



The Important Parts of International E-Commerce Business, Focusing on B2B

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Abstract

The E-Commerce business, which is an integral part of the vast Internet system, has been expanding tremendously as a result of the non-stop rapid increase in the number of the world's Internet users. This phenomenal expansion has directly caused the overall business structure to change from what is mainly an offline nature to largely an online business. Evidently, the present business scenario indicates what efficiency is, wherein both buyers and sellers can find each other quickly and effectively and carry out their transactions more conveniently.

In Thailand, E-Commerce business predominates various entrepreneurial categories based on their different business purposes, e.g., fashion products, consumer goods, transportation and payment services, etc. Such reality prompted the country to adapt measures that can cope with the E-Commerce business effectively and at the same time supporting the large number of local Internet users. In the same manner, it is inevitable that domestic entrepreneurs must have a thorough understanding of international E-Commerce business to help improve national business and economy. E-Commerce also plays an important role in stimulating the economy as a whole because international trade is one of the vital driving force that helps Thailand strengthen its economic and social development efforts.

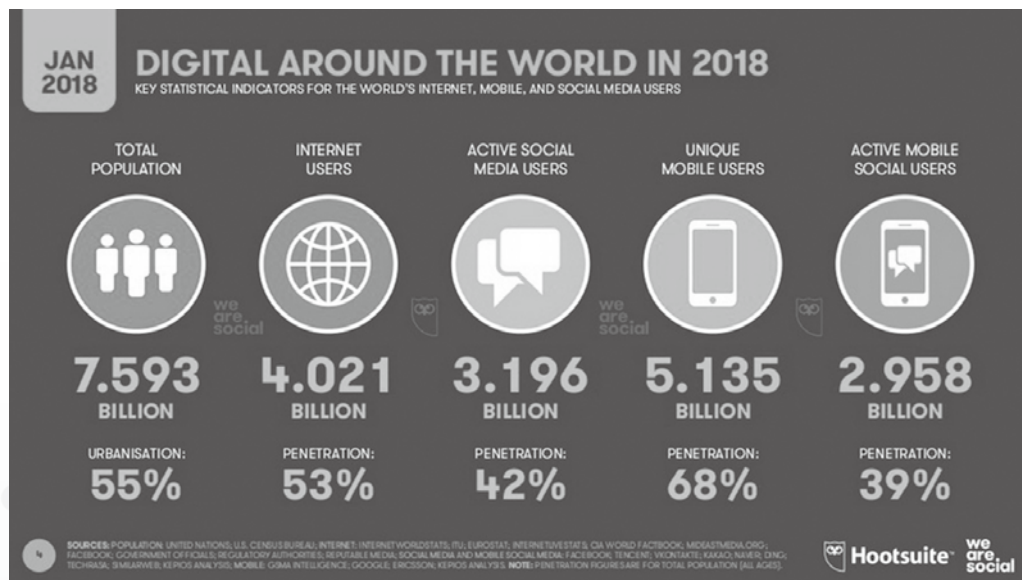
Keywords: International E-Commerce business, B2B, Offline business, Online business



Introduction

The total number of consumers worldwide using the Internet to gain access to data required has been increasing by leaps and bounds. Currently, Internet users have now surpassed the 4-billion mark. This means half of the world's population has joined the social network movement via the Internet. Undoubtedly, Internet usage in every country has a tendency to continue to grow incessantly. In particular, African countries have shown the fastest expansion rates as compared to the other continents of the world (We Are Social and Hootsuite, 2018). This is mainly due to the fact that consumers nowadays have much easier access to the Internet through smartphones. It is to be noted too that prices of smartphones have been decreasing significantly from the past. Statistical data have confirmed that 9 out of 10 people totaling over 3 billion worldwide are daily active social media users of smartphones. Smartphone devices can be used. Every place has its own privacy (Kaewtan, 2014).

