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The troubled
Differentiating
e-business and
e-commerce

Michael Tse and Maleen Gong

Two of the biggest buzzwords to emerge from the dotcom boom are frequently misinterpreted. Confusion over the meaning of 'e-business' and 'e-commerce' can lead not only to misunderstandings but inappropriate corporate strategies. In 2004, Tse attempted to define e-business and e-commerce using a value-centric approach. However, in order to understand the theoretical foundations of this approach, a number of important areas must be addressed. These include the concept of value and the rationale for adopting the concept of entity. Exploring these issues is essential for managers who wish to adopt a value-centric approach in order to clearly differentiate between e-business and e-commerce, and clarify the strategic position of their organisation.
Introduction


Since the mid-1990s, the terms e-business and e-commerce have been used to describe the use of the Internet and its related technologies in business operations. However, the use of these two terms has remained problematic due to long-standing confusion over their respective meanings. Reviews of their definitions (Mitchell 2001; Tse 2004) clearly show that there is no consensus on the meaning of either term. This suggests that when managers use these terms, it may be difficult to ascertain how others interpret them, which can lead to communication breakdowns.

In an attempt to remove the confusion surrounding the terms e-business and e-commerce, Tse (2004; 2005) proposed a new set of definitions based on a value-centric approach. Under this approach, e-business and e-commerce were considered two different entities. An e-business was defined as “an organisation which applies computing and telecommunication technologies jointly to the activities through which its products or services are created and delivered,” and e-commerce was defined as: “an organisation with a value proposition that relies on joint applications of computing and telecommunication technologies” (Tse 2005, p. 46–47).

For some, the adoption of a value-centric approach may lead to other questions. Why should we draw a distinction between e-business and e-commerce? Why should we view e-business and e-commerce as two different entities rather than two different types of activities? And more importantly, what is the concept of value?

The concept of value

VALUE CREATION IN ORGANISATIONS

The nexus of the value-centric approach is the concept of value. Monroe (1991) defined value as the ratio of perceived benefits relative to perceived sacrifice. Organisations create value for their customers by increasing the benefits of their outputs or reducing the sacrifice required to obtain such outputs (Ravald and Grönroos 1996). Value can be derived from not only the outputs themselves, but also from the way that outputs are delivered to customers (Amit and Zott 2001). For example, university education is valuable to students as a means of acquiring new knowledge through structured programs. However, the value of university education is not limited to the structured programs only. Different modes of delivery provide different value to students. For example, on-campus study allows frequent interaction among students. For some, such as experienced managers studying a Master of Business Administration, these interactions are often considered more valuable than the material delivered in class. On the other hand, distance education allows students to study at their own pace. Such flexibility is highly valued by people who are unable to attend regular classes due to family or work commitments.

CREATING VALUE WITH COMPUTING AND TELECOMMUNICATION TECHNOLOGY

The Internet, as an iconic development in computing and telecommunication technology, enables organisations to create value in ways vastly different from the pre-Internet era. Some organisations use computing and telecommunication technology to create value for themselves: an intranet, for example, allows an organisation to disseminate information across multiple locations at a reasonably low cost. The Internet can also be beneficial to customers, for example, improving operational efficiency. However, such improvements are not viewed as a core component of an organisation’s offerings to its customers.

In contrast, some organisations use technology to create new value for their customers. Amazon, Dell, eBay and Google are some of the most successful examples of this type of organisation.
These companies distinguish themselves from others through innovatively applying computing and telecommunication technology to generate better value for their customers. This, in turn, leads to better financial performance (Zhuang 2005). For companies such as these, the use of technology is an indispensible part of their customer value creation process.

"ORGANISATIONS THAT USE TECHNOLOGY TO CREATE NEW VALUE FOR THEIR CUSTOMERS SHOULD BE DISTINCT FROM THOSE THAT USE TECHNOLOGY SIMPLY AS A MEANS OF IMPROVING OPERATIONAL EFFICIENCY."

e-business and e-commerce ARE E-BUSINESS AND E-COMMERCE REALLY THAT DIFFERENT?

Considering that the use of the terms e-business and e-commerce cause considerable confusion, should we continue using both terms? The answer lies in the fact that a real distinction between these terms does exist within organisations that use computing and telecommunication technology in their operations (Jones 2003) and this distinction is meaningful to managers. While most organisations in developed countries use computing and telecommunication technology in their operations, not all of them use this technology to create value for their customers. Organisations that use technology to create new value for their customers should be distinct from those that use technology simply as a means of improving operational efficiency.

THE PROBLEMATIC TRANSACTION TEST

A common but problematic way to differentiate e-business and e-commerce is based on the concept of transaction (Culture and Recreation Portal 2008; Glover et al. 2003; IBM 2004; Jelassi and Enders 2005; Turban et al. 2004). A major criterion for classifying an operation as a transaction is the involvement of money (Culture and Recreation Portal 2008; IBM 2004). According to the test, if a transaction takes place, it is e-commerce—otherwise, it is e-business. This transaction test originated in the early days of the dotcom era, when selling merchandise through the internet was the only way to use technology to create value for customers. While it may have been valid in those days, it is certainly inappropriate now.

