

Electronic Commerce: An Overview

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1. Introduction

The purpose of this paper is to take a look at this thing called electronic commerce; what is it and what is its current state of development? We will first try to imagine where it is going by looking at an electronic commerce scenario that might happen within the next five to ten years. This will be followed by: an attempt to characterize electronic commerce, a discussion of the advantages of electronic commerce, security issues associated with electronic commerce, and things to consider when embarking on electronic commerce. Before starting, however, why the interest in electronic commerce? For the most part, when we talk about electronic commerce, we are talking about doing business over the Internet. According to Frank (1997), the number of active Internet users by the year 2000 is estimated at 300 million. It is further estimated that there will be 380,000 companies online by this time. Besides this vast market potential and the fact that if your company doesn't get involved your competitor will, there are a number of distinct advantages to electronic commerce as will be discussed in Section 4 of this paper. As Frank puts it:

Those firms that become masters of Electronic Commerce will have vast new opportunities made available to them. Those that do not will quickly become irrelevant, because competing in the new millennium without Electronic Commerce capabilities will be similar to trying to compete today without a sales force or telephone. (p. 31)

First let's see what a typical electronic commerce transaction might look like in, say, the year 2004.

2. A Look at the Future

This example is taken from Alba, et al. (1997). Let's see how Judy Jamison shops for a new dress:

Judy Jamison sits in front of her home electronic center reading her engagement calendar displayed on her television screen. She sees that she has accepted an invitation to a formal cocktail party on Friday night and she decides to buy a new dress for the occasion. She switches to her personal electronic shopper, BOB, and initiates the following exchange:

BOB: Do you wish to browse, go to a specific store, or buy a specific item?

Judy: Specific item

BOB: Type of item?

Judy: Black dress

BOB: Occasion? (menu appears on screen)

Judy: Formal cocktail party

BOB: Price range? (menu appears)

Judy: \$300-\$500

BOB: 497 items have been identified. How many do you want to review?

Judy: Just 5

[Five pictures of Judy in each dress appear on the screen with the price, brand name, and the IHS [interactive home shopping] retailer selling it listed beneath each one. Judy clicks on one of the dresses and it is enlarged on the screen. Another click and Judy views the dress from different angles. Another click and specifications such as fabric and laundering instructions appear. Judy repeats this routine with each dress. She selects the one she finds most appealing.

BOB knows her measurements and picks the size that fits her best.]

BOB: How would you like to pay for this? (menu appears)

Judy: American Express

BOB: Nieman Marcus [the firm selling the dress Judy selected] suggests a Xie scarf and Koslow belt to complement this dress.

[Judy clicks on the items and they appear on the screen. Judy inspects these items as she inspected the dresses. She decides to purchase both accessories. BOB then asks Judy about delivery. Judy selects two-day delivery at a cost of \$5.00]

BOB: Just a reminder. You have not purchased hosiery in 30 days. Do you wish to reorder at this time?

Judy: Yes

BOB: Same shades?

Judy: Yes (p. 39)

And, in a matter of minutes, Judy has accomplished a shopping task that would normally have taken all afternoon and probably not resulted in as satisfying a result. If this sounds too much like HAL and *2001, A Space Odyssey*, don't bet on it. With the high stakes inherent in electronic commerce, the technology is moving quickly. In fact, my prediction of this happening by 2004 may be overly conservative. Now let's try to understand just what electronic commerce is and what it isn't.

3. What is Electronic Commerce?

The term "electronic commerce" covers a multitude of different activities ranging from simply having an informational home page on the World Wide Web (or "the Web") to being able to complete a full buying/selling transaction (less the actual deliver of goods or services unless they can be delivered electronically).¹⁾ EDI (electronic data interchange) and EFT (electronic funds transfer) are forms of electronic commerce that have been around for years. However, because of the need to use special networks and have all parties involved use the same special protocols,

1) Some goods and services *can* be delivered electronically such as software, financial information, betting services, etc.

the use of these systems has generally been limited to larger organizations involved in business-to-business transactions. Now with the advent of the Web and the ubiquitousness of Internet browsers (Netscape Navigator and Internet Explorer), the means for companies to deal with almost anyone seems to have arrived.

Perhaps the best way to get a feel for electronic commerce is to cite some examples of companies that seem to be making very successful use of electronic commerce today. Before doing this, however, let's return to Frank (1997) once more for a useful working definition of electronic commerce. According to Frank, electronic commerce has two primary components: "(1) electronic commerce is the electronic exchange of information, goods, services, and payments [and] (2) electronic commerce is the creation and maintenance of Web-based relationships" (p. 32). In visualizing the first component we can simply think about how one might buy something in a store: go to the store, get information on the product, select the product, and pay for the product at the agreed upon price. These same actions occur over the Web as we've suggested in the "Judy/BOB" example given at the beginning of this paper. In fact, as that example shows, electronic commerce may make it much more efficient to accomplish these actions; for example, comparing prices of similar products. As for the second component, Frank says it is not just enough to offer a means for transactions to take place, you must build a relationship with your customers that fosters loyalty. This must be done in a virtual versus physical context. Frank suggests these as key criteria:

- A compelling Web site — make it interesting, enjoyable, and easy to shop at your site.
- One-to-one customer interaction — keep track of each customer's entire buying history so you can tailor your offerings accordingly.
- Community creation — have online clubs so customers can talk with others and compare their experiences.

