product, while the buyer is the person who pays for it. This is an important technical distinction, but the terms are often used interchangeably. Sometimes, the buyer is referred to as the customer.

## Merchant/Seller

The seller is usually the person or entity providing a good or service in exchange for payment. Sellers are sometimes referred to as vendors. Vendors usually sell products in bulk, though these terms are sometimes used interchangeably. Sellers may also be referred to as merchants.

In terms of ecommerce, a distinction is sometimes drawn between online sellers and online merchants. The major difference is commitment: an online seller is someone who sells product online, but hasn't developed a brand or merchandise. The terms are used interchangeably in this course; the focus here is selling goods and/or services in a digital environment. Marketing and branding distinctions are best discussed in the context of internet marketing rather than ecommerce.

## Transaction

"Transaction" has different meanings across business, commerce, and economics. In terms of commerce/ecommerce, a transaction is about transfers: it is the exchange (or transferral) of goods/services between the buyer and seller. This has three components:

1. Transfer of goods/services for currency (or other bartered material)
2. Transfer of possession/legal paperwork (e.g. taking the goods home, experiencing the service, receiving the deed or title)
3. Transfer of exchange rights

While this level of detail may seem unimportant, ecommerce relies heavily upon electronic transactions. Money is transferred between the buyer and seller by using a credit card, bank to bank transfer or by a third-party intermediary such as Paypal. Possession is transferred, via physical or virtual means. Understanding how transfer occurs, and the options for transfer in virtual and digital environments, is an important aspect of engaging in ecommerce. Transfer of rights is especially important, since this details the rights the new possessor has in use of the good/service. Many intangible items are sold with limited usage rights or licensing.

## Currency

Currency is a medium of exchange. All modern trade depends on the use of currency. Technically, currency can be any item that is accepted as payment or as a store of value. Currency must also be aligned to a standard of value.

In most ecommerce transactions, the currency used is monetary. Different nations use different currencies. Currencies that are part of the world market shift in value against one another. One Australian dollar can be equal to 78 US cents. This value will fluctuate according to many factors (discussion of which is outside the scope of this course).

Cryptocurrency – a digital medium of exchange – is growing more popular in some areas. Unlike national currencies, cryptocurrencies are decentralised, which means they are not tied to a given place or market. These currencies use cryptography and keys to secure transactions. Cryptocurrency is a volatile currency and the acceptance of it to pay for products change regularly.

## DIRECT AND INDIRECT ECOMMERCE PLATFORMS

In the real world, commerce takes place via store fronts and physical retailers. Ecommerce takes place via virtual store fronts and retailers. Ecommerce platforms can be direct or indirect.

A direct platform is when the business operates out of its own site, using ecommerce software to conduct transactions. Some ecommerce software covers all aspects of sales; some covers transactions only. Small businesses can set up a shopfront with content management systems such as WordPress and integrated plugins or other software. Some small businesses contract developers to set up store fronts.

An indirect platform is when the seller engages with consumers via a third-party such as Amazon, eBay or Etsy. In this case, the third party runs the site and transactions. Funds may be transferred to the third-party, then to the seller, or directly to the seller. Indirect platforms usually charge a fee.

Sellers focussed on drop shipping and resales, with no branding or merchandising requirement, often benefit from indirect platforms. Indirect platforms are also a good way to enter the market with little risk and lower overheads.

### Comparison of Ecommerce Platform Types

Direct Ecommerce Platform	Indirect Ecommerce Platform
More time to start up	Easy to start- great for small entry level
Set up fees, URL purchase and costs, ongoing website hosting fees, website maintenance and upgrade costs	Usually charges a fee for service, sometimes commission
Technical issues handled by the seller	Technical issues handled by third-party service provider
Control over product sales, types	May have extensive terms and conditions, limits on products and sales
Promote own products only	More competitors- Competition may be promoted alongside
Drop shipping and other forms available	Useful for drop shipping
No intrinsic benefit with independent platform use	May have higher search ranking due to platform
Reliant on own marketing and promotion	Access to an existing pool of consumers
Full design control, easier branding	No design control, difficult branding
Risk of security breaches, etc must be covered by the seller	Third party indirect platform have more IT staff and programmers ensuring web security and reducing the likelihood of security breaches
Website must compete with other websites (and competitors) for ranking and exposure	Third party indirect platform promote their sites and are usually high ranking
Better for more products- you have more control of branding and product personality	Great if you only have one or two things to sell

Sellers intending to build a brand or sell a variety of custom goods often require control of the platform. Digital marketing, including content and social marketing, is easier when using a direct platform.

