Study on Cost Structure and Variation of E-Commerce

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Abstract. This paper has adopted the approaches of listing and theoretical analysis to study the fundamental issue of E-commerce cost, namely, the cost structure and variations. Cost structure constitutes of basically the Internet cost, clients cost and the cost added result from the unsound external environment. Cost variation consists of the variation on structure and proportion of E-commerce, management scale and cost-control methods. This paper proposes that enterprises should face up to the cost factors of E-commerce and its variations, emphasize long-term goals, discover cost advantages, optimize management environment and strengthen long-term competitiveness. It also aims to lay the theoretical and decision-operational foundation for the deep study of E-commerce cost.

Keywords: E-commerce, cost advantages, information.

1 Introduction

Both home and domestic related studies focus on the definition and advantages of E-commerce cost, cost strategies and disclosure on E-commerce value chain. Their typical perspectives are as follows,

Qiying Hu holds that traditional cost management emphasize on the production process which includes three stages, after-cost management featured by the cost of manufacture method which established to adapt to industrial revolution, in-production cost management featured by standard cost method which was to cater to Taylor's scientific management and pre-cost management featured by variable costing method which was built for better operational making before production after World War 2. In the 21th century, with the brand-new production environment characterized by electronic information technology, automation and network techniques, to cultivate market competitiveness, enterprises generally paid more attention to the differentiation strategy to meet consumer's individuality and the strategy of constant low cost.

Professor Paul Monroe in Oxford University argues that e-commerce is the potential economic growth in the near future. The development, contributed by e-commerce is in technology, products and service fields, will bring opportunities to different industries. In this process, it is the principle and result that the efficient elements will prosper and the inefficient will be eliminated. Not only the competition of technologies, capitals and talents, but also the whole mechanism of operation and management competition. Only through theoretical analysis, operational practices and constant reform of e-commerce cost, can enterprise keep being a winner in competition.
Professor Halverson in Stanford University believes that e-commerce cost refers to the expenditure in the process of e-commerce practice.

Professor Arabam Kaplan from MIT holds that there's profound changes in the relation between enterprises and consumers in e-commerce. It has changed the production and operation procedures and organization structure, thus the new value chain appeared. Enterprises should analyse the value chain, confirm the cost and profit on each value chain and the relation among balance, adoption and adjusting, integrate value chains and supply chains. Through analysing the value chains of their own, industrial and their competitors, enterprises choose suitable strategies to gain cost advantages.

Liulei thinks that enterprises should in some degree make their cost public to show their competitiveness and to win consumers' confidence. To make the cost public including the opening of the calculation method of cost, scope of expenditure, concrete cost calculation method,etc. As there's many aspects of cost, to make some of them public do not mean to expose the exact constitute of cost.

2 The Component of E-Commerce Cost

From macroscopic perspective, E-Commerce cost, except production cost of commodity which is the same to the traditional transaction, refers to all the expenses including the inherent cost, business transaction cost and other costs caused by the external environment.

Proper Cost of E-Commerce. The cost expended in establishing system of E-Commerce is called proper cost of E-Commerce. Enterprises pay the capital cost and system management cost primarily when carrying out E-Commerce deal.

Infrastructure cost. In order to purchasing and maintaining hardware and software in E-Commerce enterprise, Infrastructure cost is usually used for internet work of access and promotion. As the carrier of computer, server, switchboard and internet, E-Commerce has to pay cost for building website, applying hardware and software, developing market, promoting website and managing, improving and linking continuous websites, and what’s more, to keep E-Commerce system working, company needs to maintain hardware routinely and update software. All above are essential cost to pay and are service foundation, and they are what a firm must to do for building E-Commerce system.

Cost of systematic management. Cost of systematic management means the cost used to keep E-Commerce system working routinely, set down governing organization and system, prepare ,coordinate and control the system which is ready to carry out and to supervise and manage business deal. Besides that, the cost of systematic management also covers training cost towards relevant trainees in purpose of ensuring routine working of system which has been carrying out.

Cost of Business Deal. In E-Commerce circumstances, business transaction costs are business expenses for the completion of the transactions costs, including direct transaction costs and indirect transaction costs.

Direct deal cost. In process of direct deal, cost of direct deal refers to the cost expended in business deal between enterprise and its collaborators or other companies