Now let's look at a few examples. Perhaps one of the most famous is Amazon

Books (<http://www.amazon.com>). This is a relatively new company that sell books only on the Web. As its home page brags, it offers the largest selection with 2.5 million titles. According to Amazon, this compares very well with the largest chain superstore which contains “only” 170,000 titles. But beyond this, Amazon seems to have made a real science out of how to exploit the electronic medium to its fullest by (see also Appendix A):

- Providing daily updates.
- Providing a list and summary of the latest reviews in the media.
- Making it easy to order with a simple step-by-step procedure.
- Telling you what books other readers who bought the book you’re buying have bought (e.g., see Appendix A, page 4).
- Providing reviews and commentary on the book you are considering (including other customers’ comments) (see Appendix A, pages 4 and 5).
- Providing a secure means to send in your order information.
- Providing several shipping options.
- Providing immediate e-mail feedback regarding the receipt of your e-mail order (see Appendix A, page 13) and, within a couple of day, advice that your order has been shipped.
- Plus numerous other services such as a list of bestsellers and award winners, games to play, an “Eyes” service to get information automatically about new books in your area of interest, etc.

Due to its economies of scale and efficiencies afforded by a streamlined electronic commerce ordering process, Amazon is able to offer discounts of 20% to 30%.

Another example from the retailing sector is Virtual Vineyards; another company that came into being on the Web. Working in conjunction with wineries, Virtual Vineyards offers a valuable service to both the wineries and wine lovers. For the small wineries especially, Virtual Vineyards provides an economical and affordable marketing service. For the wine lover, Virtual Vineyards furnishes information about

wine and then makes it relative easy to order online. Kalakota & Whinston (1997) explain how the transaction takes place:

Once a selection is made, customers input their selection with the encrypted credit card payment information, which is electronically transmitted to Wells Fargo Bank. The bank transfers the money from the customer's credit card account over Wells Fargo's private electronic network. On payment, Virtual Vineyards fulfills the order from its warehouses. (p. 232)

Virtual Vineyards also does sales follow-up, and direct mail and e-mail campaigns in support of its online transactions. It makes money by receiving a percentage of each sale (Kalakota & Whinston, 1997).

In the world of finance, a very successful company is E*Trade Securities, Inc. Charging only \$14.95 per market listed trade, this Palo Alto, Calif. company performs approximately 75,000 stock transactions a day. It represents portfolios worth \$3.2 billion in assets (Kanellos, 1997).

Another financial enterprise is Security First National Bank (SFNB), the first to offer electronic banking services. These services include all those one would expect to find at a regular bank including CDs and money market accounts (see Appendix B). And, according to Kalakota & Whinston (1997), "Subject to regulatory approval, SFNB plans to offer brokerage, insurance, loans, and other financial services" (p. 203). Because their operations are online, SFNB expects to have significantly lower operating costs which it can pass on in the form of lower fees than those customers presently enjoy with conventional banks.

One type of business that is a natural to use electronic commerce is that done by catalog. One prominent U.S. company that is expanding its catalog operations into the world of electronic commerce is SkyMall. SkyMall produces a "catalog of catalogs" by offering the products of some 60 different catalog merchants such as Brookstone, Hammacher Schlemmer, and The Sharper Image. Its unique approach is to place its catalog in the seatback pockets (presently 70%) of the domestic flights

in the U.S. (Wagner, 1997). SkyMall plans to extensively promote its virtual mall on TV and in its print catalog. Using some advanced technology that is run by a third-party company, LitleNet, Inc., SkyMall will be able to quickly route orders to the appropriate places. According to Cox (1997):

Behind the scenes, customer orders will be forwarded to LitleNet's network, which offers a set of applications such as payment management and fraud checking. The network routes the transaction to credit card companies, catalog vendors and other relevant partners. LitleNet's network returns a status report on the customer's order to the Skymall Web site.

4. The Advantages of Electronic Commerce

There are several advantages of electronic commerce. I will list a some of them recognizing that there are probably many more, some as yet not even discovered.

Here is my list:

- Enhances business-to-business transactions.
- Less expensive.
- A better way to sell certain goods.
- Provides a global reach.
- Especially suitable for catalog companies.
- Allows manufacturers more access to customers.
- Makes it possible to offer special (added-value) services to customers.
- Requires no major capital investment.

We will now consider each of these in more detail.

Enhances business-to-business transactions. Ferranti (1997) suggests one way to enhance these transaction is to establish a closer relationship between producers and their suppliers. One example is to electronically link the databases of these companies; e.g., their inventories, production schedules, and distribution-information databases. Such an arrangement will make accurately forecasting supply-chain

and inventory requirements much easier. Ferranti stresses that to do this it is necessary to develop a trusting relationship with your business partners since they will be getting access inside your firewall. But the payoff can be tremendous. As Ferranti (1997) says:

Instead of a supplier exaggerating costs to get a better bargaining position with a manufacturer, or a manufacturer overstating a deadline to ensure parts come on time, companies that tie their information systems together share more accurate information in a timely manner, helping to get products to market quickly and inexpensively.

