Think before you click - customers' challenges in the e-commerce

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Abstract

E-commerce is the buying and selling of products, information and services over the Internet. The Internet is a public and global communication network that provides direct connectivity to anyone since the access is not restricted for anyone. The purpose of this paper is to analyse the e-commerce environment from the decision making point of view and reflect the findings to the situation, reporting the important differences, similarities and opportunities in a few key areas. The comparison is based on the differences in cultural settings and technological advancement, the nature of product offered and focused on the role of off-line activities in the online business. Analysing the customers' behaviour, preferences and choices I choose the Eastern Reflective Approach as a frame to compare it to the Western Expedient Approach (Jehn – Weigelt, 2001) represented by Japan and Europe as typical examples. To conduct my research I identified benchmarking as the most appropriate technique to find the similarities, differences and point out the key learnings. The target however was not a simple company, but a specific sector of the industry.

Keywords: E-commerce, Eastern Reflective Approach, Western Expedient Approach
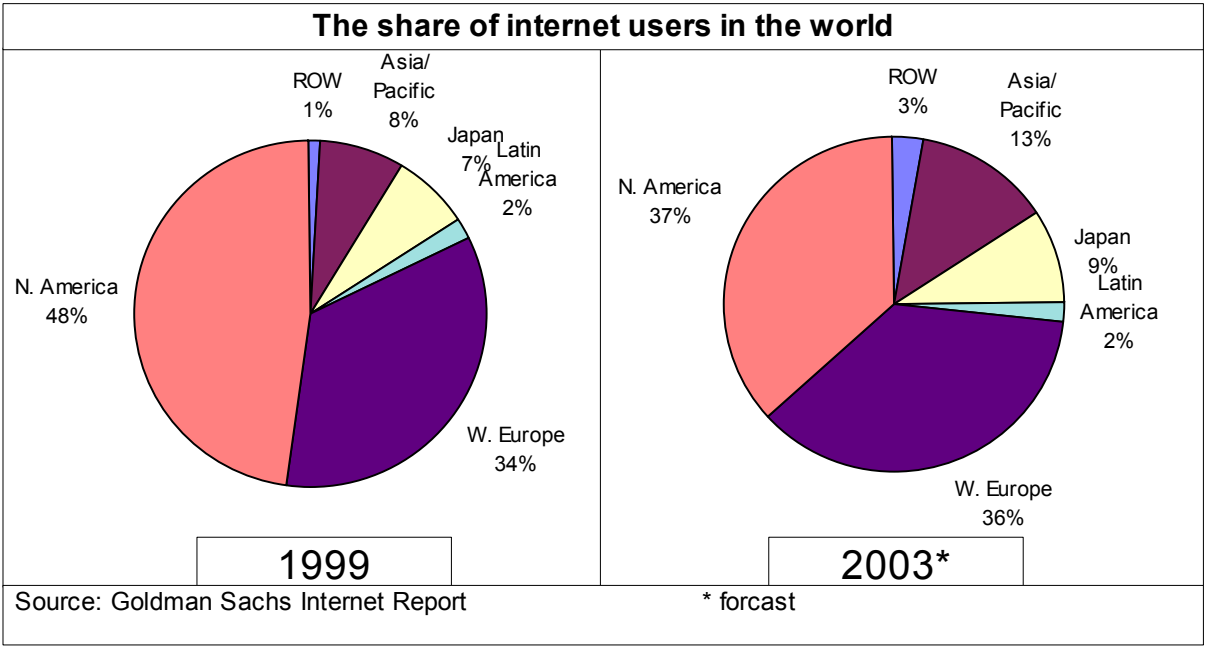
The history

In the 1940's, Thomas Watson, at that time chairman of the IBM Corporation, estimated the global aggregate demand of computers to be five! He simply could not foresee the explosive developments that the information technology has had over the second half of the last century, and especially not its implications. Today there are more than 300 million computers worldwide and this number is increasing exponentially. Hardly any business today can operate without computers. More and more customers have bought their home PCs already or they simply use the PCs in the office when they need information or do their on-line shopping.

This development has taken place over the last few decades and many, if not most, organizations have difficulties coping with the drastically rapid changes. People are often frightened by technological change. Yet, the world would be more frightening without continuous innovation. Change causes confusion. The Internet is one breakthrough that took place as late as in 1995 worldwide and today more than 25,000 people gain Internet access every hour! Naturally, this constitutes great opportunities as well as great challenges for existing businesses, but also for potential customers.

