

## 4.3: E-Commerce Operations

### Learning Objectives

1. Explain the issues associated with whether a small business should buy or build its website.
2. Explain some of the legal issues that are relevant to e-commerce.
3. Discuss the need for an ethical website, particularly in terms of security, privacy, and trust.
4. Explain why order fulfillment is such an important part of successful e-commerce.

There are multiple parts to the creation of an e-commerce website: the infrastructure (the nuts and bolts building of the site), the e-marketing side (the design and creation of a web presence, which is discussed in Chapter 7), and the operational side. The operational side is the focus of this section.

### The Website: Buy or Build?

Unless a small business owner is technologically savvy or employs someone who is, building the company's website in-house from the ground up is not a particularly good idea. An effective website presence requires a good looking, professionally designed website. There are several approaches to having someone else build that website. Two are described here.

- **Full-service web developers** provide design, programming, support, hosting, search engine optimization, and more. Any combination of the services can be selected. Having the developer perform all the services would be the most expensive alternative. **Hosting** is the housing, serving, and maintaining of the files for one or more websites. "What Is Hosting (Web Site Hosting, Web Hosting, and Webhosting)?," accessed October 21, 2011, [searchsoa.techtarget.com/definition/hosting](http://searchsoa.techtarget.com/definition/hosting). **Search engine optimization** refers to the strategies intended to position a website at the top of search engines such as Google, Yahoo!, and Bing. Efraim Turban et al., *Electronic Commerce: A Managerial Perspective* (Upper Saddle River, NJ: Pearson/Prentice Hall, 2008), 758.
- A much lower-priced option is to select one of the many companies online that can help you to design your website. Typically these sites provide a choice of website design templates that can be easily edited; design services that are available if none of the templates meet your needs; hosting; **domain name selection** (your business address or name on the Internet, e.g., [gone.2012books.lardbucket.org](http://gone.2012books.lardbucket.org)) and **domain name registration** (registering your domain name with a domain name registrar and paying a fee that must be renewed annually); Christopher Heng, "How to Register Your Own Domain Name," *Thesitewizard.com*, 2010, accessed October 10, 2011, [www.thesitewizard.com/archive/registerdomain.shtml](http://www.thesitewizard.com/archive/registerdomain.shtml). and **search engine placement** (submitting your website to specific search engines of your choice). [Intuit.com](http://Intuit.com) and [Webs.com](http://Webs.com) are two companies that offer these and other services. The lowest level of services are often free.

### Video Clip 4.3.1

*Domain Name Dollar Store*



*A humorous look at getting a URL for your website at a rock bottom price.*

The ultimate cost for a website will be a function of its size, complexity, and the level of design. No two projects will cost the same. Part of the process of building a website, however, should be conducting some research and talking with website designers. The Internet offers a variety of sources on how to determine how much a website should cost. [WebpageFX.com](http://WebpageFX.com) offers a historical perspective on website costs, a cost calculator to find out how much a web project would cost, and examples of specific web design and website development projects with cost figures. “How Much Should a Web Site Cost?,” 2010, accessed October 10, 2011, [www.webpagefx.com/How-much-should-web-site-cost.html](http://www.webpagefx.com/How-much-should-web-site-cost.html).

Consider the following two scenarios:

- “A small business needs a website for their business so they have a presence on the Internet. The site is simple—about 5 pages with information about the business, the services they provide, and a form that can be submitted and the information received via email. The budget isn’t available for creating a graphic ‘look,’ and existing images will be used. A smaller, less experienced designer may take on a project like this for a few hundred dollars. A medium sized firm might quote \$3000 to \$4000 depending on variables. A larger firm would probably not take a project this small.” “How Much Does a Website Cost?,” *Planetlink.com*, accessed October 10, 2011, [www.planetlink.com/articles/how\\_much\\_does\\_website\\_cost.html](http://www.planetlink.com/articles/how_much_does_website_cost.html).
- “A mail order company wants to get into online sales. They currently have no website. They have a narrow mix of about 200 products with a broad target market; it’s also time to update their image. Depending on a wide range of variables, a project like this could start at about \$7000 and go into six figures.” “How Much Does a Website Cost?,” *Planetlink.com*, accessed October 10, 2011, [www.planetlink.com/articles/how\\_much\\_does\\_website\\_cost.html](http://www.planetlink.com/articles/how_much_does_website_cost.html).