Figure 1: Internet Usage by the World's Population



Source: www.wearesocial.com

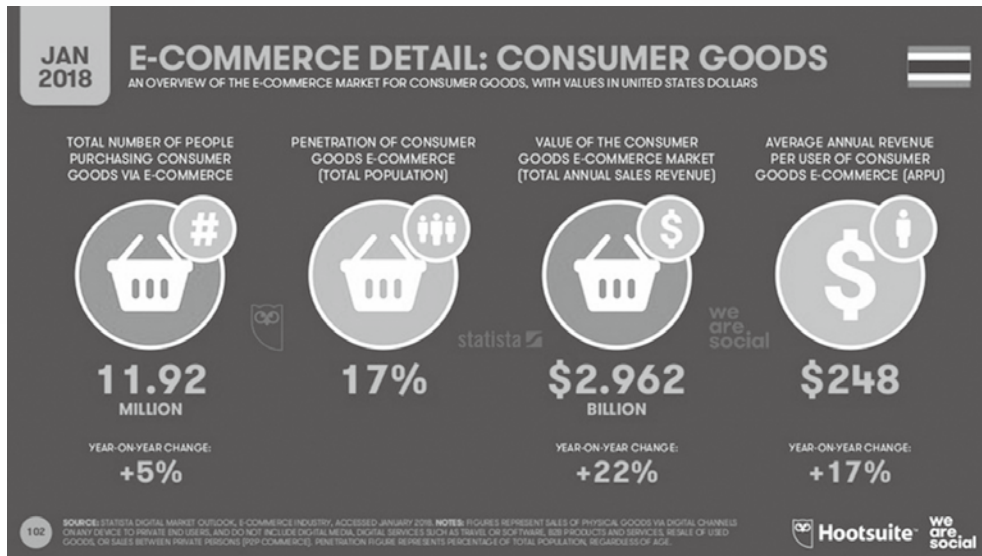


The aforementioned statistical data have been acquired from reliable and universally recognized data collection agencies. At present, accessing the Internet for whatever purpose has become a daily routine for most people, either consciously or unconsciously. The world's soaring number of Internet users has also transformed the E-Commerce business into a major component of the world. Usage of the internet continues to expand and spread rapidly to all groups of people as well as countries. The E-Commerce business has already superseded the old-fashion trading mode which lacks communication efficiency and effectiveness. E-Commerce has tremendously improved communication between buyers and sellers, enabling them to meet and exchange relevant information in a more timely, rapid and secure manner. This scenario is no different in Thailand where the E-Commerce business has shifted to a new path similar to other countries. According to the latest available statistics, about 11.92 million Thais trade consumer goods via the E-Commerce business generating online sales of over US\$2.692 billion with an annual average growth rate of around 22%. On an individual spending scale, the figure shows some 8,600 baht per year.

The growth of the E-Commerce business has favorable effects on both manufacturers and consumers, making it easier and faster to trade locally and internationally than in the past. One drawback though is the fact that the E-Commerce business on many occasions is conducted between buyers and sellers in different countries which are far apart. The unavoidable transportation and payment hurdles cannot always be overcome by the Internet or E-Commerce. What can be a helpful tool is maintaining a good knowledge and understanding of the content and process of international business transactions that are also required. The larger the distance between the trading countries, the probability of risks will crop up along the way. This justifies the premise that both buyers and sellers must have acquired a very good understanding of the international E-Commerce business system before engaging in such transactions.



Figure 2: Consumer Goods Purchases Through Thais' E-Commerce Business



Source: www.wearesocial.com

The E-Commerce Business overview

The E-Commerce businesses is generally about transactions between buyers and sellers in the same country, as well as between people or groups of people in different and distant parts of the world. Business people or general consumers using the Internet as a tool, are easily able to access information of manufacturers or sellers in other parts of the world with little to no difficulty. At present, the various E-Commerce business groups have been properly categorized to facilitate transactions between targeted buyers and sellers. Based on the diverse characteristics of buyers and sellers, the E-Commerce business normally is classified according to the following types:

1. The consumer to customer (C2C) type covers transactions among consumers themselves involving different attracting patterns and objectives, e.g., exchanges of data between consumer groups with similar topics of interest, trading of both new and used goods, etc. This type of transactions can take place in the same country or in different and distant countries facilitated effectively by operations via the Internet. With regard transportation mode required, it is



quite diverse for this type of transaction, as the volume of trade is not large, and consumers want fast deliveries. Therefore, all parties concerned focus more on transportation speed and convenience than the cost factor incurred. Similarly, payments are also conveniently transacted for manageable amounts, through electronic money (e-Money) and credit card channels attained by both buyers and sellers.

