Chapter 2: E-commerce environment & revenue models

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Objectives

- E-commerce legal environment
- Intellectual property
- Online crime, terrorism, warfare
- Ethical issues
- Revenue models
1990: Dell Computer was charged by Federal Trade Commission (FTC) for misleading advertising.

The advertising was for computer leasing plans.

However, the advertising was not displayed with full details.

Some important information was in small font and at the bottom of the page.

It's through curiosity and looking at opportunities in new ways that we've always mapped our path at Dell. There's always an opportunity to make a difference. -- Michael Dell
• All businesses must comply to laws

• Borders and Jurisdiction
  ◦ Physical world: territorial borders mark range of culture and applicable laws
  ◦ Jurisdiction: the ability to control a person or corporation of the government
- Geographic & legal boundaries
  - Power
  - Effect
  - Legitimacy
  - Notice
• Jurisdiction on the Internet
  ◦ Much more difficult
  ◦ Use contract: promises between 2 or more legal entities for exchanging values
  ◦ Violation of contract: filed in courts with jurisdiction
    • Subject-matter jurisdiction
    • Personal jurisdiction

• Conflict of laws
  ◦ Online businesses: look to federal laws for guidance
  ◦ How about international issues?
- Contract in e-commerce
  - Offer
  - Acceptance
  - Consideration
- Implied contract
  - Act as if contract exists
  - Even with no written and signed contract
- Contract on the Internet
  - Email exchange, fill web form, end-user license agreements (EULAs), etc.
- Warranties on the Web
  - Implied warranties
  - Warranty disclaimer
• Intellectual property
  ◦ Products of human mind
  ◦ Protected by copyright, patent, trademark, and service mark
• Copyright
  ◦ Exclusive right granted to creators of literary or artistic works (print, publish, sell)
  ◦ For a limited time (e.g. life of authors + 70 years)
  ◦ Idea cannot be copyrighted
  ◦ Web pages are protected by copyright
  ◦ Fair use: news report, teaching, research, etc.
• Copyright infringement
  ◦ Difficult to apply
  ◦ Napster peer-to-peer file sharing
  ◦ Case-by-case basis

• Patent
  ◦ Exclusive right granted to an individual to make, use, and sell an invention
  ◦ Limited time (20 years)
  ◦ Invention: must be genuine, novel, useful, and not obvious given current technology state
  ◦ Business process patent: controversial
• Trademark and service mark
  ◦ Trademark: distinctive mark, device, motto, implement company affixes to goods it produces for identification purpose
  ◦ Service mark: similar to trademark, but for service identification
  ◦ Must register to be protected
• Web site designers must not use any trademarked name, logo, other identifying mark without express permission of trademark owner
• Domain name issues
  ◦ Cybersquatting
  ◦ Name changing (typosquatting)
  ◦ Name stealing
• Protecting intellectual property
  ◦ Digital watermark
  ◦ Copy control
  ◦ Digimarc
Online crime
- Online version of physical crimes: theft, stalking, pornography distribution, gambling
- New online crime: using computers to attack other computers, cyberbullying, stealing or destroying important data
- Difficult to enforce laws due to jurisdiction issues

Advantages of the Internet
- Track perpetrators of online crimes
  - Criminals brag on social networking sites
  - Criminals leave clues in online profiles
• New age of terrorism and warfare carried out or coordinated through the Internet
• Web sites
  ◦ Openly support or are operated by hate groups and terrorist organizations
  ◦ Contain detailed instructions for creating biological weapons, other poisons
  ◦ Contain discussion boards (help terrorist groups recruit new members online)
  ◦ Offer downloadable terrorist training films
Online warfare

- Actions by a nation-state to penetrate another nation's computers or networks for the purposes of causing damage or disruption
  - Espionage
  - Sabotage
Companies using Web sites to conduct electronic commerce should adhere to the same ethical standards that other businesses follow:

- Advertising or promotion should include only true statements and should omit any information that could mislead potential customers.
- Even true statements have been held to be misleading when the ad omits important related facts.
- Any comparisons to other products should be supported by verifiable information.
Ethical issues
• Violation of ethical standards
  ◦ Damaged reputation
  ◦ Long-term loss of trust

• Important ethical issue organizations face
  ◦ Limiting use of collected e-mail addresses, related information
  ◦ Lack of government regulation: most organizations state their policy

• Privacy rights
  ◦ Laws have not kept pace with the growth of the Internet and the Web
  ◦ Companies lose control of the data they collect on their customers
• Privacy policies
  ◦ Opt-out approach
    • Assumes customer does not object to company’s use of information
    • Unless customer specifically denies permission
  ◦ Opt-in approach
    • Company collecting information does not use it for any other purpose
    • Unless customer specifically chooses to allow use

• Communication with children
  ◦ Children less capable of evaluating information sharing and transaction risks
• Electronic commerce Web sites
  ◦ Be conservative in customer data collection and use
  ◦ Use four principles for handling customer data
    • Use data collected for improved customer service
    • Do not share customer data with others outside your company without customer’s permission
    • Tell customers what data you are collecting and what you are doing with it
    • Give customers the right to have you delete any data collected about them
  ◦ Keep data secure
• Revenue model: how businesses generate revenue?
  ◦ Web catalog
  ◦ Digital content
  ◦ Advertising-supported
  ◦ Advertising-subscription mixed
  ◦ Fee-for-transaction
  ◦ Fee-for-service

• These models are not exclusive and can combine together

• Work for both B2B and B2C categories
• **Web catalog**
  ◦ Adapted from traditional catalog-based model
    • Seller established brand image
    • Sold through printed information mailed to prospective buyers
  ◦ Websites expand traditional model
    • Replace or supplement print catalogs
    • Offer flexibility
      ◦ Order through Web site or telephone
      ◦ Payment through Web site, telephone, or mail
  ◦ Creates additional sales outlet
  ◦ Suitable for: computers and consumer electronics, books, music, videos, luxury goods, clothing retailers, etc.
- **Digital content**
  - Sell subscriptions for access to the information
  - Most of these digital content providers specialize in legal, academic research, business, or technical material

- **Advertising-Supported**
  - Free content with advertising messages
  - Stickiness
    - Keeping visitors at site and attracting repeat visitors
    - Exposed to more advertising in sticky site
  - Large visitors vs. targeted visitors (demographic information)
  - Web portal: Yahoo!
• Advertising-subscription mixed
  ◦ Used for many years by traditional print newspapers and magazines: subscribers pay a fee, but also accept some level of advertising
  ◦ Subscribers: typically less advertising
  ◦ Suitable for: newspapers and magazines sites
  ◦ Variations: different levels of accesses

• Fee-for-transaction
  ◦ Service fee based on transaction number or size
  ◦ Removal of an intermediary: disintermediation
  ◦ New intermediary: reintermediation
  ◦ Used in: travel, automobile sales, event tickets, online banking, music, video, books, etc.
• **Fee-for-service**
  ◦ Fee based on service value
  ◦ Used in: online games, professional services

• **Revenue Strategy Issues**
  ◦ Channel conflict and cannibalization
    • Company Web site sales activities interfere with existing sales outlets
  ◦ Strategic alliances
    • Two or more companies join forces undertake activity over long time period
End of chapter 2