There is no easy answer to the question of how much a website will cost. “A simple answer is that it will cost whatever a business is willing to spend—anywhere from free to millions of dollars.” “How Much Does a Website Cost?,” *Planetlink.com*, accessed October 10, 2011, [www.planetlink.com/articles/how\\_much\\_does\\_website\\_cost.html](http://www.planetlink.com/articles/how_much_does_website_cost.html). A better way to address cost is to answer the following questions: “How Much Does a Website Cost?,” *Planetlink.com*, accessed October 10, 2011, [www.planetlink.com/articles/how\\_much\\_does\\_website\\_cost.html](http://www.planetlink.com/articles/how_much_does_website_cost.html).

- What are your needs, goals, and expectations?
- What are the needs and expectations of your visitors, customers, and clients?
- Is your business already established with its unique brand or identity?
- What is required in terms of the skills, experiences, and level of design?
- Do you want to hire a high-profile design shop, a medium-sized design studio, a small company, or a student?
- What can you afford to budget for your project?

## Legal

There is nothing easy about the law. It is complex under the best of circumstances, but it is necessary to protect the rights and privileges of people and businesses. Companies that choose to engage in e-commerce must be aware of the legal environment because “a lack of awareness...can lead to missteps as well as missed opportunities...”Kathleen Mykytn and Peter P. Mykytn, “The Importance of the Law for E-Commerce Strategies,” *Information Systems Management* 22, no. 2 (2005): 50–56. A summary of important legal issues for e-commerce is in Table \(\PageIndex{1}\). However, the focus here is on three areas: electronic transactions, intellectual property, and jurisdiction.

Table \(\PageIndex{1}\): Important Legal Issues for E-Commerce

Issue	Description
Jurisdiction	The ability to sue in other states or countries.
Electronic transactions	All transactions that take place online.
Liability	The use of multiple networks and trading partners makes documenting responsibility difficult. How can liability for errors, malfunctions, or fraudulent use of data be determined?
Identity fraud	The Identity, Theft, and Assumption Deterrence Act of 1998 makes identity fraud a federal felony carrying a three- to twenty-five-year prison sentence.
Defamation	Is the Internet service provider liable for material published on the Internet because of services it provides or supports? (Usually not.) Who else is liable for defamation? What if the publisher is in another country?
Intellectual property law	Protects creations of the human mind.
Digital signatures	Digital signatures are recognized as legal in the United States and some but not all other countries.
Regulation of consumer	The United States allows the compilation and sale of customer databases. The European Union does not.
Time and place	An electronic document signed in Japan on January 5 may have the date January 4 in Los Angeles. Which date is considered legal if a dispute arises?
Electronic contracts	If all the elements to establish a contract are present, an electronic contract is valid and enforceable.
Taxation	Taxation of sales transactions by states is on hold in the United States and some but not all other countries. Expect this issue to be revived because the potential for increased revenue to the states is significant.

Source: Efraim Turban et al., *Electronic Commerce: A Managerial Perspective* (Upper Saddle River, NJ: Pearson/Prentice Hall, 2008), 795.

**Electronic transactions** are the many kinds of transactions that take place online, including contractual dealings, buying and selling of goods and services, information exchange, financial transactions (credit card payments; payor services, such as [PayPal](#); and money transfers), and communications. When developing a website, the small business owner must ensure that all online business transactions will be secure, particularly those involving money. This discussion must take place with whomever is developing your website.

**Intellectual property** is “a creation of the mind, such as inventions, literary and artistic works, and symbols, names, images, and designs, used in commerce.”Efraim Turban et al., *Electronic Commerce: A Managerial Perspective* (Upper Saddle River, NJ: Pearson/Prentice Hall, 2008), 774. Music, photos, videos, digital news, and artwork are forms of intellectual property that can be

transmitted over the Internet. All small business owners need to be concerned about the theft of intellectual property. They are afforded multiple protections, which are summarized in Table \(\PageIndex{2}\).

Table \(\PageIndex{2}\) Intellectual Property Protections

Law	Protection Provided by the Law
Intellectual property law	Protects creations of the human mind
Patent law	Protects inventions and discoveries
Copyright law	Protects original works of authorship, such as music and literary works and computer programs
Trademark law	Protects brand names and other symbols that indicate source of goods and services
Trade secret law	Protects confidential business information
Law of licensing	Enables owners of patents, trademarks, copyrights, and trade secrets to share them with others on a mutually agreed-on basis
Law of unfair competition dealing with counterfeiting and piracy	Protects against those who try to take a free ride on the efforts and achievements of creative people

Source: Efraim Turban et al., *Electronic Commerce: A Managerial Perspective* (Upper Saddle River, NJ: Pearson/Prentice Hall, 2008), 779.