Figure 1

The share of internet users in the world

1999

N. America 48%
ROW 1%
Asia/Pacific 8%
Japan 7%
Latin America 2%
W. Europe 34%

2003*

N. America 37%
ROW 3%
Asia/Pacific 13%
Japan 9%
Latin America 2%
W. Europe 36%

Source: Goldman Sachs Internet Report   * forcast

Due to rapidly falling prices, computers and the Internet are being adopted more quickly than previous invented technologies, such as the steam engine and electricity. For example, it took the American manufacturing industry 90 years to reach the 50 percent penetration rate. By contrast, the Internet is approaching a 50 percent penetration in the US only 30 years after it was invented, and more importantly, only 8 years after it was launched commercially in 1993. Plunging prices has been one major reason behind the relatively fast adoption of information technology, but what are the real benefits or disadvantages of these technologies on the customers' level?

Close to perfect competition

First of all, by increasing the access to information, information technology contributes to making markets work more efficiently. For example, the Internet allows the consumers to seek the lowest price whereas a firm can get offers from more suppliers. Reduced transaction costs and barriers to entry bring the economy closer to what is referred to as perfect competition, which assumes plentiful access to information, many buyers and sellers, zero transaction costs and no barriers to entry/exit. Information technology makes these conditions a bit less implausible (however, in some industries it may seem as it facilitates monopoly power, as it is the case with the Microsoft Corporation, for example).

Secondly, better-informed markets should ensure that resources are allocated and utilized more efficiently. For example, manufacturers can track changes in demand more easily via direct links to electronic scanners in different stores, or farmers can get instant information on weather, prices and crop conditions in other regions. There are numerous examples of areas that will benefit from extended usage of information technology.

To conduct my research about e-commerce and its influences, I identified benchmarking as the most appropriate technique to find the differences, similarities and point out the key findings. Benchmarking is the process of identifying, sharing, and using knowledge and best practices. It focuses on how to improve any given business process by exploiting top-notch

approaches rather than merely measuring the best performance. Finding, studying and implementing best practices provide the greatest opportunity for gaining a strategic, operational, and financial advantage. Informally, benchmarking could be defined as the practice of being humble enough to admit that someone else is better at something and of being wise enough to try to learn how to match and even surpass them at it.

Benchmarking is commonly misperceived as simply number crunching, site briefings and industrial tourism, copying, spying, or espionage. By no means quick and easy, benchmarking is actually an ongoing process. It mirrors the continuous improvement efforts that may already exist in an organisation. It helps to blend continuous improvement and breakthrough improvement into a single change management system. Benchmarking is the art of finding out how and why some companies can perform tasks much better than other companies. There can be as much as a tenfold difference in the quality, speed and cost performance of an average company versus a world-class company. The aim of a benchmarking company is to imitate or improve upon the best practices of other companies. (Kotler, 1994). In this paper, however, the target is not to benchmark a simple company, but a specific sector of the industry. Theoretically any business process can be benchmarked and to go further, any process can be benchmarked.

