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TITLE: A SUMMARY ON E-BUSINESS AND MANAGING TRANSITION IN BUSINESS FROM START-UP TO GROWTH

CHAPTER 9: E-BUSINESS

E-business (electronic business) is the conduct of business processes on the internet. There are various aspects of this network economy such as e-business, e-commerce and e-trading. While e-business involves any form of business transaction including abstract and real objects, e-commerce deals directly with exchange of goods and their payment facilitated by electronic transaction. E-trading deals with the selling of financial instruments such as stock, bonds and treasuries.

Techniques of the Network Economy

E-business is any business transaction that takes place via digital processes over a network. The driving force behind e-business is the Network Economy. As oppose to the supply chain economy, in which the product has a central position and customers' choices are strongly determined by the product positioning, in the network economy, the consumer's position is central. The individual wishes drive the activities of the total demand-network. This can also be described as a push versus pull strategy.

E-Business Impact

1. The commercial exchange of goods, services, information and/or ideas between two or more parties enabled by an electronic medium.

2. A collapse of time and space between business partners.

3. The transition to the “new world”, the network economy, having impact on how businesses are organised and deal with their customers and partners.

4. Creating the Web enabled enterprise.

Diverging channels

E-business can be aptly described as:

a. Application of electronic network technology to relevant business processes.

b. Replacement of paper-based, human-agent based or telephone-based personal

Critical Success Factors for E-business in the Developing World

a) It fulfils a need of a group of users;

b) The users have sufficient means (financial resources) to make use of the service;

c) The necessary equipment and infrastructure is adequate in relation to the physical and geographical environment and accessible for a sufficient number of users

d) The target group has sufficient know-how to make use of the service.

e) **ICT** can help overcome (physical) barriers such as distance.

E-Business Process Cycle

This model can be used to progress from one stage in the Growth Model to the next. The five stages are:

i. Awareness (vision)

ii. Ambition (scope)

iii. Concept (roadmap)

iv. Realization (on the road)

v. Exploitation

E-Commerce

E-commerce (electronic commerce or EC) is the buying and selling of goods and services on the internet, especially the World Wide Web.

E-commerce can be divided into:

a) E-tailing or virtual storefronts on Websites with online catalogues, sometimes gathered into a virtual mall.

b) The gathering and use of demographic data through Web contacts

c) Electronic Data Interchange (EDI), the business-to-business exchange of data.

d) E-mail and fax and their use as media for reaching prospects and established customers (e.g, newsletters)

e) Business-to-business buying and selling

f) The security of business transactions

E-tailing or virtual storefront and the virtual mall

As a place for direct retail shopping, with its 24-hour availability, a global reach, the ability to interact and provide custom information and ordering, and multimedia prospects.

Market Research

The interactive nature of the internet, companies could gather data about prospects and customers in unprecedented amounts – through site registration, questionnaires, and as part of taking orders.

Electronic data Interchange (EDI)

EDI is the exchange of business data using an understood data format. Although the EDI is expected to be replaced by one or more standard XML formats such as ebXML.

E-Mail, fax, and Internet Telephony

E-commerce is also conducted through the more limited electronic forms of communication called e-mail, facsimile or fax, and the emerging use of telephone calls over the internet.

The Security of business transactions

Security includes authenticating business transactors, controlling access to resources such as Web pages for registered users, encrypting communications, and in general, ensuring the privacy and effectiveness of transactions. Among the most widely used security technologies is the Secure Sockets Layer (SSL), which is built into both of the leading Web browsers.

Electronic Trading

Electronic Trading or E-trading is a method of trading derivatives electronically. There are two broad types of trading in the financial markets:

a) Business-to-business (B2B) trading, conducted on exchanges, where large investment banks and brokers trade directly with one another, transacting large amounts of securities, and

b) Business-to-customers (B2C) trading, where retail (e.g. individuals buying and selling relatively small amounts of stocks and shares) and institutional clients (e.g. hedge funds, fund managers or insurance companies, trading far larger amounts pf securities) buy and sell from brokers or “dealers”, who act as middle-men between the clients and the B2B markets.

Practical application of e-techniques in business, commerce and trading

a) Electronic banking through the use of ATM;

b) Payments of institutional tuitions and examination fees are made online;

c) Virtual Terminal Network (VTN) s a very simple and secure way to make online purchase, even through the use of GSM mobile phone.