It is important to protect intellectual property because businesses will not realize the full benefits of their inventions and would be inclined to focus less on research and development. Additionally, without intellectual property protections, “exporters face unfair competition abroad, non-exporters face counterfeit imports at home, and all businesses face legal, health and safety risks from the threat of counterfeit goods entering their supply chains.” “Why Protect Intellectual Property?,” *StopFakes.gov*, accessed June 1, 2012, [origin.www.stopfakes.gov/learn...-protect-my-ip](http://origin.www.stopfakes.gov/learn...-protect-my-ip). Unfortunately, US small businesses are at a disadvantage because “Why Protect Intellectual Property?,” *StopFakes.gov*, accessed June 1, 2012, [origin.www.stopfakes.gov/learn...-protect-my-ip](http://origin.www.stopfakes.gov/learn...-protect-my-ip).

- They may lack the knowledge, expertise, or resources necessary to prevent the theft of their ideas and products.
- Many small businesses do not have personnel and operators overseas, so they do not have the necessary eyes and ears needed to be vigilant. The theft of their ideas and products often goes undetected.
- Small businesses generally do not have the kinds of access and resources that are likely available to larger companies (e.g., specialized legal counsel).

Because of the complexities of intellectual property protections, this area requires the services of an attorney, preferably one experienced and knowledgeable in cyberlaw.

**Jurisdiction** refers to the right and power that a court has to interpret and apply the law in a particular geographic location. Peter LaSorsa, “Selling Products Online: What Legal Jurisdiction,” *Practical eCommerce*, November 5, 2008, accessed October 10, 2011, [www.practicalecommerce.com/articles/860-Selling-Products-Online-What-Legal-Jurisdiction-Applies-](http://www.practicalecommerce.com/articles/860-Selling-Products-Online-What-Legal-Jurisdiction-Applies-). “A court must have jurisdiction over the litigants and the claims before it entertains a lawsuit. In the context of Internet commerce, this issue erupts when a dispute arises between businesses from different states [or countries].” Elias M. Awad, *Electronic Commerce: From Vision to Fulfillment* (Upper Saddle River, NJ: Prentice-Hall, 2005), 387. Many small businesses will be selling products online in other states and in other countries, so it is important to understand the jurisdictions that might be applicable to any online transaction. “In many cases, laws from the customer’s state are the ones that will apply in the event a problem arises. This is equally true regarding the laws of other countries.” Peter LaSorsa, “Selling Products Online: What Legal Jurisdiction,” *Practical eCommerce*, November 5, 2008, accessed October 10, 2011, [www.practicalecommerce.com/articles/860-Selling-Products-Online-What-Legal-Jurisdiction-Applies-](http://www.practicalecommerce.com/articles/860-Selling-Products-Online-What-Legal-Jurisdiction-Applies-). From the perspective of any business, but particularly a small business, it would be much easier from both a time and a money perspective to have an issue litigated in the home state of a business. Although there are no guarantees, these steps can be taken to increase the chances of a dispute being settled in the home state of a business: Peter LaSorsa, “Selling Products Online: What Legal Jurisdiction,” *Practical eCommerce*, November 5, 2008, accessed October 10, 2011, [www.practicalecommerce.com/articles/860-Selling-Products-Online-What-Legal-Jurisdiction-Applies-](http://www.practicalecommerce.com/articles/860-Selling-Products-Online-What-Legal-Jurisdiction-Applies-).

1. If using a contract with another party, make sure the contract says that any dispute must be filed in your home state and that both parties to the contract agree to jurisdiction in that state.
2. When a customer is purchasing an item on the website of a business, one of the terms and conditions of the transaction should be that the customer agree to jurisdiction in the home state of that business. This can be done with a check box next to the statement. Make the customer check it off before completing the purchase.
3. A less effective way is to include a disclaimer on the website that any transaction will convey jurisdiction to the home state of a business, and any dispute must be heard by a court of competent jurisdiction in the home state of the business.

All these steps should also be considered when selling to other countries. However, the laws in other countries will undoubtedly introduce complications into protecting the US-based business. Take the example of Yahoo! and the sale of Nazi memorabilia on one of its auction websites. A French court ruled that such sales breached French law against the display of Nazi items. Yahoo! took steps to remove and ban all such hate paraphernalia from its auction sites, but it continued to fight jurisdiction of the French ruling in American courts. Kathleen Mykytn and Peter Mykytn, "The Importance of the Law For E-Commerce Strategies," *Information Systems Management* 22, no. 2 (2005): 50–56. It would be very easy for a small business to inadvertently find itself in a similar situation. That is why a business needs to be careful when selling outside its home country. Be familiar with foreign laws. This is not an easy task because the minute a business website goes live, the business goes global. The laws of the world suddenly become relevant.