As the use of extranets²⁾ continues to grow and companies become more closely linked electronically with their suppliers, another way electronic commerce can help business-to-business transactions is by allowing several companies using the same type of supplies to band together and take advantage to large volume purchase discounts. This sort of thing benefits both the buyers and the seller.

Ghosh (1997) provides this list of ways electronic commerce can help business-to-business prospects and customers:

- Enter a Website, identify themselves, and gain confidential access to authorized information.
- Use automated search tools to identify the exact product or products they are seeking—in a matter of seconds.
- Access in-depth product information to compare products or determine if a part meets their exact specifications.
- Obtain accurate, customer-specific pricing.
- Check product availability.
- Review total order costs, including tax and shipping expenses.

2) Extranets are simply intranets (within company networks based on Web technology) that extend beyond the company to its partners, suppliers, and perhaps, selected customers. For a discussion of intranets, see Austenfeld (1997).

- Order with the click of a button.
- Choose from a number of payment methods—personal or corporate credit card, purchase order, or an established account.
- Track the status of an order until it is delivered. (p. 53)

An example of recent technology which is making these sort of business-to-business transactions possible is OrderManager by SpaceWorks (Rockville, MD). According to Borg (1997, May), OrderManager provides “real-time inventory and order status; partner-specific pricing; and a fully searchable multimedia electronic catalog help to create a self-service order management setting.”

Another way current electronic commerce technology will begin playing a big role in improved business-to-business transactions is in the EDI arena. EDI, or electronic data interchange, is a form of electronic commerce and has been around for about 30 years. Dykeman (1997) distinguishes EDI from electronic commerce in this way:

EDI is defined as the computer-to-computer communication of business information such as purchase orders, invoices, and bills of lading in a standard electronic format, between trading partners. EC [electronic commerce] includes EDI, but further recognizes the need for inter-personal communication, transfer of monies, and sharing common databases as additional activities.

According to Dykeman an estimated 30,000 U.S. businesses use EDI (less than one half of one percent). EDI usually takes place over proprietary value-added networks (VANs) that link two trading partners. The requirement to use VANs makes EDI relatively expensive. Furthermore, it is somewhat inflexible. Because each partner may use an EDI format different from that used by other partners, a separate agreement is usually required for each partner. This makes Web based electronic commerce seem a natural to supplant EDI. However, what is more likely to happen is that the technology will enable companies to continue using and benefiting from EDI but with the Internet replacing the more expensive VANs. An example of where

this is already happening is a product by Sterling Commerce, Inc. (Dallas) called Web Link. This recently introduced software system contains electronic commerce forms such as customer order forms, invoices, purchase orders, schedules, and shipping notices. Using Web Link, companies can extend their use of EDI to many more partners; especially smaller suppliers who might not be able to afford a VAN type of EDI. Another approach is called Web EDI which uses a secure Web server to convert HTML³⁾ documents into EDI documents and vice versa (Wilde, 1997).

Less Expensive. Transaction costs can be considerably less with a well established electronic commerce site. According to an estimate in Borg (1997, March), online transaction costs are one-sixth that of placing the same order through a human operator. And EDI transactions are thought to become three to ten times cheaper using the Internet instead of a VAN (Wilde, 1977). McKeown and Watson (1996) provide a couple of other examples of how Web based electronic commerce can lower costs: information distribution and ordering. Using the Web to distribute information has become quite common now and is much less expensive than "mailing out glossy brochures." This is why you usually see a company's Web address in its print and TV advertisements; to encourage people to go there for information. By using interactive forms, companies can have the customer complete the order form; a step that is estimated to save about a third of the cost of having the same thing done by telephone. In fact, since the customers can do this at anytime, companies need less staffing for peak periods. Also, misunderstandings about the data such as what is ordered, names, delivery instructions, etc. are avoided.

A better way to sell certain goods. To be honest, electronic commerce is not the best way to sell everything. For example, when you go to buy furniture, you almost always want to see it and try it out. Of course this applies to many other areas such as going to the dentist. However, there are many products that because they are

3) HTML stands for hypertext markup language, the software language to create browser readable Web documents.

basically commodities, are well specified, or easy to describe over the Web, *do* lend themselves to electronic commerce selling. For example buying an airplane ticket from point A to point B. Most people are interested in the best price and this can now be done on the Internet electronically (Borsuk, 1997). Other examples are computer products (well specified), groceries, over-the-counter drugs, and books. One particularly active area is software where Picarille (1997) notes that according to an industry newsletter for software developers, they expect that in the “next two to five years, 33% of their revenue will be generated from online software sales.” Of course one of the big advantages of selling software is that it can be delivered electronically. In fact, according to Picarille, some of the traditional distributors have become so sophisticated in their operations that they’ve outsourced their payment and software distribution processes.

Another good example is the selling of information, something that is even easier than software to distribute over the Internet. For example, Dun & Bradstreet (D & B) can now allow its customers to get assorted information on more than 45 millions companies worldwide. In fact, D & B offers a variety of information services over the Web including various types of reports, special lists of companies for marketing or competitive analysis, or family linkages information on more than a million corporate families worldwide (anonymous, 1997, May).

