Chapter 1
Introduction to E-Commerce in the Global Economy

LEARNING OBJECTIVES

After completing this chapter, you will be able to:

• Define electronic commerce (e-commerce);
• Discuss the origin of the Internet and the growth of e-commerce;
• Describe and discuss the different types of e-commerce;
• Describe the major advantages and disadvantages of e-commerce;
• Describe the characteristics of organizations in the e-commerce era;
• Discuss the various impacts of e-commerce on organizations;
• Discuss the impacts of e-commerce on government policies;
• Describe Web 1.0, Web 2.0, and beyond;
• Discuss major Web 2.0 applications.

ONLINE PRIVATE SALES CLUBS

Private sales have existed in the physical world, where companies liquidate stock by using sales personnel who organize sales at lower prices to select groups of buyers, typically notified by word of mouth. This concept that has been extended to electronic commerce, where online companies sell stock from prestigious brands with major

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discounts only to club members, who can access the offers for a limited time only. Online private sales clubs have emerged as pure e-commerce businesses, using the Internet as an exclusive channel for selling products and services.

The online private sales club adopts a multibrand outlet format that relies on a strong, free-flowing relationship among the company, the suppliers, and the consumers. It also adopts an attractive and innovative marketing orientation that combines traditional marketing elements such as prestigious brands, sales promotions, and exclusive distribution with marketing elements specific to online markets, such as word-of-mouth communication, electronic customer relationship management (e-CRM) systems, and secure payment methods.

Companies that adopt these strategies (e.g., BuyVip, Vente-Privee, Privalia) enjoy strong annual growth rates that ensure a high number of registered members (e.g., Privalia has over 6 million customers around the world, leading in each of the markets in which it operates) and elevated sales volumes (e.g., Vente-Privee had 1,322 employees in seven countries and had 969 million Euros in sales in 2010: a 15% increase compared to 2009; see Figure 1). The creation of private sales clubs is not limited to fashion and accessories sectors; many furniture, travel, and cosmetic products now have their own private sales sites and are also attracting members aggressively.

The benefits for both the supplier and the client are many-fold. Suppliers earn revenues from outdated or defective products of a prestigious brand and can sell excess stock without damaging its image. Many companies recognize the outlet format as an ideal complement to selective or exclusive sales systems. Because suppliers must renew their offers frequently, especially in the fashion industry, they need a system that enables them to sell seasonal excess quickly and adequately. The advantages for the client derive from the ability to acquire various products (e.g., apparel, designer items, and sports goods) from famous and popular brands at discounted prices.

Online private sales clubs constitute a real innovation of the multibrand outlet model, marked by interactivity and connectivity, and have performed very well. A positive sign of their future potential is the commitment of major e-commerce businesses around the world to this sector. In October 2010, Amazon bought the Spanish company, BuyVip, which in three years attracted 5 million members and established a presence in seven European countries.

After reading this chapter, you will be able to answer the following:

1. How did e-commerce revolutionize the process of buying, selling, and exchanging products and services?
2. What are the advantages of e-commerce for organizations?
3. How has the web paradigm evolved over time?
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