## Ethical Issues

It is known that "ethical factors do play a significant role in e-consumers' purchasing decisions." Avshalom M. Adam, Avshalom Aderet, and Arik Sadeh, "Do Ethics Matter to E-Consumers?," *Journal of Internet Commerce* 6, no. 2 (2007): 19–34. Therefore, ethical factors should be of major concern in e-commerce and, accordingly, in the information and protections offered by an e-commerce website.

It has been observed that the "Internet represents a new environment for unethical behavior," and "ethical transgressions are more likely to happen in e-transactions as compared to face-to-face transactions." Sergio Roman, "The Ethics of Online Retailing: A Scale Development and Validation from the Consumer's Perspective," *Journal of Business Ethics*, 72 (2007): 131–48. To a large extent, this is due to the absence of physical and interpersonal cues that are present in traditional retailing or business settings. The implication is that e-commerce operations should focus more specifically and explicitly on the ethics messages that are being conveyed by the website. Thus the focus of this ethics discussion is on three major components of e-commerce ethics: security, privacy, and trust.

## Security and Privacy

**Website security** (the protection of a company, its suppliers, its customers, and its employees from criminal activity) is a critical consideration for any small business engaged in e-commerce. The Internet is a global playground for criminals. It is less risky to steal online because "the potential for anonymity on the Internet cloaks many criminals in legitimate-looking identities, allowing them to place fraudulent orders with online merchants, steal information by intercepting e-mail,... shut down e-commerce sites by using software viruses," Kenneth C. Laudon and Carol G. Traver, *E-commerce: Business, Technology, Society* (Upper Saddle River, NJ: Prentice Hall, 2007), 248. and steal financial information and money. This new type of crime is referred to as cybercrime, and it is a serious threat to e-commerce.

**Cybercrime** refers to any criminal activity that is done using computers and the Internet, "Cybercrime," *TechTerms.com*, accessed October 10, 2011, [www.techterms.com/definition/cybercrime](http://www.techterms.com/definition/cybercrime). and it includes a wide range of offenses. Downloading illegal music, stealing from online bank accounts, stealing credit card numbers and personal information, stealing identities, posting confidential business information on the Internet, and creating and distributing viruses on other computers are only some of the thousands of crimes that are considered cybercrimes. "Cybercrime," *TechTerms.com*, accessed October 10, 2011, [www.techterms.com/definition/cybercrime](http://www.techterms.com/definition/cybercrime). Cybercrimes can take place anytime and anyplace. It has cost American companies a median loss of \$3.8 million a year, and data protection and information technology (IT) practitioners from 45 US organizations from various sectors reported that, across their companies, 50 successful attacks were experienced over a four-week period. Alejandro Martinez-Cabrera, "Cybercrime Costs Firms \$3.8 Million Yearly," *Computer Crime Research Center*, August 3, 2010, accessed October 10, 2011, [www.crime-research.org/news/03.08.2010/3807](http://www.crime-research.org/news/03.08.2010/3807).

Video Clip 4.3.2

*The Business of Cybercrime*



*Cybercrime today.*

Video Clip 4.3.3

*The State of Cybercrime*



*Do not be fooled. Cybercrime is on the rise.*

Video Clip 4.3.4

*Cybercrime Trailer*



### *New cybercrime threats.*

Cybercrime is more profitable than the illegal drug trade (more than \$100 billion globally per year). Every three seconds an identity is stolen, and without security, an unprotected PC can become infected within four minutes of connecting to the Internet. “What Is Cybercrime?,” *Symantec*, accessed October 10, 2011, [us.norton.com/cybercrime/definition.jsp](http://us.norton.com/cybercrime/definition.jsp); and “Cyber Crime ‘More Profitable Than Drugs’,” *9News*, June 9, 2009, accessed October 10, 2011, [news.smh.com.au/breaking-news-national/cyber-crime-more-profitable-than-drugs-20090609-c1qm.html](http://news.smh.com.au/breaking-news-national/cyber-crime-more-profitable-than-drugs-20090609-c1qm.html). A Microsoft security intelligence report maintains that cybercrime is fast maturing as a profession, with cybercriminals becoming more sophisticated and packaging online threats that can be sold to others. Rudolph Muller, “Cybercrime Getting More Sophisticated,” *Mybroadband*, June 24, 2010, accessed October 10, 2011, [mybroadband.co.za/news/internet/13279-Cybercrime-getting-more-sophisticated.html](http://mybroadband.co.za/news/internet/13279-Cybercrime-getting-more-sophisticated.html).

Examples of Cybercrimes “Computer Crime & Intellectual Property Section,” US Department of Justice, accessed October 10, 2011, [www.cybercrime.gov](http://www.cybercrime.gov).

The [Computer Crime & Intellectual Property Section of the US Department of Justice](http://www.cybercrime.gov) keeps a running list of press releases related to cybercrimes. Here are three examples.