E-Readiness

Electronic readiness is a measure of the degree of readiness, willingness or preparedness of a country, nation or economy to obtain benefits that arise from information and communication technologies (ICTs).

Government should introduce ICT policies in all spheres of society which requires

i. Public awareness of the role of ICT in development

ii. Affordable and quality access to internet technologies

iii. Promoting ICT among small and medium sized entrepreneurs.

iv. A Legal framework for online transactions.

v. Encouraging local business and government with ICT

vi. Support open content and open technology i.e. free and open source software.

vii. Measuring and monitoring the current use of ICT and its economic and social impact.

These objectives could be achieved using the following strategy:

1. Target the businesses in the supply industry with trading partners in industrialized countries where there is an adequate ICT infrastructure and payment service.

2. Reduce the requirements for participating in e-business by separating the trust, secure transaction from the network payment services.

3. Build a scalable e-business commerce infrastructure that would be shared by multiple independent businesses and integrate this infrastructure into existing ICT infrastructure in developing countries.

4. Provide a mechanism to enable the transfer of e-business technologies and increase public awareness so that local human resources are used to setup, run and maintain the e-business services decision-makers are made aware of the necessary policies and regulatory framework for e-business.

5. Address ICT policy and regulatory issues to provide the infrastructure framework for the deployment e-business solutions and facilitate the transition into the digital economy.

Catalyst for the e-commerce revolution

1. Structured Organisation of the retail industry

2. Push for standardization across manufacturers and fulfilment partners.

3. Push for growth in technology automation across the value chain.

4. Conscious effort to standardize the payment system along with global trends – specifically, universally accepted instrument such as Visa and Master Cards should be adopted as secure means of online payments.

CHAPTER 10: MANAGING TRANSITION: FROM START-UP TO GROWTH

Transition in business may be defined as a process in which a business undergoes a change and passes from one form or stage to another. Hence, a business can transit externally with regards to form or internally in its stages of growth. Three major forms of business organisation: Sole Proprietorship, Partnership and Cooperation. Entrepreneurs usually start and nurture their small business as sole proprietorship until the need for expansion arises. Business growth can be achieved by acquisition, merger and internal expansion.

The lifecycle of a business is often depicted ass-shaped curve. The cycle is made up of four stages.

I. Experimentation Period in which sales and profit grows slowly following the introduction of a new product or firm.

II. Exploitation Period in which the firm enjoys rapid growth of sales, high profitability, and acceptance of product.

III. Maturity Period in which the rate of growth of sales begins to slow down where growth is dependent to a large extent upon replacement demand.

IV. Final Stage in which there is a decline when a firm faces the appearance of substitute products, technology and managerial obsolesce, and saturation of demand for its goods.

Transition in business occurs due to retirement or death of the owner, or the expansion of the business. A business requires a succession or transition plan. A succession plan is a process in which leadership, and ownership is eventually transferred to a successor. According to European Federation of Accountants (2002) a succession plan should contain the following ten elements:

I. A Statement of the distribution of ownership

II. The identity of the distribution of ownership

III. How the new leaders are to be trained for the role?

IV. A definition of the roles of other key members of the business during transition

V. Mechanics for the purchase of stakes in the business

VI. Taxation and legal consideration

VII. Financial consideration

VIII. Retirement consideration

IX. A procedure for monitoring and dealing with disputes and problems

X. A timetable

TRANSIT IN FAMILY BUSINESS

A family business is a firm of any size in which the majority of director in direct decision-making rights is in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs; and at least one representative of the family or kin is formally involved in the governance of the firm.

TRANSFER TO FAMILY MEMBERS

According to Hirsch & Peters (2002) to transfer a business to a family member, an effective succession plan needs to consider the following critical factors.

i. The role of the owner in the transition stage: Will he or she continue to work fulltime, part time, or retire?

ii. Family dynamics: Are some family members unable to work together?

iii. Income for the family members and shareholders

iv. The current business environment during the transition

v. Treatment of loyal employees

vi. Tax consequences

As well, there are three general categories of factors that play a vital role in effective business transitions. They include:

i. Preparation level of business heirs;

ii. Relationships among family and business members ;and

iii. Planning and control activities.