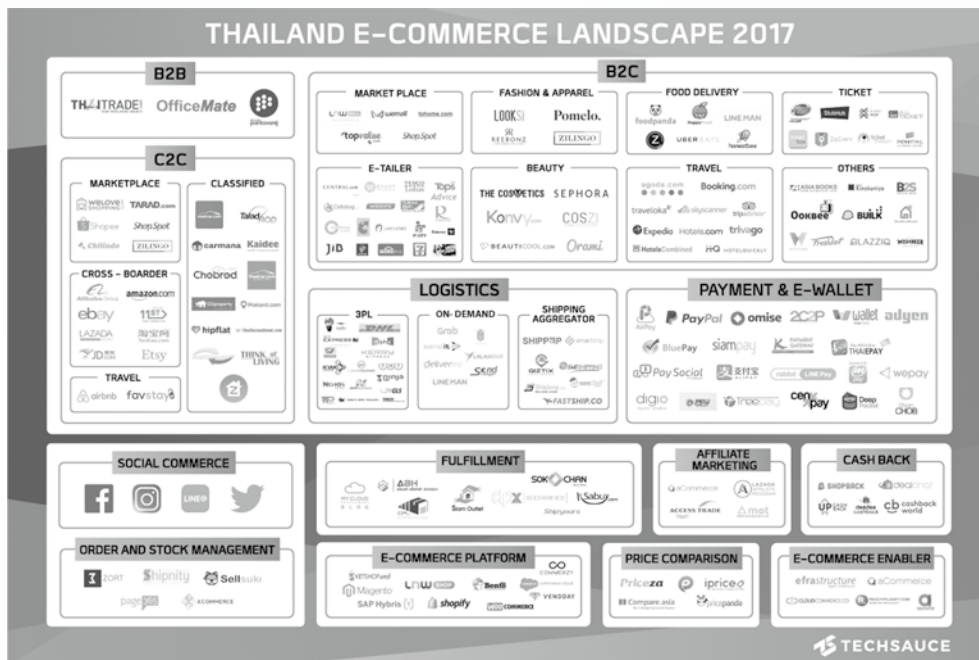
2. The business to customer (B2C) type involves direct transactions between entrepreneurs and consumers, e.g., sales of books, cosmetics, fashion items, etc. The type of E-Commerce B2C business models are known for everyone pass through Portal, E-tailer, Content Provider, Transaction Broker, Market Creator, Service Provider and Community Provider (Laudon & Traver, 2012).

3. The business to business (B2B) type encompasses transactions between buyers and sellers who are both entrepreneurs. And in some case, it can show in term of a manufacturer and a wholesaler (Kumar & Raheja, 2012). However, this type of E-Commerce business is notably more complicated than the two types mentioned earlier. Such transactions involve large volumes and high values of goods. This type requires both buyers and sellers to be more cautious and knowledgeable about their business than general consumers, particularly in regard to pricing, as well as all costs of goods such as transportation, insurance, fees, taxes, document expenses, and payment terms.





Figure 3: Thailand's E-Commerce Business in 2017



Source: www.wearesocial.com

4. The business to government (B2G) type includes transactions between the private and government sectors. In countries with fully developed E-Commerce system, the government sectors normally resort to their E-Commerce system for procurement operations in order to save costs, speed up implementations, facilitate transactions among all parties concerned and bring about operating transparency. At present Thai government sector also uses this type of E-Commerce through several state agencies.

This academic article will mainly stress and highlight the B2B type of E-Commerce business because the authors want to convey an awareness of the importance of the complex transportation and payment terms toward international trade. Consequently we aim for entrepreneurs to be totally updated regarding the steps required for this type of business.