The problem of using the transaction test to distinguish between e-business and e-commerce is obvious when the test is applied to Google. One of the major operations of Google is providing a web searching service for internet users. However, the company does not receive any money from people who use this service. Instead, Google displays advertisements to users based on their search keywords, and an advertisement fee is payable to Google when searchers click on an advertisement’s link. Advertising income is one of the major sources of revenue for Google. In the third quarter of 2007, advertising accounted for about one-third of Google’s revenue (Google 2007). The web searching service itself does not generate income, but it is a core component of the company’s value creation process.

If we apply the transaction test to Google, then its web searching service should be classified as an e-business. Under this classification, Google is not dissimilar to a corner shop that uses the Internet to send its accounting records to the tax agent, as both Google’s web searching service and the corner shop’s internet use do not involve money directly. Clearly, however, this classification does not make much sense. It gives us little insight into how organisations use technology to create value in different ways.

DISTINGUISHING E-BUSINESS AND E-COMMERCE UNDER A VALUE-CENTRIC APPROACH

While the transaction test itself is not an appropriate way to differentiate e-business and e-commerce, it does indicate how a distinction between the two terms can be drawn. Under the transaction test, the use of technology in value creation (performing a transaction that involves exchange of money) is the key criterion in distinguishing e-commerce from e-business. Under the value-centric approach, the distinction between e-business and e-commerce is also based on ways that organisations use computing and telecommunication technology in value creation. If an organisation uses technology to create the core value of its offerings to customers, it is an e-commerce organisation. If it does not, it...
must be classified as an e-business organisation. In Google’s case, the use of technology is integral to its web searching service. The company cannot create value for its customers without the use of technology. As such, Google is undoubtedly an e-commerce organisation. In comparison, the corner shop can select to send its accounting records to the tax agent through the internet or other traditional means (for example, mail). The use of technology bears little relation to the shop’s core value for its customers. Therefore, a corner shop that uses the internet for minor accounting purposes is classified as an e-business organisation.

Entity versus activity

AN ACTIVITY-BASED VIEW ON E-BUSINESS AND E-COMMERCE

Traditionally, e-business and e-commerce have been viewed as two different types of organisational activities (Mitchell 2001; Schneider 2004). The terms have been applied to organisations based on the particular types of activities they perform. For example, Amazon is considered by many to be an e-commerce organisation because it was a pioneer in selling books over the internet.

Adoption of this traditional view will lead to the conclusion that all organisations that sell books via the internet are e-commerce organisations. This conclusion ignores the critical factor that led to Amazon’s initial success: the company’s ability to utilise the internet as a means of creating customer value. The use of the internet as a selling channel allowed Amazon to enjoy low transaction costs, extended reach across geographical boundaries and around-the-clock availability. Amazon successfully transformed the benefits it enjoyed into low prices and convenience for its customers. These customer benefits are integral to the core value of Amazon’s offerings.

AN ENTITY-BASED VIEW ON E-BUSINESS AND E-COMMERCE

As shown in the case of Amazon, organisational activities do not create value on their own. Organisations create value for their customers through sets of coordinated activities. To examine the role of technology in customer value creation, activities cannot be detached and viewed in isolation from the entity that performs those activities.

Under the value-centric approach, e-business and e-commerce are viewed as two different types of entities. The classification is based on the overall role of technology within an entity rather than the types of activities that entity performs. An entity can be an organisation or a division of an organisation. A division of an organisation is considered a separate entity if it performs a distinct set of operating activities that create value for its customers. Therefore, it is possible for a division of an organisation to be an e-commerce organisation in its own right. For instance, Snapfish is considered a separate e-commerce organisation, even though it is legally a division of Hewlett Packard.

Implications for managers

A NEW MINDSET FOR MANAGERS

Adopting the value-centric approach is more than accepting a new set of definitions for e-business and e-commerce. It involves a fundamental change in mindset. Traditional definitions of e-business and e-commerce distinguish the two by looking at the operating activities of an organisation. Consequently, managers who adopt traditional definitions tend to think about their organisation at an operational level and lose sight of the bigger picture. In contrast, managers who adopt the value-centric approach generally understand that their organisation’s fundamental strategies for customer value creation form the distinction between an e-business organisation and an e-commerce organisation. Such managers tend to think about their organisation at a strategic level and keep an eye on the bigger picture.

IT STRATEGIES FOR DIFFERENT TYPES OF ORGANISATIONS

The distinction between e-business and e-commerce is useful to managers when they formulate their organisation’s IT strategy. IT strategies influence organisational performance in different ways as business strategies change (Sabherwal and Chan 2001). Therefore, an organisation should formulate its IT strategy based on whether it is an e-business or an e-commerce organisation. If an organisation is...
an e-business, managers should put emphasis on using technology to improve the organisation's operational efficiency. If an organisation is an e-commerce organisation, the IT strategy should be focused on developing innovative ways to use technology to create customer value. In such cases, IT investments should be considered from a strategic perspective. Financial information related to IT investment projects should always be evaluated in conjunction with a qualitative analysis of the project's strategic implications.

Conclusion
Three important questions on the theoretical foundations of the value-centric approach have been addressed, namely the concept of value; the distinction between e-business and e-commerce; and the rationale for adopting the concept of entity in the new definitions. Without answers to these questions, the new definitions make little sense.

Under the value-centric approach, e-business and e-commerce are more than two buzzwords. They represent two different strategies for the use of technology in organisations. The adoption of a value-centric approach helps managers clarify the strategic position of their organisation, which in turn facilitates the development of an effective IT strategy.

References