1. A Miami man pled guilty to one count of conspiracy to traffic in and possess unauthorized credit card numbers with intent to defraud, and one count of trafficking in unauthorized credit card numbers.
2. A Rhode Island man pleaded guilty to Internet sales of unregistered, unlabeled pesticides for cats and dogs while infringing on the trademark of two well-known national brand names, “Frontline” and “Frontline Plus.” The man made more than 3,500 sales through eBay.
3. A Canadian man was sentenced to 33 years in prison for selling counterfeit cancer drugs using the Internet.

Cybercrime hurts the bottom line of any business, but small and medium-sized businesses are the new cybercrime target. “Hackers and computer criminals...are taking a new aim—directly at small and midsize businesses...Smaller businesses offer a much more attractive target than larger enterprises that have steeled themselves with years of security spending and compliance efforts.” Tim Wilson, “Small Business: The New Black in Cybercrime Targets,” *Dark Reading*, March 19, 2009, accessed October 10, 2011, [www.darkreading.com/security/perimeter-security/215901301/small-business-the-new-black-in-cybercrime-targets.html](http://www.darkreading.com/security/perimeter-security/215901301/small-business-the-new-black-in-cybercrime-targets.html). Small businesses are potentially very lucrative targets for several reasons:

- Nearly one fifth of small businesses do not use antivirus software.
- Two thirds of small businesses do not have a security plan in place.
- Sixty percent of small businesses do not use encryption on their wireless links.
- Only about 60 percent of mom-and-pop shops have met the credit card industry’s data security standards for protecting credit card data. Compliance at the smallest businesses is even worse.
- Two thirds of small and medium-sized businesses believe that large companies are the main target for cybercrime,...yet 85 percent of the fraud seen in business occurs in small and medium-sized businesses. Tim Wilson, “Small Business: The New

Black in Cybercrime Targets,” *Dark Reading*, March 19, 2009, accessed October 10, 2011,

[www.darkreading.com/security/perimeter-security/215901301/small-business-the-new-black-in-cybercrime-targets.html](http://www.darkreading.com/security/perimeter-security/215901301/small-business-the-new-black-in-cybercrime-targets.html).

The cybercriminal is looking to steal and disrupt. Securing a website should be a top priority for any company—small, medium, or large—that uses the Internet to conduct its business.

### Video Clip 4.3.5

*How SSL Security Works on E-Commerce Websites*



*How Amazon.com grew so fast by incorporating SSL security.*

Given the state of cybercrime, assuring the security and the **privacy** of e-consumers (the protection of the personal information of customers on the Internet) are necessary to build and maintain confidence in the e-market, particularly because the risk of privacy invasion and security flaws is significant. Avshalom M. Adam, Avshalom Aderet, and Arik Sadeh, “Do Ethics Matter to E-Consumers?,” *Journal of Internet Commerce* 6, no.2 (2007): 19–34. Further, such assurances have been found to have a significant impact on the willingness to purchase. Naresh K. Malhotra, Sung S. Kim, and James Agarwal, “Internet Users’ Information Privacy Concerns (IUIPC): The Construct, the Scale and a Causal Model,” *Information Systems Research* 15, no. 4 (2004): 289–304, as cited in Avshalom M. Adam, Avshalom Aderet, and Arik Sadeh, “Do Ethics Matter to E-Consumers?,” *Journal of Internet Commerce* 6, no.2 (2007): 19–34.

E-customers voice their privacy concerns in different ways. Here are some examples: Sergio Roman, “The Ethics of Online Retailing: A Scale Development and Validation from the Consumer’s Perspective,” *Journal of Business Ethics*, 72 (2007): 131–48.

- “I don’t like websites that ask you for personal information that is not necessary for the purchase to be made.”
- “All privacy notices contain the same information, and besides, how do I know that the website actually follows the privacy policy.”
- “I’m not comfortable at all with the idea of the online retailer having my personal information and selling it to other companies for marketing purposes.”

The scope of failure in protecting customers’ personal information can be potentially devastating because of the global reach of the Internet; the effect can easily reach millions of people. Beverly Kracher and Cynthia L. Corritore, “Is There a Special E-Commerce Ethics?,” *Business Ethics Quarterly* 14, no. 1 (2004): 71–94. Heartland is a payment processor responsible for handling about 100 million credit card transactions every month. They disclosed in June 2009 that thieves had used malicious software in its network in 2008 to steal an unknown number of credit card numbers. Eric Larkin, “Massive Theft of Credit Card Numbers Reported,” *PCWorld*, January 20, 2009, accessed October 10, 2011, [www.pcworld.com/article/158003/massive\\_theft\\_of\\_credit\\_card\\_numbers\\_reported.html](http://www.pcworld.com/article/158003/massive_theft_of_credit_card_numbers_reported.html).