Provides a global reach. One of the great things about electronic commerce is its ability to let you do business anywhere in the world. This is because the Internet is a global network. Of course you must consider carefully just who your target audience is if you want to most effectively exploit this advantage. One of the most important things to think about is what language(s) to use. Although English is quite common throughout the world, many potential customers may not know enough to use your site. This point is addressed by Yoegel (1997) who cites two notable examples: computer direct marketers Gateway 2000 and Sun Microsystems. Gateway’s Web site offers customers from the following countries the chance to configure and

order computers: Japan, France, the Netherlands, Germany, and Sweden (besides the English-speaking countries of the U.S., Australia, and the U.K.). Sun Microsystems provides its electronic commerce services in native languages to customers from not only North America but also Europe and Japan.

Especially suitable for catalog companies. Since catalog companies are already set up to quickly process orders that come in by telephone or mail, it seems natural for this sort of company to take advantage of some of the unique features of electronic commerce. For example, the number of catalog entries is theoretically unlimited. Also, it is possible to provide special services such as personalized assistance. A good example of this is Lands' End, a direct marketer of clothing. Its "Specialty Shopper" can provide a number of services such as coordinating outfits for a whole wardrobe (see Appendix C). Another strong attraction for catalog companies is the fact that, with appropriate software, their back-end order systems can be connected to the Web to streamline order fulfillment. Let's take a look at a couple of other examples.

Already mentioned SkyMall represents some 60 merchants, offering their product through its catalogs found in the seatbacks of planes on 70% of U.S. domestic flights. Using its same back-end systems for credit card verification and order fulfillment, SkyMall will now leverage this catalog operation by operating a Web site (Wagner, 1997). As mentioned, the back-end systems will be run by LitleNet, Inc. and allow customers to place orders, have those orders forwarded to the appropriate merchant, check for fraud, forward credit card information, and provide status reports back to the customer (Cox, 1997).

Another catalog company that makes good use of electronic commerce is Seattle based Recreational Equipment Inc. (REI), one of the largest outdoor retailers. As described by Walter (1997, July 28a), REI makes the most of its electronic Web catalog:

So far, REI has used the Internet to offer more information on its products than

is possible in any print catalog. Besides being able to list all of its inventory at the [Web] site, REI also uses hyperlinks to interlace several layers of information about products. An entry for a particular brand of rock-climbing rope, for example, displays a picture of the item along with a price and a detailed description.

As with SkyMall, REI uses its existing order-processing system. Linking this system to its Web site is a middleware product called WebSpeed by Progress Software Corp. WebSpeed acts as a translator between the HTML code of the Web site and the language of the back-end corporate transaction systems. Using this technology, REI's site can "respond to customers nearly as dynamically as a store clerk or mail-order service representative" handling such things as inventory availability, credit card approval, product reservations, etc. (Walter, July 28b). REI also offers many other services to its customers, but more about that later.

Allows manufacturers more access to customers. Both Negroponete (1997) and Avery (1997) predict that more and more manufacturers will begin dealing directly with the customer; cutting out the middlemen. Negroponete mentions a couple of examples. For example, the travel agent may soon become a thing of the past unless, as he put it, they can "find new value to offer their customers." Negroponete even asks why the Ford Motor Co. couldn't, someday, "sell directly, one by one, to each customer." With the technology of electronic commerce, he claims they could. Of course, Ford would have to consider a whole new way of marketing in terms of what roles its existing distribution infrastructure would play.

Avery also sees the need for many of today's distributors to begin thinking about new ways to provide value-added services. According to information quoted in Avery, "By 2002, 60% of wholesale distributors will earn a majority of their profits from post-sale services..." versus making most of their money by "buying low and selling high." Some reasons why certain manufacturers will be more likely to sell directly include:

- Can the product be delivered electronically?
- Is the product consumed by computer-literate Internet enabled buyers?
- Can the product be assembled anywhere?
- Is the product of high value [customer doesn't mind the extra \$10 to have it delivered overnight versus going out on the local market to buy it]? (Avery, p. 51)

Besides the implications for the middlemen, this move towards more direct dealing with the customer should make it possible to offer products at a considerable discount. On the other hand, manufacturers will have to work hard to compensate for the personalized service a customer would normally get with his or her "friendly neighborhood dealer." But, again, with the ever improving technology of the Web and the speed with which many products can be shipped, this should be possible.

Makes it possible to offer special (added-value) services to customers. A company we've already seen, REI, is an excellent example of offering these special, value-added services. Turning again to Walter (1997, July 28a) and the rock-climbing rope: "The [Web] site contains several pages of text that explain the differences between different styles of ropes, and the benefits of each, as well as advice on usage and storage." Some other things REI is planning and may have already implemented are:

- Chat rooms for discussions on outdoor gear, activities, and destinations.
- Celebrity lectures, during which customers can talk to leading outdoor experts.
- An electronic bulletin board where customers can post used-gear ads and other notices (Walter).

Amazon Books is another excellent example of a company that exploits the advantages of electronic commerce to offer a lot of value-added services (see above under Section 3 for a list of some of these services). And, of course, everyone has heard of the FedEx service of being able to check on the status of your shipment at

anytime by going to its Web site and entering your package identification number; this versus calling the 800 number, getting a customer service representative, giving your number, waiting for the person to query their computer and then saying "Sir, your package is at..." (Negroponte, 1997).

