

## **The benefits and issues with e-commerce for businesses and consumers** (Relevant to Paper 8 – Principles of Auditing and Management Information Systems)

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### **Introduction**

Internet-enabled technology is changing the development of electronic commerce (e-commerce). Using e-commerce businesses can trade with other businesses or consumers from any part of the world at whatever time, bringing more business opportunities. Some of the businesses have reacted and developed their e-commerce to cope with the changes, but some others have been eliminated as a result of the challenge to their traditional business model. This article discusses the benefits for and issues with e-commerce for both businesses and consumers.

### **Benefits for businesses**

Low set up cost attracts start-up businesses to participate in e-commerce. They do not need a physical store to display their products, as they can simply display them on their website. Furthermore, online businesses are built on websites and are highly automated, and thus fewer employees are required.

This reduction of operating costs is driving offline businesses to participate in e-commerce. The removal of branches can save both rental and staff costs. In addition, a smaller inventory volume is needed when the number of branches is reduced. Inventory management allows businesses to maintain lower inventories without taking the risk of running short. With data obtained from the website, online businesses can instantly update their inventory system; this enables timely replenishment of inventories and thus a lower level of inventory can be maintained. Online businesses can display their niche products, slow moving items, or even obsolete items on their websites without the space constraint in offline businesses. In e-commerce sales proceeds are mostly collected through electronic fund transfer, and thus businesses can save time and effort in handling the coins and notes collected from branches. Furthermore, offline businesses can make use of websites to promote their products, meaning wider coverage than through traditional means of advertising.

E-commerce may increase sales opportunities since sales can take place at any time during the day and the market is no longer restricted to the place where the business has established its sales force. Orders can come from any part of the world as long as the potential customers can find the vendor's website. In some industries, e-commerce may cause the elimination or reduction of intermediaries (wholesalers or retailers) and manufacturers may benefit by reducing the selling and distribution costs paid to these intermediaries. Furthermore, e-commerce enables businesses to link directly with their customers. With the use of cookies, businesses can capture customers' spending behaviour and habits; this helps the businesses produce goods

and services to meet their interests. Using e-mails businesses can send information to interested groups to promote their goods and services.

### **Issues for businesses**

E-commerce relies on the Internet and websites. Any breakdown of the Internet traffic or website attacks by hackers could paralyze online trading activities. The population without Internet access is also unlikely to participate in e-commerce.

E-commerce does not necessarily bring more business. Vendors charging higher selling prices are easily filtered out by comparison shopping websites. Consumers tend to choose the vendor offering the lowest selling price and ignore other non-monetary factors, such as after-sales service. With the development of e-commerce, the role of the middlemen (such as wholesalers and retailers) should decline as they can be bypassed by consumers who can now easily contact producers directly via their websites. Gradually intermediaries' business volume should decrease.

Online businesses may face security threats. Criminals may set up scam websites to steal customers' credit card information. Although vendors may not suffer a financial loss, the bad experience will diminish customers' interest in purchasing online. Furthermore, phishing e-mails may redirect counterparties to remit funds to bank accounts set up by the criminals. Eventually the vendor and the payer may argue over who has responsibility for the loss, making their relationship turn sour. In order to prevent hacker attacks, online businesses may have to spend big sums on their IT infrastructure.

Online payment may be a nightmare for online businesses. Most online businesses accept credit card payments. Criminals may use stolen credit cards to purchase online and vendors may suffer from credit card fraud. Moreover, customers may ask credit card companies to reverse their transactions and cease payment to the vendors if they are not satisfied with the quality of goods or services ordered. Ultimately the vendors, who have already delivered the goods or services, may either fail to collect the sales proceeds or need to take legal proceedings to get their money back.

Tax issues may be another nightmare. As transactions take place in any part of the world, online businesses may unknowingly be involved in the complicated tax law and regulations of different tax regimes. Some tax regimes require charging value added tax, but some do not. Some of the transactions give rise to profits tax based on the operations of the business, but some may not. It would not be a surprise for a business to receive a tax demand note years after the transactions.

Logistic issues may disturb e-commerce. A strike at logistic partners may cause a delay in the delivery of products and may severely hurt online businesses. Moreover, the time and effort taken in handling the delivery of numerous small value items might not be worthwhile. In addition, customers may be scared away by high delivery costs.

## **Benefits for consumers**

E-commerce brings great convenience to consumers. They can do their shopping at any time and any place as the “virtual” stores are open all the times. They do not need to carry their goods as these are delivered directly to their home. They can stay at home shopping comfortably without the need to stand in queues and can download digital products for their instant entertainment. In contrast to the traditional business, consumers do not need to wait for a reply from a hotline; they can easily find answers to their questions from websites. Consumers can save travel time in searching for products from different stores. They can surf the vendor’s website, search for the required goods or services, and view the specifications for each item. Stores normally keep seasonal or fast selling items, meaning consumers are often unable to find less popular items at physical stores.

E-commerce can bring down the selling price. Theoretically the elimination of intermediaries can reduce selling and distribution costs and thus consumers may purchase products at a lower price. Shopping search engines and comparison shopping websites are new forms of intermediaries which help consumers to locate the best price for the goods or services they want. New intermediaries under e-commerce have emerged, such as eBay.com: these provide a platform for C2C (consumer to consumer) business and enable individuals to buy and sell from each other without any intermediaries.

## **Issues for consumers**

Consumers may feel that e-commerce has no personal touch. They face a device and do not have a salesman to explain the features of the goods. This is a problem particularly for consumers who do not like to read operation manuals. E-commerce does not offer the opportunity for consumers to touch or feel the product before they purchase. For instance, consumers do not have a chance to put on clothes or shoes to feel whether these are a good fit. If the goods are not right consumers may return them to the vendor but it may take a long time to get a refund or exchange of goods.

Privacy issues disturb consumers. Usually online businesses accept credit card payments, but the vendor obtains a lot of personal data from the consumer. Although the vendor may not use this data for illegal activities, hackers may steal it from the vendor. Consumers may then face the risk of identity theft and credit card fraud. Furthermore, consumers might unfortunately input their credit card information to scam websites and ultimately suffer a financial loss.

Before enjoying the pleasure of online shopping, consumers need to have a device with access to the Internet. Consumers shopping online need to be patient and to wait for their goods to be delivered. If they need the items urgently, then they have to pay a higher delivery cost to shorten the delivery time. Even though payment is made instantly online, they still have to wait for the goods to be delivered.

## **Way forward**

E-commerce is still evolving. It has moved from computers to mobile phones apps; this form of e-commerce is referred as mobile commerce (m-commerce). Another form of e-commerce, f-commerce, is also developing via Facebook, a social networking application. Businesses will continue to find solutions to resolve the issues brought by e-commerce.