Characteristics of International Sea Transportation

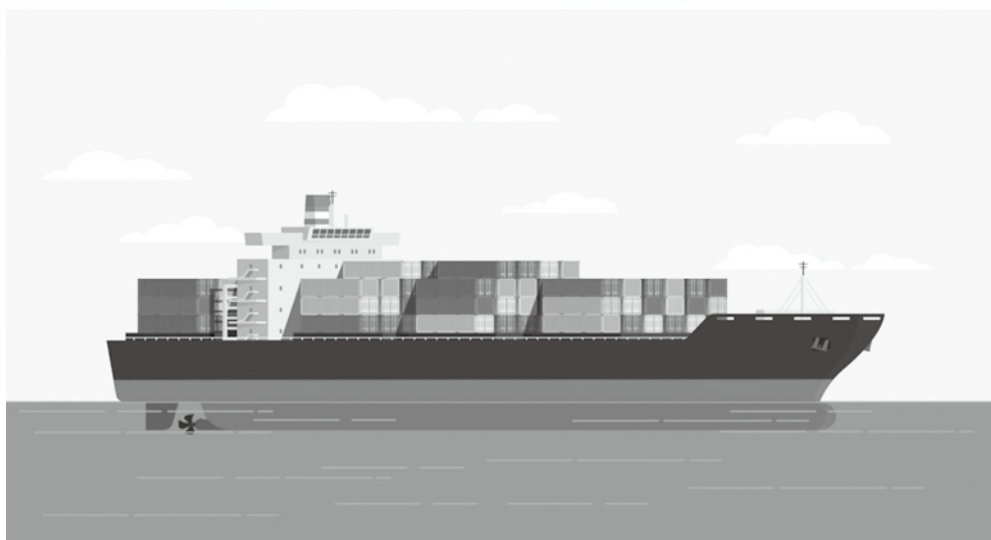
International trade necessitates the transportation of goods from one country (seller) to another country (buyer), and each transaction normally involves a large volume of goods. As a result, the transportation system is one of the vital factors that international trade entrepreneurs must seriously take into consideration. The preferred transportation modes of buyers and sellers are low-cost, efficient and safe so as to minimize possible damage during transportation (Khumrat, 2017). For this reason, marine transportation is apparently the most appropriate choice. In addition to being safe, the cost per trip is low and each trip can deliver much larger volume of goods than other transportation modes.

Nowadays, marine transportation involves the shipment of goods stuffed in container boxes which are then moved on to vessels that deliver them to destination countries. These container boxes are generally made of steel or aluminum which are strong and durable against marine climate. It comes in standard sizes of 20 and 40 feet. Categorized by the characteristics of the goods that they contain, there are 5 kinds of container boxes:

1. Dry Cargo Containers are for general goods properly packaged or bagged, which do not require a controlled temperature environment.
2. Refrigerator Cargo Containers are temperature-controlled containers with air-conditioners installed to keep internal temperatures very low at all times. Normally, these containers must be able to reach -18 Celsius at the low end and are used mainly for food or other products requiring continually low temperatures.
3. Garment containers, as their name suggested, are for clothing items exclusively. Available inside the containers are rails for cloth hangers. Other kinds of containers tend to cause wrinkles and other damages.
4. Flat-rack containers only come with floors (platforms) and do not have side walls and ceilings so as to accommodate large machineries and the likes.
5. Open top containers are 40-foot containers that do not have roofs in order to receive large items or machineries from the top side instead of through the usual door.



Figure 4: Container Vessels



Source: <https://www.shutterstock.com/image-vector/cargo-ship-container-ocean-transportation-shipping-785821855>