E-Commerce in Europe

Customers, especially within the western business culture count speed of service as a key reason why they do business with a certain company. Also, they resent delays and more specifically, they hate waiting for service. In the US, for example, almost 80 percent of the GDP is generated through different kinds of services and it is clear that the speed of service is no longer something that distinguishes an enterprise as providing superior value. Customers generally expect high speed of service and are not thrilled if they receive it, but are rather highly dissatisfied if they do not receive it. E-business provides the framework that is necessary to cope with this trend by cutting the time customers wait for a particular service. Empowering employees together with an increasing use of self-service are other means of coping with this customer trend. Buying through the Internet means that the customer replaces the seller.
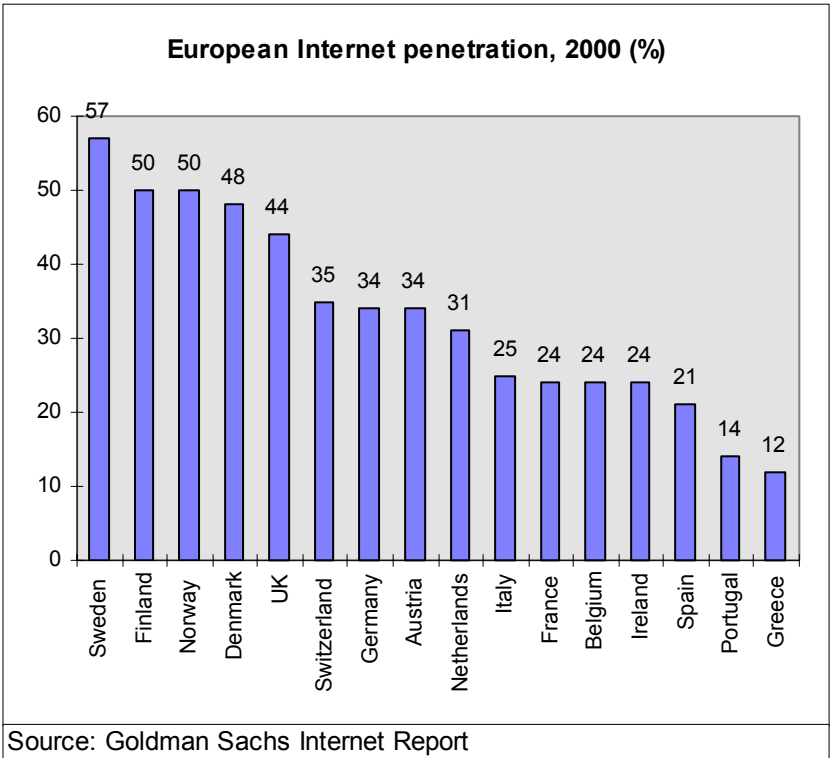
The need to attract, acquire, leverage and retain customers is still a primary concern to most businesses. Revenue growth through customer acquisition and retention remains a major competitive requirement in e-business as well as any other form of business. Several studies document that the average company loses half of its customers every five years and that it costs five to ten times as much to obtain a new customer as to retain an existing one.

Another service process trend is to make services consistent and reliable, as well as easy to use. Managers must understand that as customers value their time more, they are less tolerant of dull errors in customer service. Also, as the speed of service increases, the expectations for customer service grow higher. Thus, making customer service easy and solution orientated is probably one of the most important current trends in business. The customer service process must be friendly and easy to use. The increasing popularity of outsourcing makes this issue even more important since two or more firms have to coordinate functionality. In order to provide the kind of service that guarantees customer loyalty, enterprises need to coordinate their co-operation with partners and vendors better. E-business helps streamline the

integration process of more than one actor and do so more accurately and time efficiently than any other business model.
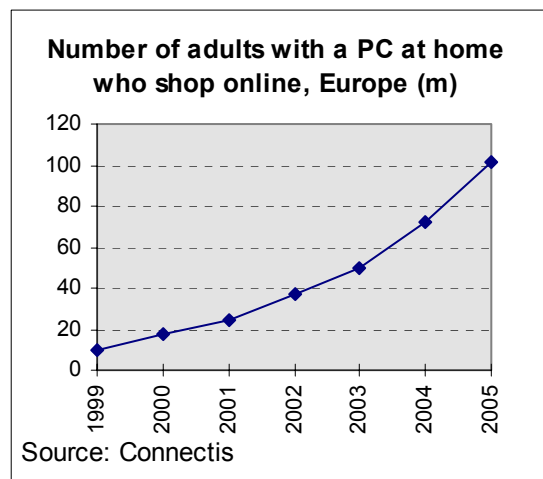
While the European market theoretically represents e-Commerce opportunities equal to those in the US, political, linguistic and cultural barriers make achieving this necessary scale much more difficult than in the US market, where several entrants have already made it (Yahoo!, AOL and eBay). Although Europe is increasingly becoming a single market, it is a long way from the level nature of the US. The European consumer market is not a homogeneous one, with PC and Internet penetration divergent across the region. The Northern European countries have the highest penetration ratio, but the three most important markets are the UK, Germany and France.