Direct platforms also encourage faith in a brand; indirect platforms provide the potential for recouping funds due to fraudulent transactions.

The type of platform used is directly linked to the business plan.

Some companies may choose to sell products on both their own websites whilst also promoting and selling products on other indirect ecommerce sites.

### SETTING UP AN ECOMMERCE BUSINESS

An ecommerce business follows the same basic rules and principles as a physical one. This means that while there may be different steps involved – like selecting a platform and designing a website – the overall setup steps and considerations will remain the same. These include:

- Writing a business plan
- Defining a budget and working out sales projections
- Financing business start up
- Where possible, consulting experts
- Researching the industry and potential markets
- Defining a market
- Defining a brand

- Deciding on the type of business for tax purposes
- Researching relevant laws in your industry, including consumer law, and those applicable to supply and distribution
- Deciding if you need to incorporate
- Researching insurance
- Deciding on operations, production steps and business processes

You will work through each of these steps as you plan out your launch – beginning with the business plan.

### Writing a Business Plan

Like all business, successful ecommerce business start with a plan. Although overhead costs are usually less and there are few physical expenses such as rent, ecommerce businesses still have operational costs and competition.

Clearly defining the purpose of a business is essential. This is the strategy that your business will use for the next 3-5 years, which might incorporate growth of the company over that period and how it will be managed.

If your purpose is to sell custom stationery, you need to be clear on the elements required for production, the target market, your goals, and help set up your marketing program.

The key aspects of a business plan are:

- Executive summary
- Company description
- Market Analysis

Understanding what each of these sections represent – and what you intend to achieve – will help with ongoing decision making. A custom stationery business may operate well with a third-party commerce platform specialising in handmade goods, particularly as a side business. A custom stationery business looking to expand to a physical store front or distribute through a third-party physical store front will likely require a direct ecommerce platform to develop appropriate branding and brand awareness.

### Operational Plan

Once you have your business plan and strategy, an operational plan will help you manage your resources. This will be a 1-year plan of how your business will operate on a daily basis, including all functions – sales, operations, logistics, human resources, management. Even if it is just one person in the business, a plan of daily tasks and how you will fulfil the requirements and ensure that you are delivering the product and service to the client and can become profitable.

### Sole Traders, Partnerships, Incorporation

The business structure you select for your business will depend on many factors. Each will have different legal obligations. The business structure you could select could be sole proprietor, partnership, or a corporation. Each have different obligations with regards to the tax that you pay and your legal liabilities. This means it is important you research each business type to discover which structure would best suit your situation. Things the business structure affects include:

- operating hours
- employing staff
- taxation
- personal tax commitments.

### Legislation

Although your business may operate via a virtual shopfront, you will still need to adhere to the law in the market in which you are operating. Depending on where you are located, there may be different types of

legislation that would affect your business operations. For example, you might need to be aware of federal, state and sometimes council legislation and regulatory requirements.

Legislation relating to online businesses is evolving constantly with different countries implementing legislation to protect consumers, even if your website is based in a different country. If your audience is located in a foreign market, you will still need to ensure that you adhere to the legislation of the country in which your customer is located. For example, in 2018, new consumer privacy protection laws were released in the European Union. These are called the GDPR. Businesses conducting business with the EU must comply with these laws. Breaching the GDPR when conducting business with EU member states will attract large fines, regardless of a business' physical location.

### Examples of Areas to Research

Below is a list of examples for further research. These areas may or may not affect you, but research is key to conducting legal, viable trade. Look for other potential legislation, terms, or acts you may need to comply with in your country, countries you trade with, and your sector.

### Consumer Protection Legislation

The two central aspects dealt with are the market & competition e.g. sections may refer to such things as controlling the market and other sections, lessening of competition. For example, in Australia, the Act which protects consumers is called The Trade Practices Act. While this legislation has different names in different countries, it often includes similar information which generally relates to controlling aspects of business activity such as:

- Price fixing
- Retail price maintenance
- Price discrimination
- Exclusive dealing
- Monopolisation
- Credit cards
- Overseas cargo shipping
- Some mergers
- Some boycotts

### Privacy Legislation

As mentioned, privacy, data security and the customers right to have their information kept securely and also deleted correctly when they are no longer customers. For example, the GDPR legislation looks at customer data throughout the whole consumer life cycle.