Payment Methods of International E-Commerce Business

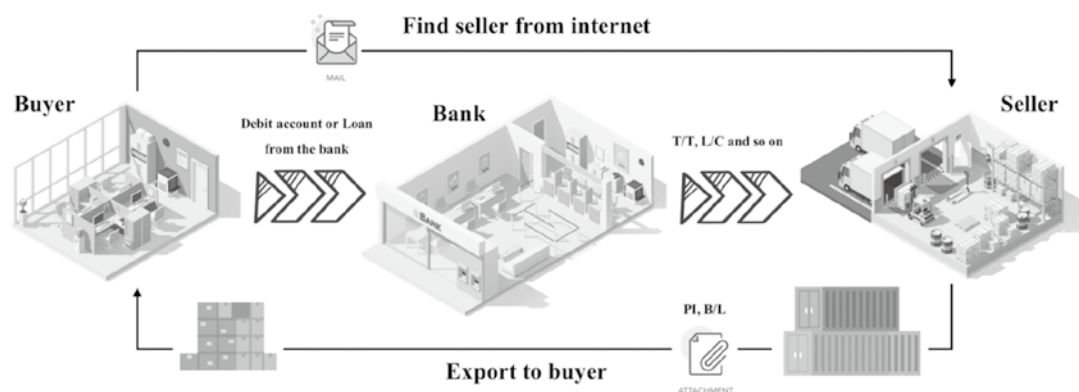
Money transfers as payment for goods between buyers and sellers are normally based on mutual trust built on long-term trade. However, for new international business transactions, such mutual trust does not come that easy. International money transfers are thus indispensable, and the entrepreneurs concerned must thoroughly understand the types and terms of international payments in order to mitigate the risk of default on the buyer's part, as well as the risk of failed or incomplete delivery of goods on the seller's part. Presently, there are 4 commonly used international payment methods following figure 5:

1. The Open Account (O/A) method, whereby the seller agrees to deliver the goods together with the relevant documents (export documents) to use in order to receive goods at the destination country, to the buyer before the buyer makes the required money transfer. There are conditions or contracts to determine the time of payment after the buyer has received the goods, e.g., 30 or 45 days after goods have been received. In this method, the seller will bear the risk and disadvantage as the goods will be delivered to the buyer without any guarantee that the buyer

will pay for the goods. In most cases, the seller uses this method due to mutual trust between all parties concerned. Nevertheless, sellers should carefully check buyers' profiles as much as possible and study the regulatory and legal conditions on money transfers of destination countries in order to avoid possible mistakes.

2. The Advance Payment method involves pre-payment via several channels collectively called Telegraphic Transfer (T/T) then the sellers will deliver the goods and relevant documents to the buyers who in turn, will use them to receive the goods. This payment method is popular for international payments that do not involve a huge amount of money because buyers will have to bear the risk by making payments before receiving the goods.

Figure 5: Contact Procedure Between Buyers and Sellers in Payment Methods.



Source: <https://www.shutterstock.com/image-vector/merchandise-warehouse-logistic-flat-vector-icons-696949015>

3. The Letter of Credit (L/C) method is a popular payment method used to mitigate risks for both buyers and sellers. There is a third party involved, and this is a commercial bank acting as the intermediary to guarantee payments in accordance with the terms stated in the L/C (Vititviriyakul, 2012). In this method, the buyer contacts the bank to issue a payment instrument or certificate which is then sent to the seller's bank to confirm that when the seller has shipped the goods and related documents as contracted, the buyer's bank will pay for the goods to the seller through the seller's bank. This payment method will also specify a payment period like in the O/A method, e.g., to be paid 60 or 90 days after the goods are delivered. It also involves



increased costs in the form of bank fees, while generally, banks do not issue L/Cs for buyers who do not have good financial transaction records or sufficient deposits with them. Another risk to sellers is the essential content of the required document. If the seller does not fully comply with the L/C terms, the buyer at times may refuse to pay. As a result, the seller was damaged. Yet another risk for the seller is the trustworthiness of the banks issuing L/Cs in some countries, and therefore, sellers should check well before using this payment method. At present, the letter of electronic credit is used to facilitate and faster.

4. The Bill of Collection (B/C) method also conducts payments through banks, whereby both the buyer's and seller's banks act as payment intermediaries, helping boost confidence and security from both sides. In the O/A method, the seller sends the relevant documents to the buyer after the transaction has been mutually agreed upon. However, in the B/C method, the seller sends the documents to the buyer's bank through the seller's bank instead of doing so directly. The B/C payment method can be sub-divided into 2 types based on payment steps:

4.1 Document Against Payment (D/P) is where the seller and buyer agree to trade. The seller sends the relevant documents to collect the buyer's money through the seller's bank acting as the intermediary to forward the documents to the buyer's bank. The buyer then contacts the buyer's bank to pay for the goods and to obtain export documents for use in receiving the goods.