Fortunately, the theft of credit card and other personal information originating from websites accounted for only about 11 percent of the identity theft or fraud that affected 11 million Americans in 2009. “Javelin Study Finds Identity Fraud Reached New High in 2008, but Consumers Are Fighting Back,” *Javelin Strategy and Research*, February 10, 2010, accessed October 10, 2011, [www.javelinstrategy.com/news/831/92/Javelin-Study-Finds-Identity-Fraud-Reached-New-High-but-Consumers-are-Fighting-Back/d,pressRoomDetail](http://www.javelinstrategy.com/news/831/92/Javelin-Study-Finds-Identity-Fraud-Reached-New-High-but-Consumers-are-Fighting-Back/d,pressRoomDetail). This is why the act of providing credit card information on a website for a purchase is still considered by



some people to be so risky that they refuse to conduct any Internet transactions. This has obvious implications for any small company that hopes to do business online.

Fortunately, there is a very straightforward way to provide the security and privacy that online customers seek: the use of **Secure Sockets Layer (SSL)**, a security protocol that is used by web browsers and web servers to help users protect their data during transfer. “FAQ: SSL Basics,” *VeriSign Authentication Services*, 2011, accessed October 10, 2011, [www.verisign.com/ssl/ssl-information-center/ssl-basics](http://www.verisign.com/ssl/ssl-information-center/ssl-basics). Companies like [VeriSign](http://www.verisign.com) offer SSL protection certificates, and the placement of its icon on a website can offer security and privacy assurances to online customers. The inclusion of SSL protection should be discussed with your website designer.

## Trust

Trust is about believing—believing that someone will do what they say and that they will not intentionally do something to hurt you. Trust is an important part of all business relationships. Without trust, all e-commerce would come to a halt. “Trust is central to establishing successful e-commerce ventures and to ensure the continued success of this business paradigm into the future.” Albert J. Marcella, *Establishing Trust in Virtual Markets* (Altamonte Springs, FL: The Institute of Internal Auditors, 1999), as cited in Beverly Kracher and Corritore, “Is There A Special E-Commerce Ethics?,” *Business Ethics Quarterly* 14, no. 1 (2004): 71–94. Trust will improve competitiveness, reduce the costs of doing business, build loyalty, and increase the effectiveness of websites. In short, trust can be an important source of competitive advantage. Trust is essential.

In the physical world, trust is much easier to develop. Physical cues from spaces and buildings, face-to-face voice and body language, and salesperson effectiveness can translate easily into trust relationships. In the online world, however, trust develops as a result of the complex interaction of multiple factors that have design implications for the website. Here are some examples of trust: Avshalom Adam, Avshalom Aderet, and Arik Sadeh, “Do Ethics Matter to E-Consumers?,” *Journal of Internet Commerce* 6, no. 2 (2007): 19–34; Andrea Everard and Dennis F. Galletta, “How Presentation Flaws Affect Perceived Site Quality, Trust, and Intention to Purchase from an Online Store,” *Journal of Management Information Systems* 22, no. 3 (2005–6): 55–95; William Hampton-Sosa and Marios Koufaris, “The Effect of Web Site Perceptions on Initial Trust in the Owner Company,” *International Journal of Electronic Commerce* 10, no. 1 (2005): 55–81; Beverly Kracher and Cynthia L. Corritore, “Is There a Special E-Commerce Ethics?,” *Business Ethics Quarterly* 14, no. 1 (2004): 71–94; and Sergio Roman, “The Ethics of Online Retailing: A Scale Development and Validation from the Consumers’ Perspective,” *Journal of Business Ethics* 72 (2007): 131–48.

- The customer observes the seller to be honest, fair, responsible, and benevolent.
- The customer expects that the company behind the website will not engage in opportunistic behavior.
- The customer is confident about the site’s security and privacy protection (security and privacy having been shown to be an important determinant of a customer’s willingness to buy online).
- The customer perceives the company’s website as appealing (linked to layout, typography, font size, and color choices)—the belief being that an appealing website reflects a company has the capabilities and resources to fulfill its promises.
- The customer experiences a site that is easy to use (i.e., easy to navigate, easy to search, easy to gather information) and has relevant content, interactivity, site consistency, and site reliability.
- The customer perceives presentation flaws (e.g., poor style, incompleteness, language errors, conflicting colors, delay, and confusing terminology) as indicators of a low-quality, untrustworthy website.