Avery (1997) describes some of the services offered by computer reseller MicroAge (Phoenix). For example, an online procurement service that automatically selects the best components to meet a customer's fit, function, and price requirements. MicroAge also makes its product specs and pricing viewable to the entire supply chain, provides delivery date and time information to customers, and feeds point-of-sale data back to suppliers to improve their demand plans. As an aside, MicroAge's electronic ordering services have decreased per order costs from about \$125 to \$15; mostly due to the elimination of redundant paperwork (Avery).

Another company already mentioned that seems to excel in offering special services via the Net is Dun and Bradstreet (D & B). For example, for its U.S. contract customers, D & B offers services under the name Internet Access offering quick and easy access to U.S. credit and global information and the capability to create customized reports. Other features of Internet Access are: "...full descriptions and samples of each available product to speed the decision-making process. New Visitor Help, Customer Assistance, and Frequently Asked Questions (FAQs) appear on the main menu to assist users in easily navigating to their chosen destination" (Anonymous, 1997, May).

Requires no major capital investment. Negroponte (1997) believes this is one reason we will see (are seeing?) many small businesses coming online; especially those in the information industry where the product is "bits."⁴ "You and I can ship them at the speed of light, at almost no cost, to anywhere on the planet. No big capital costs. No warehouses. No heavy distribution costs" (p. 167). And, as he says,

4) "Bit" is short for binary digit; the smallest unit of information. In reality, however, most information is moved in larger chunks such as bytes which consist of multiple bits.

it doesn't matter if we have one customer in each of 10,000 towns or 10,000 customers in one location.

The actual details of establishing a Web site are beyond the scope of this article but references such as Cook & Sellers (1996) and Norton & Smith (1997) can provide this sort of guidance and estimated costs for various options. Epner (1997) believes renting space on a large Web site versus building and maintaining your own is probably more cost effective in most cases. This approach will allow you to take advantage of the special backups and other technology at these sites to ensure your site is always available to potential customers. Such space starts for as little as \$30 a month. Some costs factors cited in Norton & Smith are:

- The amount of space you buy.
- The amount of development work required on your information to make it WWW compatible.
- The use of an experienced graphic designer.
- The level of sophistication and use of graphics.
- The number and types of hypertext links to other documents.
- The method and frequency of updating your pages.

There is software coming out now that can make creating a "storefront" much easier. By the time you read this there will surely be more and even better solutions, but Jurvis (1997) reviews three products: Cat@log 1.0 from the Vision Factory, Internet StoreManager 2.0 from Outreach Communications, and HahtSite 2.0 from Haht Software. As described by Jurvis:

A basic storefront provides a list of products that customers can browse online, a method for the customers to add product selections to a virtual shopping basket, and a way to submit and pay for the order [e.g., see Appendix A — the Amazon Books example]. On the back end, orders are stored in an order database and usually are processed manually.

Having discussed some of the advantages of electronic commerce, let us now

turn to a major concern of people participating in electronic commerce: security.

5. Security Issues

To cover all the security issues and their possible solutions goes beyond the scope of this paper. Instead, I shall discuss a couple of the more common approaches being taken to make electronic commerce more secure. Just as with current telephone ordering, the most common way to pay for a purchase is by credit card. However, most consumers have been reluctant to give out their credit card number when dealing with a merchant over the Web. Netscape Communications has developed a protocol called secure socket layer (SSL) which, when coupled with a secure server, provides a secure path for customer information such as credit card numbers or any other personal data. A good example of how this works is shown in Appendix A. Page 7 of Appendix A shows what happens when you wish to order a book from Amazon Books. At that point in the process, you are given the option of using Amazon's secure server. If you are using a Netscape browser (as I was) the SSL protocol is invoked and a key icon in the lower left hand corner of the screen goes from "broken" to "unbroken." Now everything sent to Amazon is encrypted. If users need assurances that the Amazon server really is secure, they can call up certificate information from the View menu (see Appendix D).

As you might note from page 7 of Appendix A, if for some reason you can't make this secure connection, you are encouraged to continue on a standard server. There is some question in the literature as to whether sending your credit card number over the Internet is secure but most of what I've read says it is; and probably more so than other common practices such as when you give it to the cashier in a restaurant. That is, it is considered very unlikely that someone attempting to get your number would be able to do so while it is in transit due to the nature of the Internet. In fact, the real security risk is when your number reaches the merchant and resides on his or her server in an unencrypted form. This is where another protocol comes into play called

SET or Secure Electronic Transactions.

SET is now being implemented by both of the major credit card companies, MasterCard and Visa. The advantage of SET is that not only is the credit card information encrypted, it gets sent directly to the card-issuing bank, bypassing the merchant's server altogether. Here's how Corbitt (1997) explains SET:

When cardholders register with a merchant both parties receive an online credential from their banks and this requires the bank to store encrypted data that acts as the cardholder's digital signature. Because of the involvement of MasterCard and Visa the merchant does not see the cardholder's details when the holder downloads an order from the merchant's Web site.

Instead, the details go via the card-issuing bank where the details are matched against the encrypted digital signature, before entering either VisaNet [Visa's network] or the MasterCard network. When the details reach these networks they are matched against existing user details and, if accepted, the network authorizes the merchant to validate the transaction and the issuing bank to deduct money from the cardholder's account. (p. 25)

Of course, SSL and SET only scratch the surface of security issues related to electronic commerce. However, since they are becoming some of the most common forms of security for consumer electronic commerce, they have been discussed here. A later paper is planned that will address electronic commerce security issues in much greater detail. As a side point, the question of making electronic commerce secure is probably becoming less an issue each day due to the tremendous attention it is getting. As Kalakota & Whinston (1997) say: "Three factors are stimulating interest among financial institutions in electronic payments: decreasing technology costs, reduced operational and processing costs, and increasing online commerce" (p. 153).