TRANSFER TO NON-FAMILY MEMBERS

The entrepreneur adopts the option of transferring the business to an employee if he intends to retain a share in the business or the entrepreneur may hire a manager if the family intends to continue family succession in future. This occurs especially when a family successor is not yet ready or a family succession squabble has not been resolved.

TRANSIT FOR GROWTH

A business can grow internally or externally. Internal growth involves cutting down cost, increasing sales revenue thereby increasing profit and a better strategy. In the alternative the entrepreneur will resort to either acquisition or merger, both of which are external growth strategies.

Acquisition is the purchase of all or part of another business firm by an entrepreneur. A merger is similar to acquisition but the major difference is that in merger, there maybe just an insignificant outflow or none at all. The offer or company acquire the offeree company’s share by giving its own shares in exchange in full consideration.

PERSONAL DISCIPLINE IN BUSINESS

Also known as Self Discipline. Microsoft (2009) defines this as the ability to do what is necessary or sensible without needing to be urged by someone else. The ability of the entrepreneur to stick to the right code of conduct or behaviour in spite of his personal desires largely depends on his traits, attitudes and habits.

i. **Traits: A** significant portion of the variance in personality traits across people is accounted for by their genetic endowment according to Loehlim, (1992). Five of this personality traits have been identified and they include:

Extraversion: This refers to personality traits that deal with sociability, talkativeness, assertiveness and ambition.

Openness to experience: This trait manifests in a person who is open to novel experience and ideas as well as imaginative, innovative and reflective.

Agreeableness: This manifests in someone who is cooperative, trusting, forgiving, tolerant, courteous and soft-hearted.

Conscientiousness: This trait confers dependability, hard work and perseverance, all of which enable the entrepreneur to be systematic.

Emotional Stability: This trait is especially important for those starting new business which usually accompanied by much stress, hard work, high risk, social isolation, pressure, insecurity, and personal financial difficulties.

ii. **Attitudes:** Attitude is the way we think or act. The relevant attitudes are considered below

Career Attitudes: This is the pattern of lifestyle an entrepreneur has towards his or her career, goals and business.

Mental Attitudes: The personal characteristics and mental attribute of individuals have a significant impact on their work.

iii. **Habits:** This refers to things we do usually. Discipline is building good habits in to reflexes which become part of life. Consequently new habits may have to be substituted for old habits in order to help the entrepreneur prepare for future success.

PLANNING DECISION-MAKING AND MANAGING BUSINESS IN TRANSITION SITUATION

i. **Planning in Transition Situation**

Strategic planning is continuous, a three to five-year plan that includes all functions of the organisation with the following outline.

Business mission

Situation analysis

Internal environment analysis–includes a discussion of the venture's strength and weakness

External environmental analysis– includes a discussion of the venture's opportunities and threats (industry and competitive analysis) in the market place

Goal formulation

Strategy formulation

Formulation of programmes to meet goals

Implementation

Feedback and control

ii. Decision Making in transition situation

Decision making may be defined simply as the process of making choices or reaching conclusions. It involves identifying and choosing alternative solutions that lead to a desired state of affairs. Generally, an entrepreneur's decisions are often influenced by the need for action, short decision window, a willingness to assume risk, and a few decision constituencies and have a short time span in terms of opportunity commitment.

iii. Managing business in transition situation

By synergy the entrepreneur tries to integrate the newly acquired entity by harmonising it with the existing business in order to achieve the desired growth and high performance. Specific valuation enables the entrepreneur determine the present value of the company which is as follows:

$$\text{Present Value of the company, } v = \frac{R\,(1+r)^n ap}{(1+d)}$$

Where: R= current revenue level, r= expected annual rate of growth of revenue, K= expected amount of required capital, n= expected number of years between now and the liquidity date, also known as the holding period, a= expected after-tax profit margin at the time of liquidity, p= expected price/earnings ratio as of the liquidity date, d= discount rate. Note, (1+d) is present value factor. To price the deal, divide the required capital (K) by the present company value (V) to obtain the minimum ownership for the investment required.

Stress and Pressures and Various Resources Constraints Associated with Transition Stage of Business Growth

Stress may be simply defined as a person's adaptive response to a stimulus that places excessive psychological or physical demand on that person. The stimulus is also known as stress or refers to anything that induces stress.