Another element of trust is **order fulfillment**. Order fulfillment is all about meeting expectations, and some argue that this is the most important element of trust. Terry Newholm et al., “Multi-Story Trust and Online Retailer Strategies,” *International Review of Retail, Distribution and Consumer Research*, 14, no. 4 (2004): 437–56. Delays in the delivery of a product, the delivery of the wrong product, and the hassles of returning merchandise are stresses that can contribute to a less-than-satisfactory Internet buying experience. Such experiences contribute to a lack of trust. In contrast, satisfied consumers express themselves this way: Sergio Roman, “The Ethics of Online Retailing: A Scale Development and Validation from the Consumers’ Perspective,” *Journal of Business Ethics* 72 (2007): 131–48.

- “Products at this site are a bit pricey, but it is worth purchasing from this site since you get what you order and within the promised delivery time.”
- “I keep purchasing from this site because they always have the items I want in stock.”

Buying some products online, such as clothing, furniture, and toys, does not offer buyers the opportunity to touch and feel the product before buying. As a result, order fulfillment becomes even more important to customer satisfaction.

Linked closely to order fulfillment is **product reliability**. Product reliability refers to “the accurate display and description of a product so that what customers receive is what they thought they ordered.” Sergio Roman, “The Ethics of Online Retailing: A Scale Development and Validation from the Consumers’ Perspective,” *Journal of Business Ethics* 72 (2007): 131–48. Online retailers should provide a complete and realistic description of the product and its benefits—with high-quality pictures and perhaps even demonstration videos if possible, appropriate, and affordable—along with product availability and likely ship dates. Customers should be notified by e-mail of order acceptance, and the anticipated delivery date with phone and e-mail contacts for any needed assistance.

#### Video Link 4.3.6

Inflatable Fruitcake, the “Perfect” Christmas Gift?



We’ve all seen this on TV.

What all this says is that website owners must proceed carefully to create their online presence in a way that will inspire trust. “If consumers trust online merchants and have confidence in the reliability and integrity of merchants, they will likely feel more at ease making purchases and disclosing sensitive information online. Therefore, the success of online merchants and the future of e-commerce may depend heavily on online trust.” Ye Diana Wang and Henry H. Emurian, “Trust in E-Commerce: Consideration of Interface Design Factors,” *Journal of Electronic Commerce in Organizations* 3, no. 4 (2005): 42–60.

#### Payment Options

Nowhere are security, privacy, and trust more necessary than at the point of payment. Without this transaction, there is no e-commerce, so it is imperative that small businesses selling online take the necessary steps to reduce customer concerns about shopping online. A recent survey found that retailers operating online may have lost more than \$44 billion dollars over a one-year period as a result of transaction problems on their websites; in addition, 27 percent of online shoppers would turn to an offline or online competitor if they encountered an online transaction issue. “Tealeaf Survey Reveals That Online Retailers Potentially Lost More Than \$44 Billion Due to Transaction Problems on Their Sites,” *Tealeaf*, September 27, 2010, accessed October 10, 2011, [www.tealeaf.com/news/news-releases/2010/Tealeaf-Survey-Reveals-Online-Retailers-Potentially-Lost.php](http://www.tealeaf.com/news/news-releases/2010/Tealeaf-Survey-Reveals-Online-Retailers-Potentially-Lost.php). More specifically, online shoppers who encountered a transaction problem would react as follows: “Tealeaf Survey Reveals That Online Retailers Potentially Lost More Than \$44 Billion Due to Transaction Problems on Their Sites,” *Tealeaf*, September 27, 2010, accessed October 10, 2011, [www.tealeaf.com/news/news-releases/2010/Tealeaf-Survey-Reveals-Online-Retailers-Potentially-Lost.php](http://www.tealeaf.com/news/news-releases/2010/Tealeaf-Survey-Reveals-Online-Retailers-Potentially-Lost.php).

- Sixty-six percent would contact customer service, including
  - Fifty-three percent calling customer service; and
  - Thirty-six percent e-mailing or logging a web complaint with customer service.
- Thirty-two percent would abandon the transaction entirely, including

- Twenty-seven percent turning to an online or offline competitor.

To make matters even worse, the potential for lost revenue when customers have a negative online shopping experience is amplified by the rising use of social media like Facebook and Twitter; the voicing of displeasure on social networks can significantly damage a company's reputation. "Tealeaf Survey Reveals That Online Retailers Potentially Lost More Than \$44 Billion Due to Transaction Problems on Their Sites," *Tealeaf*, September 27, 2010, accessed October 10, 2011, [www.tealeaf.com/news/news-releases/2010/Tealeaf-Survey-Reveals-Online-Retailers-Potentially-Lost.php](http://www.tealeaf.com/news/news-releases/2010/Tealeaf-Survey-Reveals-Online-Retailers-Potentially-Lost.php). The message is clear. Online transactions must run smoothly.