Figure 2

European Internet penetration, 2000 (%)

Country	Penetration (%)
Sweden	57
Finland	50
Norway	50
Denmark	48
UK	44
Switzerland	35
Germany	34
Austria	34
Netherlands	31
Italy	25
France	24
Belgium	24
Ireland	24
Spain	21
Portugal	14
Greece	12

Source: Goldman Sachs Internet Report

Although different among the countries, Internet penetration continues to climb, and with Europe's head start in wireless, future prospects look bright. This growth in the European market has been constrained to some extent by the telecommunications regulatory environment. More Internet usage should cause more on-line advertising spending and growth of e-commerce revenues.

Figure 3 and 4

Online shoppers as % of adults, Europe

	1999	2000	2001	2002	2003	2004	2005

Source: Connectis

Number of adults with a PC at home who shop online, Europe (m)

	1999	2000	2001	2002	2003	2004	2005

Source: Connectis

Merrill Lynch expects European Internet users to jump from 72m in 2000 to over 200m by 2004. Commerzbank estimated that the number of Internet users in Western Europe would rise from 42.5m in 1999 to more than 58m by the end of 2000. Online sales were expected to rise from Euro 2.9bn to Euro 8.5bn in the same period. But this still represents a relatively small proportion of overall retail sales. Commerzbank estimates that at Euro 8.5bn, online sales will account for just 0.3% of the total retail market in Western Europe. In fact, it is not until 2004 - when interactive TV and mobile media take hold - that, at 4.7 %, the online market is expected to approach anything like a meaningful proportion of retail sales.

European consumers also have to get used to the idea of shopping online. It is not only the development of the Internet and the increase in the number of online shops, but also the change in the attitude of the people, which will significantly increase the e-commerce revenues. Many of the consumers are not yet familiar with the technology or have concerns about security issues. These problems will be resolved as the consumers gradually gain confidence in shopping online.

Developing e-commerce in Central and Eastern European countries can be slowed down by the low online spending, which is a result of low general income, low GDP, weak basic telecommunication infrastructure, and foreign direct investors' varying levels of confidence in the market's profit potential. The Central and Eastern European market is going to be big, but it is a slow process and it is not going to happen immediately.
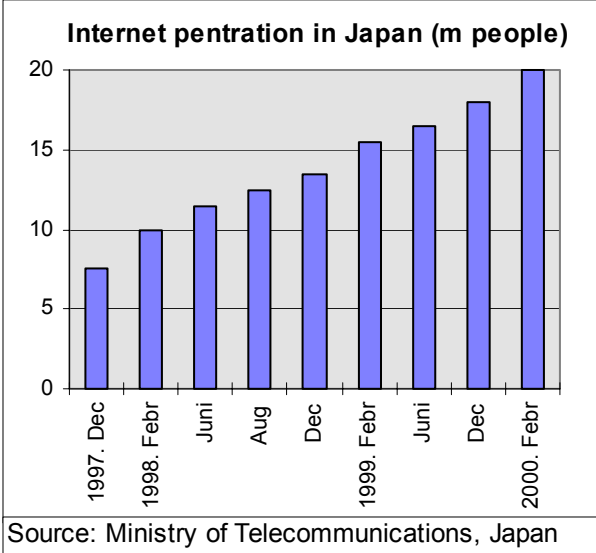
E-commerce in Japan[2]

1995 is said to be the year of birth of Internet in Japan, and similarly 1999 is supposed to be the year of birth of e-commerce. E-commerce is forecasted to grow dynamically in the future and many believe that in four years it will expand 20wards.

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[2] Information about Japan were provided by Eszter Lukenics who lived in Japan for several years

Further data and recent developments support this view. According to the forecasts of the Japanese Ministry of Telecommunication, the impact of e-commerce on GDP between 2004-2009 will be a 10% increase.

Figure 5

Internet pentration in Japan (m people)

Source: Ministry of Telecommunications, Japan

E-commerce numbers of some companies on the net are rather impressive. However, these numbers do not represent the true trends in Japan. There are many factors, including, legal, cultural or financial, which hinder the free development of e-commerce. The high cost of Internet access is a real barrier to development of the new economy.

Japan needs to remake itself and its way of doing business fundamentally. As a result of the typical Japanese business culture of government-corporate collusion, underpinned by the social and cultural principles of group cohesion and consensus, Japan is not a country eager for a change. However, once it started, the procedure seems to roll along.