4.2 Document Against Acceptance (D/A) is similar to D/P, but there is one difference. The buyer does not make payment in order to obtain export documents. The buyer only signs export documents to receive the goods and make the required payment later. A payment term is always clearly specified for D/A transactions, e.g., 30, 45 or 60 days, as agreed upon by both the buyer and seller from the time the transaction began.

Goods Pricing of International E-Commerce Business

In addition to money transfers for marine transportation of goods, buyers and sellers must take into serious consideration the prices of goods as mutually agreed. In international transportation, the costs incurred include not just the cost of goods plus transportation but also the expenses for issuing relevant documents, insurance, taxes, freight and import/export



fees. All the mentioned costs are already incorporated into the price of goods offered by the seller to the buyer to assist in the decision-making process. On the other hand, the buyer can opt to take care of all other expenses apart from the price of goods and transportation costs covering the distance the port of origin. The price of goods agreed upon by both buyers and sellers come in 3 types, namely:

1. FOB (Free on Board or Freight on Board) Price means the price of goods agreed upon by the buyer and seller with the buyer being responsible for the costs incurred in the shipping process, e.g., freight from the port of origin to the destination, insurance, taxes, import/export fees and expenses associated with the customs procedure until the goods reach the buyer's hand. The seller is only responsible for the costs of packing and transportation from the seller's factory to the port of origin. As regards FOB Price conditions, if damage occurs when the goods are in transit on container vessels, the marine transportation company concerned will pay for the damage to the buyer as per the insurance conditions because the buyer is responsible for the marine transportation cost.

2. CIF (Cost, Insurance and Freight) Price covers the price of the goods agreed upon by the buyer and seller which includes all costs incurred from the seller's place to the destination port (in the buyer's country): cost of transportation from the factory to the port of origin, export procedure fees, as well as freight and insurance. The buyer is responsible for the costs incurred after the arrival of the vessel and delivery of the goods to the buyer's place, customs clearance fees, expenses to deliver the goods from the port to the buyer's factory or place. As mentioned earlier, the CIF Price already includes insurance. Therefore, in case of damage to goods in transit, the marine transportation company will pay for the damage to the seller as per insurance conditions. This however, can cause some inconvenience to the buyer as payment for goods has already paid for by T/T method and will need to seek refund from the seller in case of damage to the goods.

3. CFR (Cost and Freight) Price is similar to CIF Price with only one difference. With CFR Price, the buyer is fully responsible for paying the cost of insurance. However, the buyer gets full benefits in case of damage to goods during marine transport and claim



for damages from the marine transportation company without having to wait or the need of contacting the seller as is the case with CIF Price.

Important Documents in International Trade

The international E-Commerce business is mostly conducted over long distances and involves the transportation of large volumes of goods between far-away countries in order to spread out transportation costs and achieve economies of scale. Consequently, the confirmation of documents of both buyers and sellers is extremely important. These documents include those issued by both buyers and sellers, as well as entities acting as intermediaries such as banks, transportation operators, and ports of loading to confirm the goods to ports of discharge. This will assure both parties of the actual acquisition of the goods on the seller's part and delivery to the buyer's hands, including the indispensable payment documents. These documents as required are:

1. Pro Forma Invoice (PI) is an important document that the seller issues to the buyer to confirm the details of the goods, and the terms of delivery and payment. The buyer uses this document to verify the accuracy of the information before the seller ships the goods. The buyer then uses this information to make payment as per the agreed terms through the intermediary bank. The PI is sometimes used as a bidding document or trade contract. Commercial Invoice (CI) is similar to the PI relative to its content. One difference however is that the CI is issued by the seller to the buyer after the buyer has paid for the goods. It likewise involves the costs specified in the PI to the seller or what is entered in a trade agreement with the seller in the event that the buyer and seller opt for the Open Account (O/A) payment method. The important point of this document is that the seller must issue and send the CI to the buyer to be used as well as to take delivery of the goods from the port of discharge.