But there is another important issue: the number of payment options that are offered to the customer. Research shows that the more payment options customers have, the more likely they will complete their purchase. Delilah Obie, "Choosing a Vendor to Process Your Online Transactions," *SCORE*, accessed October 10, 2011, [www.score.org/resources/online-transactions-vendor](http://www.score.org/resources/online-transactions-vendor); "How to Increase Sales with Online Payment Options," March 22, 2010, accessed October 10, 2011, [www.openforum.com/idea-hub/topics/money/article/how-to-increase-sales-with-online-payment-options-thursday-bram](http://www.openforum.com/idea-hub/topics/money/article/how-to-increase-sales-with-online-payment-options-thursday-bram); "More Payment Options Can Mean More Business," *MivaCentral*, 2009, accessed October 10, 2011, [mivacentral.com/articles/payment.mv](http://mivacentral.com/articles/payment.mv); T. Brandon, "Multiple Payment Processing Options Increase Sales," *eZine Articles*, October 21, 2007, accessed October 10, 2011, [ezinearticles.com/?Multiple-Payment-Processing-Options-Increase-Sales&id=793303](http://ezinearticles.com/?Multiple-Payment-Processing-Options-Increase-Sales&id=793303); and Efraim Turban et al., *Electronic Commerce: A Managerial Perspective* (Upper Saddle River, NJ: Pearson/Prentice Hall, 2008).

- Merchants offering multiple payment methods have lower cart abandonment rates.
- If you can afford it and maintain your profit margin, offering multiple payment options is a means to increase your sales by increasing customer confidence and convenience.
- North American online businesses with four or more options for payment see an average **sales conversion rate** of 72 percent. The sales conversion rate is the percentage of site visitors that make a purchase.
- Each new payment option added at the point of checkout results in a sales increase of 5–20 percent.

Customers shopping online expect convenience and a variety of payment options. Credit cards are by far the most popular means for making an online payment, with one survey indicating that 70 percent of online consumers used this payment method. "Online Retail Payments Forecast 2010–2014: Alternative Payments Growth Strong but Credit Card Projected for Comeback," *Javelin Strategy and Research*, February 2010, accessed October 10, 2011, [www.javelinstrategy.com/research/Brochure-171](http://www.javelinstrategy.com/research/Brochure-171). Any small business that does not have its website set up to accept credit cards will lose 60–80 percent of its potential orders. Further, offering a credit card option will increase the number of orders, and those orders will be substantially larger because credit cards enable impulse buying, reassure customers of your legitimacy, and simplify your billing. Delilah Obie, "Choosing a Vendor to Process Your Online Transactions," *SCORE*, accessed October 10, 2011, [www.score.org/resources/online-transactions-vendor](http://www.score.org/resources/online-transactions-vendor).

Consistent with credit cards being the online payment method of choice, it has been reported that 99 percent of online businesses offer a general purpose credit card, which include Visa, MasterCard, American Express, and Discover. "More Payment Options Can Mean More Business," *MivaCentral*, 2009, accessed October 10, 2011, [mivacentral.com/articles/payment.mv](http://mivacentral.com/articles/payment.mv). However, debit cards are growing in popularity ahead of other payment alternatives.

Table \(\PageIndex{3}\) Payment Options Consumers Used to Make Online Purchases in 2009

Payment Option	% Used
Major credit card usable anywhere	70
Major debit card usable anywhere	55
Online payment service, such as PayPal or Google Checkout	51
Gift card good only at a specific merchant	41
Store-branded credit card good only at the merchant that issued the card	27
Prepaid card or payroll card usable anywhere	17
Online credit service such as BillMeLater	17
Store-branded debit card good only at merchant that issued the card	16

The implications of this for small business are that credit cards should be the first payment method that should be set up for online sales. Additional payment methods should be added as quickly as the budget allows because it is clear that more payment options translate into a greater likelihood of purchase. However, the choice of alternative payment methods should be in keeping with the growth strategy of the business. It may be that offering one method of payment provides a satisfactory level of sales, thereby eliminating the need for additional methods for sales growth.

### KEY TAKEAWAYS

- It is important to protect intellectual property.
- Ethics influence consumer purchases.
- Small businesses are the new target for cybercrime. As a result, small businesses must pay attention to their website security because it will protect the business and influence customer trust.

### EXERCISES

1. Find three small business websites. Analyze each website in terms of its trustworthiness. Discuss why you would or would not trust each site. Be specific.
2. Discuss whether you think an unintelligible privacy policy is ethical. Be specific in your arguments.

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