Although late, the dot.com fever arrived to Japan, creating a shift in the mindset of people. Many believe, that this will provide the much-needed catalyst to change Japan. The first promising signs appear in the form of quitting the lifetime job. Until now, the most promising jobs were in government ministries or in large corporations. This tradition is now questioned, when there is a tendency for bright entrepreneurs to give up their prestigious position and launch their own work for an Internet start-up. A key point is that the 'new Japan' is still very old: 17 % of the population is age 65 or older.

Besides the above mentioned, there are other cultural barriers hindering the spread of e-commerce. Shopping in Japan is regarded as an important social activity, an opportunity to meet friends and spend time together. A large group of young women (16-26) still living at home, working part-time represent a significant spender group, since they have their whole disposable income and plenty of time to spend. The problem is, that because of the important social function of shopping in the country and the distrust of using credit cards, there is a little sign that sales of brand goods are starting to take off on the Internet. The companies which successfully sell products online, appeal to a very specific market - for example, cosmetics for

particular skin aliments. But consumers are starting to move online for some cheaper products, where trust for the brand originality is not a concern.

Clearly, the online trend is still very much in its infancy in Japan. While the proportion of women using the Internet is only 30%, according to industry estimates, this is expected to rise sharply in the coming years. The next 10 years are expected to reveal far greater changes in Japanese shopping habits than seen in the past decade.

"Reference spending," the term for offline purchases of products or services based on information that consumers find online, is very large in Japan. Real estate, automotive, and finance are three areas where consumers are increasingly referring to Web-based material in preparation for purchases. In many cases, the purchase decision is made exclusively based on Internet research.

Reference spending appears usually as a result of specific consumer behaviour typical to the market condition or cultural setting. The Japanese became time-conscious users, because Internet usage in Japan is very expensive. This is not because connectivity service charges are high (in some cases, they are actually lower than US rates), but because Japan's time-based telephone charges mean that users pay a minimum of JPY10 per three minutes for daytime calls. Japan's Internet users, therefore, tend to be conscious of their "time online" (TOL), and this TOL-consciousness is reflected in attitudes toward Web surfing. This attitude created an important source of reference spending. As an effective way of reducing online costs, Japan's Web surfers tend to rely more heavily on traditional paper media for site information than do their counterparts in Europe. A number of paper magazines have appeared over the past year to serve such users. Many, particularly older or novice users, carefully study the sites they want to visit before spending their time (and money) online. This environment underscores the importance of traditional media PR and advertising for generating high levels of traffic for a website.

Japan's 19.4 million wired citizens (24.6% population penetration) are rapidly gaining confidence in e-commerce. 46.5% of male and 44.3 percent of female home Internet users have either made a purchase online or subscribed to a service within the past six months. Despite the cell phone's bright future as an m-commerce device and the current hype surrounding it, the majority of online purchases in Japan are still made via PC (over 95%). Just over 41% of Japan's e-shoppers use the Net to buy personal items, versus only 1.4% for work goods. Interestingly, in both genders those aged 30 and higher have more Web shopping experience than younger Net users. Perhaps the social experience of shopping and the "being seen" dividend are more important to younger Japanese than to older.

Even more surprisingly, Japanese women, while far behind men in terms of high-tech education, are apparently making up for it in high-tech application. While male Net users are evenly distributed across age categories, younger women are clearly leading the technology push over older women. Women comprise the most important target consumer market in Japan. That's not just because they command such extensive purchasing power - it's because they are trendsetters in many areas of consumption, and from a surprisingly early age (high school, or even junior high school). Among professional marketers in Japan, it goes without saying that you have to reach women in order to be successful. More and more overseas firms moving into Japan's Internet space are focusing their marketing efforts on the young single women and housewives who drive retail sales.

Female online shoppers buy clothes, food, or games/toys, while men go for computer hardware, books, and software. Overall, the most popular item among Japanese e-consumers is food. In Japan, customers are treated with the utmost respect. E-retailers that fail to satisfy Japanese consumer demands and tastes will lose out quickly to those who do. Japanese consumers are loyal, and retailers should treat the relationship with respect. Once the consumer feels the respect is tarnished or lost, they may never come back.

Japan is very materialistic, and quality comes before price. Many consumers do like the image of the US lifestyle (free, relaxed, inexpensive, et cetera) but are also very sensitive to their own culture. Japanese consumers are very demanding, and expect a great deal of support, bordering on handholding.