As a final point under security, the ability to create some sort of permanent relationship with your customers such as having them become "members" through an

initial registration process, greatly reduces the complexities involved in ensuring secure transactions (Schmidt, 1997). This is because you are no longer dealing with an anonymous person; similar to the situation when people become “members” of a credit card company. This also has other advantages such as being able to tailor your product or service to individual tastes and target advertising.

6. Things to Think About When Considering Electronic Commerce

Of course if you are considering doing business on the Web (and almost any business could probably profit from a Web presence), you should familiarize yourself with Internet, WWW, and electronic commerce basics. A book such as Cook & Sellers (1996) will help you do this. This book covers such things as Internet/Web basics; suggestions for planning your site and selecting hardware and software; order taking, collecting payments, and order filling/tracking; acquiring user demographics; and how to enhance your presence on the Web. There is also an extensive section on security explaining the various “security” crimes you may encounter, how you can protect yourself, ways to increase the security of cash and credit transactions, and what to do if your security has been breached. Considering how fast the electronic commerce field is moving, I recommend anyone considering electronic commerce obtain the very latest guidance available. A good place to start might be searching the Amazon Books database.

Some other things to consider are offered by Ghosh (1997) with his “ten cardinal rules”:

- *Treat the Internet as a new medium.* Instead of just putting old material online, exploit what the Internet makes possible such as being able to provide unlimited information, interaction with customers, and the capability to personalize services on an individual basis.
- *Start with the customer.* Know who your target audience is and create services that will appeal to that group of people.

- *Build relationships.* Keep your content fresh and customer relevant so your customers keep coming back.
- *Expect change.* Keep up with the technology (new browsers and capabilities) and new ways to market and relate to the customer. However, beware of going for the latest fad; stick with the standards.
- *Build a service, not a Web site.* Because I think this is Ghosh's best advice, I quote: "Customers do not come to a Web-based business simply because it runs secure servers well. They want businesses that give them value for their time and money; businesses they trust; businesses that know them; and businesses that give them options they cannot get anywhere else" (pp. 54–55). How do we do this? One good way is to set up a membership system and have your customers register with you. Also you can create intelligently designed directories that make it easy to find what they want and you can constantly improve the content of your page(s) based on what your customers are "telling" you.
- *Leverage existing business.* Think about your current assets and build on these using the Internet; things such as your brand names, operational infrastructure, and customer relationships. Where can the Internet help you? For example by reducing the cost of customer acquisition or reducing churn.
- *Expect measurable returns.* Using your current costs as a benchmark, measure how much better you (should) do after establishing an electronic commerce site.
- *Plan for success.* The best way to do this is to invest in technology that (1) makes attracting and maintaining customers easier, (2) can be supported by any browser, (3) follows standards, and (4) can grow painlessly.
- *Act now.* By being in the forefront of electronic commerce, you'll begin learning what it's all about just that much sooner. There is no faster way to "come up on the power curve" than by trying to do something and learning from that effort. Of course, that doesn't mean doing it mindlessly; but rather following

the best advice you can find.

Since your home page is key to the impression you make on potential customers, its design is of utmost importance. Epner (1997) offers these tips for making a good home page:

- *Make your home page load fast.* Bring up text first and then continue with the slower loading images.
- *Make it look good.* This probably means you need to employ a knowledgeable professional designer. But be careful to not “over design” your page; make it attractive but simple and something that prints out well.
- *Make it interesting.* Epner says put more than “fluff” on the site. I say don’t put up any fluff. Give the users something of value to read; let them learn useful things from your page(s). Consider the previously cited the Amazon Books (Appendix A) or REI (see Section 4) examples.
- *Realize the need for constant change.* Users aren’t interested in outdated information and will be quickly turned off by it. Update your page at least weekly if not daily. This will lend tremendous amount of credibility to your site.
- *Finally, publicize your site.* Do this so it becomes “the page of choice to get information on a specific subject.” When your customers and prospects begin to depend on your page for solid information and value, they will return time and again, and they will tell others about it too.

A final set of things to consider when you are considering electronic commerce comes from Alba, et al (1997). To be a successful electronic commerce retailer, they say competitive advantage must be sought in one or more of the following areas: (1) distribution efficiency, (2) assortments of complementary merchandise, (3) collection and utilization of customer information, (4) presentation of information through electronic formats, and (5) unique merchandise.

- *Distribution efficiency.* This is important because with electronic commerce, the costs for deliveries and returns must be assumed by the seller and must be

included in the price.

