1.1.6. Electronic Commerce and Trade Cycle

A trade cycle is the series of exchanges, between a customer and supplier that take place when a commercial exchange is executed. A general trade cycle consists of following stages:

1) **Pre-Sales:** Finding a supplier and agreeing the terms.
2) **Execution:** Having decided to do business the buyer requests or orders from the vendor that which is required and the vendor hands over or delivers the goods or service.
3) **Settlement:** At an appropriate stage the vendor asks for payment, the invoice, and, hopefully, the buyer makes the appropriate payment.
4) **After Sales:** Once the sale is completed that is not necessarily the end of the story; depending on the nature of the exchange there may be a requirement for after sales activities.

This trade cycle is shown in **figure 1.2**.

The way the trade cycle operates can vary depending on the nature of the customer, vendor, goods being traded and the traditions of the market segment and/or culture in which the deal is being done.

E-commerce can be applied to all, or to different phases, of the trade cycle. The trade cycle varies depending on:

1) Nature of the organisations (or individuals) involved.
2) Frequency of trade between the partners to the exchange.
3) Nature of the goods or services being exchanged.

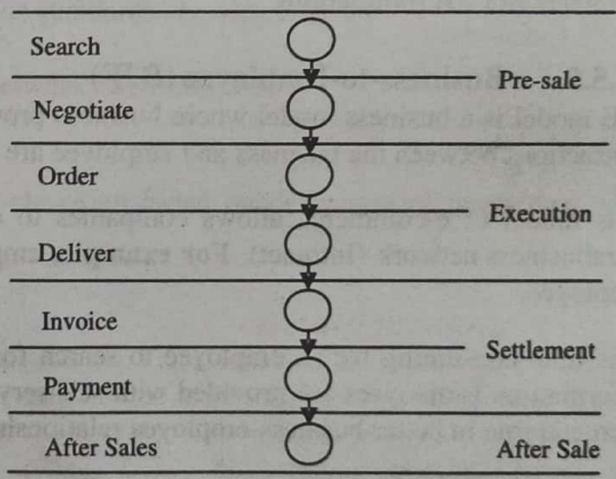

Figure 1.2: Generic Trade Cycle

The trade cycle has to support:

1) Finding goods or services appropriate to the requirement and agreeing the terms of trade (referred to as search and negotiation).
2) Placing the order, taking delivery and making payment (execution and settlement).
3) After-sales activities such as warrantee, service, etc.

There are numerous versions of the trade cycles depending on the factors and for many transactions, further complicated by the complexities of international trade. Three generic trade cycles can be identified:

1) **Repeat Trade Cycle:** Regular, repeat transactions between commercial trading partners.

2) **Credit Transaction:** Irregular transactions between commercial trading partners where execution and settlement are separated.

3) **Cash Transaction:** Irregular transactions in once-off trading relationships where execution and settlement are typically combined.

The trade cycles for these three categories are shown in **figure 1.3**:

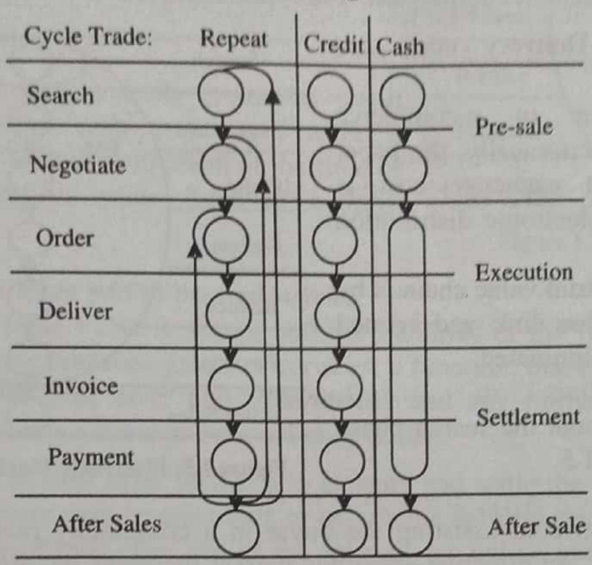

Figure 1.3: Generic Trade Cycles

1.1.7. Scope of E-Commerce

The mainstream of e-Commerce consists of three areas; these are represented in **figure 1.4**.

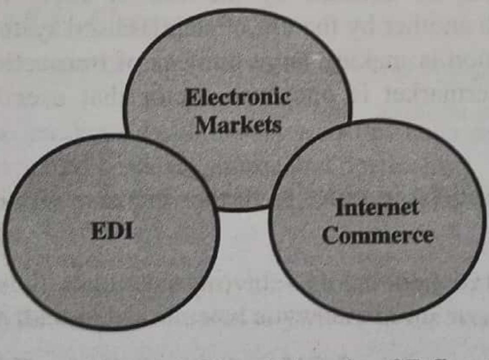

Figure 1.4: Three Categories of E-Commerce

1.1.7.1. Electronic Markets

In an electronic market, information and communications technology is used to offer a range of products and services existing in a market segment so that the customers can compare the prices of the various similar products and services and decide which one to purchase. The airline booking system is one of the very popular **examples** of electronic market.

Electronic markets are a more efficient form of coordination for certain classes of product transactions, especially those where asset specificity is low or where products are easy to describe. Thus electronic markets are used due to the following reasons:

1) **Lower Coordination Costs Favour Electronic Markets:** Electronically linked producers and retailers are able to lower their costs by reducing intermediary transactions and unnecessary coordination, due to direct electronic transactions with the consumer.

2) **Low Computing Cost:** This can transform and expand product to make them suitable for the electronic market.

3) **Multiple Choice Preferences Based Shopping:** Traditional single source sales channels had been evolving into linked databases between firms, through EDI, leading to biased electronic markets. The evolution of these linked databases is now yielding to share databases accessible to all firms. As a result, biased electronic markets will transform into unbiased markets.

4) **Trade-Off in Market Participation:** Electronic markets pass on the savings accrued from improved coordination costs and sell at a discount compared to traditional markets.

5) **Minimised Delivery Costs:** Delivery costs are minimised in two ways:
   i) Since the information in an e-commerce transaction is transmitted electronically, the paper based information/document exchange cost is substituted by much lower electronic distribution costs.
   ii) As each element of the industrial value chain is by passed, a physical distribution link and related inventory carrying costs are eliminated.

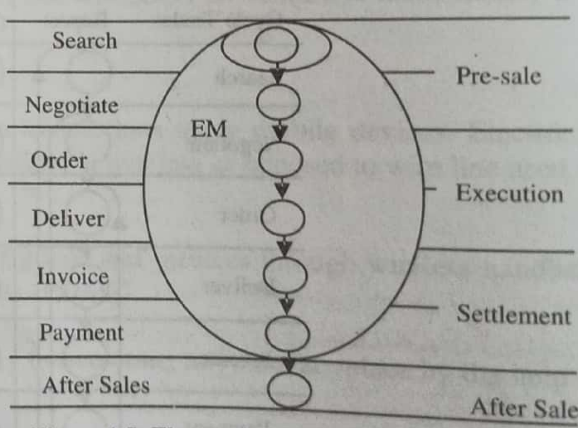

Figure 1.5: Electronic Markets and Trade Cycle

The electronic market is primarily about the search phase of the trade cycle as shown in **figure 1.5**.

The electronic market is most effective in assisting the buyer in a commodity market where products are essentially identical across all sellers. An effective electronic market increases the efficiency of the market; it reduces the search cost for the buyer and makes it more likely that the buyer will continue the search until the 'best buy' is found.