Reflective and expedient customers

Patience and expediency are two very different approaches to choice. We can characterize the former as Eastern and the latter as Western decision making styles (Jehn-Weigelt, 2001). The Western view considers speed a virtue, whereas Eastern philosophers and ordinary people view patient reflection as a virtue in decision making.

Table 1

Approaches to decision making	
Eastern Reflective Approach	*Western Expedient Approach*
Reflective	Expedient
Long-term (balanced vision)	Short-term (myopic)
Calm mind	Emotional
Source: Jehn – Weigelt, 2001, p. 106	

Without oversimplification we can stress that neither side of the world has a monopoly on one or the other approach. It is true however, that the two approaches differ along a number of dimensions. The Eastern approach is reflective, taking time to consider carefully, while the Western approach focuses on deciding and acting quickly. The Eastern approach is more focused on the long term as opposed to the Western thinking. The Eastern approach focuses on acting from a calm mind, while the Western, moving quickly, often acts more out of emotion. The Western decision process is systematic and linear while the Eastern decision process is making holistic leaps in non-linear ways.

What can e-commerce offer to different customers?

The E-commerce practice is based on the expedient decision making approach. It supports the customers' requirements concerning the speed and comfort. Therefore it does not mean a big challenge or cultural shock for the Western shoppers, but it is quite unusual for the calm, reflective customers of the East. In case of the Western market E-commerce does not change the shopping habits and traditions, only the channel of the transaction is modified. Moreover, the goods are available more cheaply than in the traditional shopping malls, so they are very much stimulated to shop on-line.

Western, expedient customers are no less conscious. They are impressed by the comfort and the speed, but worry about the quality and financial safety. They choose brands instead of no-name products to get quality. The weak point is that they should provide their credit card number, which might be a real danger.

The expedient decision maker/shopper is characterised by systematic and linear decision processes. This corresponds to the logic of the Internet. Searching algorithms and menus built on each other are modelling the expedient thinking pattern.

E-commerce expands marketing opportunities. If it is true that it costs 5 to 10 times as much to obtain a new customer as to retain an existing one, E-commerce has unlimited opportunities. Via Internet sellers can reach their former costumers any time and can attract them with new offers. They can stimulate on-line shoppers to do impulsive shopping applying fantastic presentation techniques. However, customers could be overloaded. After a certain point too much information will make the choice difficult. E-commerce is really theatened by mobile-commerce (m-commerce) since costumers could be reached any time through their mobile phones not only when they are sitting in front of their PCs.

Reflective shoppers can get some support from E-commerce as well. They like to investigate products quite precisely and consciously. When it costs a lot, because of the expensive on-line charges, they will decrease the browsing procedure. Consequently they will not get a holistic view of the available options and their expectations will not be met. Reference spending practice shows that customers do not let themselves be hurried. They use alternative off-line sources in order to get information. Reflective shoppers do not like to be forced. They refuse the aggressive marketing, which is quite accepted in E-commerce. The Japanese e.g. might be approached more successfully using games, because they like to play and even adults are not shy to play.

Internet provides transparent solutions but is unable to maintain personal care toward the customer. In E-commerce customer replaces the shopkeeper, because he should help himself. What are missing are the personal contact and the potential advice, because these functions are built in the whole system in a very rigid way. Especially for women, shopping is a social event, an occasion to meet friends, drink a cup of tea or coffee and discuss different issues. You can not find that feeling sitting in front of your computer, except if you are chatting with other costumers.

As a summary, we can stress that E-commerce provides the opportunity of quick choices and lets customers surf and get a complete overview of the available options at the same time. Due to its fast development and spreading it might modify the customers' behaviour and shopping habits in the West and in the East as well.

Entrepreneurial and investment opportunities can be found in E-commerce across three evolutionary stages: companies that serve domestic markets only, companies that serve the region's native populations, and companies that serve worldwide markets. Opportunities within each stage reflect the maturity of a country's markets and business infrastructure. The Internet operates worldwide as its name shows: World Wide Web. The question is, whether Eastern companies and customers require technology, capital, and business expertise from the West to make use of these opportunities and fulfil its economic potential? In the light of the

findings it is suggested that improving E-commerce should involve taking into consideration the different cultural background and needs of the Eastern and Western people.

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