- *Assortments of complementary merchandise.* This is important, according to Alba, et al. for two reasons: first, with more purchases shipping-costs are reduced and second, the electronic commerce retailer is in an ideal position to do this (even, using intelligent agents to put together items that complement the main purchase).
- *Collection and utilization of customer information.* This is where the “one to one” marketing ideas of Peppers and Rodgers (1993) can be put into practice. For example, “records can be constructed not only of what consumers bought, but also what they inspected and for how long” (Alba, et al., p. 46).
- *Presentation of information through electronic formats.* This means seeking differentiation on the basis of atmospherics and service; but in a way that takes advantage of the electronic commerce environment.
- *Unique merchandise.* Alba, et al. suggest three ways: exclusively offered private labels, “branded variants” (a variant of a manufacturer’s brand sold exclusively), and offering assortments of complements tailored to customer needs (e.g., creating bundles of complements available only separately elsewhere).

7. Some Final Comments

In concluding, it is worth mentioning that the U.S. government has been quick to recognize the profound impact electronic commerce is likely to have on the world’s future. So much so that it has issued “A Framework for Global Commerce” (anonymous, 1997, July). This framework contains five principles and nine “key areas.” Examples of a couple of principles: “the private sector should lead” and “governments should avoid undue restrictions”; examples of key areas: “tariffs and taxation,” “electronic payment systems,” and “a uniform commercial code for electronic commerce.” Notable for its foresightedness and laissez-faire approach to electronic commerce, many American leaders have voiced their hope that other government

will follow America's lead in this area; particularly with regard to refraining from tariffs or undue control. (Nelson, 1997)

The last thing I want to say is that by the time you read this the world of electronic commerce will probably have changed considerably. As the technology continues to evolve at a rapid pace, problems related to efficient order handling and security will surely soon be overcome. In fact, the Bob/Judy scenario at the beginning of this article may be just around the corner. Those who jump on this bandwagon will be the winners and the sooner they do this the more they will win.

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APPENDIX A

A TYPICAL ELECTRONIC COMMERCE ORDER

(printed from the WWW October 13, 1997, Japan time)

The following 13 pages show how a typical electronic commerce order takes place. The company is Amazon Books; a company that does business only on the Web. The order was for the book *Trust: The Social Virtues and the Creation of Prosperity* by Francis Fukuyama.



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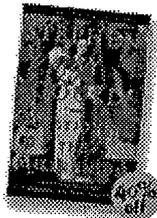
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Sunday, October 12, 1997

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In Bestsellers @ Amazon.com

Anne Rice fiddles with blood, sex, and music in her soon-to-be-published *Violin*.... After an intermission of more than 30 years, *Saint Leibowitz and the Wild Horse Woman* proves a worthy second act to Walter Miller's sci-fi milestone, *A Canticle for Leibowitz*. Plus, Arthur Golden and Steven Pinker make their debuts on our latest bestseller list.

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The *New York Times Book Review* calls Don DeLillo's *Underworld* "an astonishing new novel." We think it's a masterpiece. Read an [article](#) and [excerpt](#) in [Literature & Fiction](#).

The deep dish is in on Courtney Love! Here's a Love-fest of five relevant titles, plus a review of Poppy Z. Brite's new, no-Holes-barred bio, all in [Biographies & Memoirs](#).

In Aryeh Lev Stollman's *The Far Euphrates*, the past seems always on the verge of engulfing the present. Read [Stollman's own thoughts](#) on wrestling with fictional and familial ghosts, in [Literature & Fiction](#).

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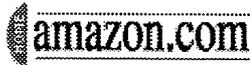
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pkaruman@fas.harvard.edu, 02/04/97, rating=9:

A brilliant synthesis of economic sociology

Many in the West look with disbelief and awe at the growth of the East Asian tigers in recent years. The author highlights how such seemingly low trust societies may indeed be hampered by deeper cultural factors in the ever more competitive economic landscape of the future. This book should be read by aspiring East Asian leaders of low trust societies before its too late.

A reader, 12/31/96, rating=9:

Very interesting and worthy ideas, if a little over general

Asks the question how people come to trust each other enough to create the vast sustaining enterprises of prosperity. A must-read for world-philosophers, subject to the caveat that the generalization to nationalities can be attacked as weak, though this does not make it less compelling.

John Denton (j.denton@rhbc.ac.uk), 02/18/97, rating=9:

Highly original analysis of comparative economic performance

As a result of his previous major work Francis Fukuyama achieved fame as the man who predicted 'the end of history'. With this new work he has turned his attention from the political arena to consider comparative international economic performance. He describes the broad theme of *Trust: The Social Virtues and the Creation of Prosperity* as follows; "that social capital has a significant impact on the vitality and scale of economic organizations".

Many commentators have tried to evaluate the importance of culture in determining national economic success. Fukuyama claims to have identified the key, performance-determining, aspect of national culture, namely, the level of trust present in a society. He maintains that culture is of critical importance to everyday economic life and that only high trust societies can create the kind of large scale business enterprises that are needed to compete in today's global economy.

The culturalist view of history attributes the success of Japan and later of other East Asian countries such as China, Hong Kong, Malaysia, Singapore, South Korea and Taiwan to their common Confucian traditions and their concomitant cultural characteristics. However, the traditional drawing of distinctions between Eastern and Western cultures is seen as too simplistic by Fukuyama, who points out the many differences inherent in East Asian societies. He points out not only the differences between Japan and China, but also those between China and Chinese societies abroad such as Taiwan and Hong Kong. This attention to detail and depth of analysis is one of the strengths of Fukuyama's study.