- **Product is safe and legal:** you need to ensure what you are selling does not have any health risks, is legal (you are allowed to sell it in the country you are selling to) and also abides by safety standards.
- **Tax Legislation:** you need to ensure you are adhering to the tax requirements in the market/country you are operating in. Sales tax rules including GST and VAT will differ in many countries, depending on what you are selling and the amount of sales your company does each year. Some countries have sales tax and excises specific to certain commodities.
- **Import and Export Duties:** being aware of the duty requirements for importing raw materials or exporting final products. What do you declare? What kinds of import duties will you need to pay? Can you get a refund for them?

### What does this mean for an ecommerce business?

Selling a product to a consumer enters you and the consumer into a legal contract.

You will need to ensure you meet all communications standards for your customers, especially with regard to their rights as consumers and the laws your business operates under (often found in the terms and conditions section of a website).

For example, you need to communicate to your customers the following:

- Terms, Conditions and Warranties: a 'warranty' is a minor or non-essential term in a contract. A 'condition' on the other hand is a major or essential term.
- Privacy Policy including data retention and security
- Website Disclaimer
- If you are charging GST/VAT, or other sales taxes, per the law of the area you are operating in.

### Consumer Laws

Generally, these laws provide consumer protection and may guarantee the consumer some basic rights. Such rights may include:

- **Safety:** that the goods are safe to use.
- **Knowledge:** the buyer has the right to have sufficient knowledge about the goods or services which are purchased. There should be sufficient knowledge to ensure consumer protection from physical harm, from damaging or misusing the goods purchased, to prevent the consumer from buying things which he does not need etc.
- **Choice:** the buyer must have the right to choose which product s/he wishes to purchase.
- **Complaints:** the buyer has the right to express any complaints.

### Liability

Liability is a legal responsibility. What constitutes liability will vary according to location, type of business, transaction type, product type, and more. Liability affects all businesses, physical and digital. Intangible goods and services are also affected by liability.

#### Sellers Liability

Specific legislation regarding seller's liability varies across sectors, countries, states, and sometimes local municipalities. It is important to determine what the seller's liability is in both your location, your trade market, and your sector. In most cases, seller's liability is related to the following conditions.

1. If the seller has breached the conditions of a contract, the buyer is normally entitled to rescind the contract, return the goods and receive a full refund, in most situations (but not all).
2. If the buyer has some or all of the goods in their possession and is treating them in a way consistent with their ownership of those goods, or if a reasonable time has elapsed since supply of part or all of the goods, then the seller may no longer be liable.
3. Withholding goods is illegal after the title for goods has passed to the buyer. The buyer may sue the seller if goods are not supplied.

#### Liability of Manufacturer

Normally if there is a problem, it must be dealt with between the parties who are involved in the contract. It must be noted, however, that liability, contract, and torts law are often related, and determining affected/injured parties and responsible parties can be quite complex. In many places, this relates to the legal idea of foreseeability, i.e. if the general consequences of a given action/injury could have been foreseen. Many countries also have specific duty of care laws.

During your set up and research phase, spend time investigating liability and consequences for your sector, country, and any markets in which you operate. Depending on your product type, you may need to consult with industry, regulatory bodies, and/or a legal professional.



## Statutory Liabilities to Manufacturers

Check to see if there are legal Acts in your country regarding warranties and consumer protection and seller liabilities with regard to trading goods and services.

## Mitigating Liability

Sometimes, even ensuring you follow the legislation, things go wrong. You can mitigate the risks but staying up to date with legislation in your industry and operating location.

It is also worth looking at liability insurance for things that might be beyond your control. For example, if you sell surfboards, and somebody falls off a surfboard and claims that it is the fault of your product, they may be able to sue you. Liability insurance will help cover for events/occurrences that may be outside your control.

## SET TASKS

Throughout this course, you will complete set tasks and assignments focussed on setting up your ecommerce business. If you do not yet have a product, you may create a set of mock-ups for an imaginary product.

### Set Task 1

Define the purpose of your ecommerce business. Research business plans and write notes for one. Spend no more than 1 hour on this task.

### Set Task 2

Clearly define your product and the type of sale. Are you selling physical or intangible goods? Spend no more than 30 minutes on this task.

### Set Task 3

Investigate platforms. Do you wish to sell through a third-party? Or do you intend to sell directly from your website? Select a platform for your business. Spend no more than 30 minutes on this task.

### Set Task 4

Think about the legislation that will affect the company that you will have within the market that you will operate. Make a list of the pages that you will need to have on your website in order to properly inform clients/consumers about their legal rights, your responsibilities, and their responsibilities. Write down 10 things that will be covered on each of these essential pages. Spend no more than 1 hour on this task.