2. Packing List (PL) is a document issued by the seller for the purpose of providing the buyer and customs officials with the full details of the goods, e.g., types, packaging, number of pieces per box, etc.



3. Bill of Lading (B/L) very important document which is issued by the Marine Transportation Company (Shipper) or Agent Forwarders that are the bigger middleman in international transportation process which containing information provided by the seller to confirm the transportation of goods from the source to its destination (Daniels & Radebaugh & Sullivan, 2013). The document is generally regarded in law as a receipt for delivery of proof of shipment and documentation of the name, depending on the status of the occupant of the consignment note (Wang & Pettit, 2016). The buyer must obtain this document from the seller to confirm the receipt of the goods at the port of destination. In the event that the B/L is misplaced, a great loss of time and expenses will occur due to the process of reconfirming the ownership of the goods. In as much as every port in the world has time limits for storage of goods that can result in an auction of the goods exceeding these limits, both buyers and sellers must take precautionary measures in this regard. According to the regulations of the Port Authority of Thailand, the buyer must remove the goods out of the port within 45 days. For goods in transit, the time limit is 90 days, and for dangerous goods stipulated by the Customs Department, it is 7 days. (Government Gazette, 2014).

4. Delivery Order (D/O) is as important as the B/L. If the buyer is not able to produce this document, the buyer will not be able to take the goods out of the port of destination. As for the issuance process, the buyer must obtain the B/L from the seller first and when the goods arrive at the destination port, the buyer will present the B/L to the Marine Transportation Company at the port of destination to issue the D/O to support the delivery of the goods.

5. Export or Import Entry Form is required for buyers and sellers (incoming and outgoing) to provide customs officials with the full information of their cargoes, e.g., types, prices and volume. The information provided will be used to calculate the taxes to be paid by the buyer and seller and will also be indicative of importers and exporters data for inclusion in the country's economic statistics.

6. Certificate of Origin (CO) shows the country of origin of the goods being traded, as well as the source of the materials and the country of importation. As this document



deals with both import and export taxes, it can significantly help buyers and sellers reduce tax-related costs in cases where the goods are covered by international agreements or are tax-exempt in some countries.

Conclusion

The continuous development of the Internet has helped accelerate international business expansion, boost the economy as a whole, and change consumers' behavior. Relatively, the E-Commerce business which is an integral part of the Internet has helped business units develop and move over from the offline mode to online trading. Such development has resulted to additional distribution channels, enhancement of efficiency, speed of communication between buyers and sellers, and the elimination of unnecessary costs. Nowadays, Internet usage via smartphones makes it much more convenient to access the E-Commerce business and enables business model changes in several countries. For example, in China, the number of Internet users has been soaring since 1995 to over 800 million today, and the same trend is taking place in Thailand (Global E-Commerce Talent Student Handbook, 2018). Understanding the categorization of the E-Commerce business based on the characteristics of buyers and sellers (C2C, B2C, B2B and B2G) is equivalent to identifying the kind of E-Commerce business most appropriate for users. Subsequently, this should lead to the selection of the proper platform for the best E-Commerce business. As each of these alternatives involve a sizable cost and since the author's aim is to focus on the B2B E-Commerce business, a good understanding of the choice of transportation mode is vital. Apparently as trading in most B2B businesses involves huge volumes of goods being transported over very long distances and requires high security and worthwhile costs, marine transportation is the best choice of transportation mode. Entrepreneurs must likewise understand the kinds of goods to be transported in order to be able to choose the right type of containers for full safety of the cargo. Most containers are 20 and 40 feet long and are available in 5 types: dry cargo, refrigerator cargo, garment, flat-rack and open-top containers. Similar to other business, buyers and sellers in the E-Commerce business also have to deal with pricing, transportation and payment terms. The relevant pricing types are



FOB, CFR and CIF. There are a few types of payment options available: T/T, O/A and L/C. Finally, buyers and sellers must understand the important and relevant documents used in business transactions: PI, CI, PL, B/L, D/O and CO.



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