

Understanding Adverse Effects of E-Commerce

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INTRODUCTION

The Internet heralded an unprecedented evolution in the transformation of all business and communication. The Internet is growing at an annualized rate of 18% and now has one billion users. Due to this growth, e-commerce will continue to grow in next few years. The United States online population is estimated to be 211 million by 2006 and United States online retail sale are estimated at \$112.5 billion for 2006. Jupiter Research predicts that online retail sales are expected to grow from \$81 billion in 2005 to \$144 billion in 2010 (Jupiter Media Metrix, 2006). E-commerce is defined as buying and selling of information, products, and services via computer networks or internet. Internet and electronic commerce technologies are transforming the entire economy; and changing business models, revenue streams, customer bases, and supply chains. New business models are emerging in every industry of the New Economy. In these emerging models, intangible assets such as relationships, knowledge, people, brands, and systems are taking center stage (Hudson, 2000; Verhoest, Hawkins, & Desruelle, 2003). The relationship and interaction of various stakeholders such as customers, suppliers, strategic partners, agents, or distributors is entirely changed (Sharma & Gupta, 2001, 2003; Sharma, 2005).

The Internet has become an incredibly powerful tool for conducting business electronically. Companies have taken a proactive approach and are moving forward this new business model. E-commerce has been considered a great enabler of organizational change and helping organizations to conduct business with improved efficiencies and productivity (Sen & King, 2003). Meanwhile, it has created many challenges and adverse effects, such as concerns over privacy, consumer protection, and security of credit card purchases, displacement of workers especially low-status ones, and negative impact on quality of work life (Sharma & Gupta, 2001,

2003; Sharma, 2005). This paper describes the various adverse effects that have been created with the advent of internet and e-commerce revolution.

BACKGROUND

The market for e-commerce is growing as more consumers and businesses gain Internet access. Operational benefits of e-commerce include reducing both the time and personnel required to complete business processes and increasing market access and reach, improving internal and market efficiency, and lowering transaction costs. Belief in such benefits has led to the adoption of e-commerce by most of the businesses (Stopford, 2002). Although e-commerce has provided a number of opportunities and benefits to both customers as well as to businesses, loss of privacy, security issues, increasingly sophisticated frauds, and abuse of personal information, have become serious concerns (Fichter, 2003, Siikavirta, Punakivi, Kärkkäinen, & Linnanen, 2003). Many consider that loss of privacy means loss of personal freedom. Consumers are specifically concerned about consumer protection, security of credit card purchases, order fulfillment and delivery. These are undesired adverse effects of e-commerce (Mansell, Schenk, & Steinmueller, 2001). This article describes the various adverse effects or problems that have been created with the advent of Internet and e-commerce revolution (Sharma & Gupta, 2001, 2003 Sharma, 2005).

ADVERSE ECONOMIC AND SOCIAL IMPACTS OF E-COMMERCE

As e-commerce continues to grow at a rapid pace, it could have significant effects on the structure and functioning of economies at the firm, sector and aggregate

level. The impacts of these changes are diverse and likely to impinge on prices, the composition of trade, labor markets, and taxation revenues (Sharma & Gupta, 2001, 2003; Sharma, 2005).

Impact on Prices

E-commerce does offer consumers lower prices, greater choices, and increased convenience. On the positive side, e-commerce may increase price transparency and commoditization thus pushing prices down, however, from the business side, lower search costs for buyers may enable them to seek more trusted suppliers and e-commerce might thus effectively shift power from producers to consumers and make it harder for firms to maintain higher prices (Clayton & Waldron, 2003; Smith, Bailey, & Brynjofsson, 2000). Also, companies can direct the market and customize the products as per consumers' preferences and choices and this could lead to more finely differentiated and sophisticated price discrimination for products (Coppel, 2000a, 2000b).

Impact on Competition and Competition Policy

Although theoretically e-commerce offers the ability to reduce barriers to entry and make markets more competitive, in practice, it may kill small players as global players will dominate markets. For example, may perceive that eBay is killing many local stores. The scope for noncompetitive behavior is perhaps strongest among "digital" and knowledge intensive products. Start-up companies may find it difficult to enter due to the large marketing costs needed to develop visibility and a brand name. Such a non-competitive environment may result in "winner-takes-all" scenarios that could hinder innovation and competition (OECD, 2001a, 2001b, 2003a, 2003b; Coppel, 2000a, 2000b; Sharma & Gupta, 2001, 2003; Sharma, 2005).

Tax, Trade, and Regulatory Issues

E-commerce may have a strong impact on taxation and tax policy. Concerns have been expressed that e-commerce could result in the erosion of tax bases. E-commerce may need new regulatory frameworks to handle customs duties and other tax structure across countries since e-commerce transcends national boundaries for buyers and sellers. The laws and regulations

a consumer relies on for protection at home may not apply in the merchant's country (Sharma & Gupta, 2001, 2003; Sharma, 2005; OECD, 2001; Coppel 2000a, 2000b).

Employment and Labor Market Policy

E-commerce is likely to have both direct and indirect impacts on labor markets as well as the composition of employment (OECD, 2001b). E-commerce may generate employment for those with newer IT skills and may kill some traditional skills based jobs. Faster rates of innovation and diffusion may also be associated with more turnovers of jobs. This could put more pressures on employees or workers to continuously upgrade their skills as requirements change frequently (Sharma & Gupta, 2001, 2003; Sharma, 2005).

E-Commerce's Impact on Labor Costs and Employment

E-commerce will have significant effects on the structure and functioning of economies at the firm, sector and aggregate level. Such effects would ultimately be reflected in prices, the composition of trade, labor markets, labor costs and employment. E-commerce is facilitating the shift from the mass labor paradigm to a knowledge-worker paradigm. The shift from mass to knowledge labor has already created a shortage of knowledge workers in several countries where the education system and technology infrastructure has not been strong (Sharma & Gupta, 2001, 2003; Sharma, 2005; OECD, 2001b; Coppel 2000a, 2000b).

Privacy

On one hand, e-commerce provides convenience for buying and selling online, but on the other hand, organizations may be secretly profiling and collecting information about customers. Spamming, which is the practice of sending out unsolicited e-mail, is growing because it costs so little to send out millions of messages or advertisements electronically. Many prominent high-technology companies have already been caught attempting to quietly collect information about their customers via the Internet (Gupta & Sharma, 2001; OECD, 2003a, 2003b). Privacy has become a key issue in the digital age. Technological advances make it easy for companies to obtain personal information and

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