To date, the debate on this topic has centred around culturalist explanations of the economic success of the Asia-Pacific Region, but

Fukuyama has gone further by attempting to apply his thesis to all developed economies; Chinese, European, North American, Japanese and former communist. Fukuyama, following Weber, sees the earlier economic success of Western Europe as culturally determined, namely as a logical result of the Protestant work ethic.

Fukuyama sees three types of trust; the first is based on the family, the second on voluntary associations outside the family, and the third is the state. Each of these has a corresponding form of economic organisation; the family business, the professionally managed corporation and the state-owned enterprise, respectively. Societies in which family ties are strong (and thus ties outside the family relatively weak) have great difficulty creating large professionally managed corporations and look to the state to perform this critical economic function. Societies with high levels of trust, and many voluntary associations can create large economic organisations without state support. Fukuyama cites China, Italy, France and South Korea as societies with a strong role for the family and weak voluntary associations, while Japan, the United States, and Germany are said to have strong and plentiful associations beyond the family. The detail with which Fukuyama supports each of these examples is truly impressive and betrays the depth of research that undoubtedly went into writing this book.

Overall Trust: The Social Virtues and the Creation of Prosperity has to be considered a highly original work which has and will continue to raise significant interest. While many will dispute Fukuyama's main contention that significant comparative advantages arise from differences in levels of trust between countries, he offers a great deal of evidence to support an argument which is certainly correct at an intuitive level.

--This text refers to the hardcover edition of this title.

From Kirkus Reviews, 06/14/95:

Fukuyama offers a general theory of prosperity that provides provocative answers to certain of the questions he raised in *The End of History and the Last Man* (1992). While conceding that neoclassical economists have uncovered important truths about markets and money, the RAND Corp. analyst argues that they give a poor account of human behavior. In search of links missed by these practitioners of the dismal science, Fukuyama probes the impact of culture (broadly speaking, any society's inherited ethical habits) on economic life. Focusing on such factors as trust (a community's shared expectation of honest, cooperative behavior outside the family) and social capital (the values created by tradition, religion, or other means), the author examines the ability of various peoples to organize effectively for commercial purposes without relying on blood ties or government intervention. Fukuyama surveys emergent as well as established industrial powers (the US, Canada, China, Germany, Italy, Japan, Korea, et al.) to determine which might have superior reserves of social capital. These reserves are important, he points out, because market-oriented societies in which there is a high degree of moral consensus and cooperation have lower transaction costs and hence greater competitiveness. The author puts paid to any idea that the US is a nation of rugged individualists; indeed, Americans are joiners without peer. He warns, though, that ongoing deterioration in the ties that bind (e.g., declines in church attendance and membership in fraternal or voluntary organizations), coupled with a persistent rise in divorce rates and special-interest groups, could deplete the nation's social capital and over time levy an economic toll. In turn, he cautions, the weakening of civil authority could strengthen the state's judiciary and executive branches, an outcome that, he says, is in nobody's best interest. A challenging, elegant exegesis that puts intellectual meat on the bones of Benjamin Franklin's tip to his fellow revolutionaries at the signing of the Declaration of Independence: "We must all hang together, or assuredly we shall all hang separately." (Author tour) -- Copyright ©1995, Kirkus Associates, LP. All rights reserved. --This text refers to the hardcover edition of this title.

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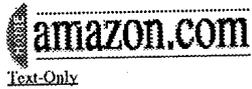
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Expiration date (mm/yy or mm/dd/yy):

Cardholder's name as it appears on the credit card:

Zip or postal code of the billing address for this card:

7. What is your name?

Your name, if it is different from the name on the credit card:

8. What shipping option would you like? (Click here for more about [shipping options and prices](#).)

Shipping Method:

Standard Shipping (Averages 4-10 weeks)

WorldMail (Averages 7-21 business days)
WorldMail can be shipped to PO Boxes.

DHL Worldwide Express Shipping (Averages 1-4 business days) **DHL**
DHL Worldwide Express cannot be shipped to PO Boxes.

Number of Shipments:

Make one shipment when complete order is ready (minimizes shipping cost)
Ship as ordered books become available ([at extra shipping cost](#))

BUTTON:

Press this button to [continue](#)

The next page shows you a summary of your order including its **total cost**. You may then submit your completed order or back up and make changes.

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Amazon.com

Your Amazon.com Order Summary

You may return any book in its original condition within 15 days after you have received your order for a full cash refund. We can only refund shipping costs if the return is a result of our error. Amazon.com, Inc. is located at 1516 2nd Avenue, Seattle, WA 98101; however, returns should be sent to 549 South Dawson, PO Box 81410, Seattle, WA 98108-1310.

If any information on this page is incorrect, use your browser's back button to return to the order form and correct it.

When you have checked the information below, please

BUTTON: PRESS THIS TO SUBMIT YOUR ORDER

Your order will NOT be processed until you press this button.

Your order reads as follows:

E-Mail Address: austen@shudo-u.ac.jp

Ship Via: Standard International Shipping

Ship to: Robert B. Austenfeld, Jr.
Hiroshima Shudo University
1717 Ozuka, Numata-cho
Asaminami-ku, Hiroshima
Hiroshima
731-31
Japan

Tel: 82-830-1146

Items:

- 1 copy of *Trust : The Social Virtues and the Creation of Prosperity* ; Francis Fukuyama; Paperback; @ \$12.00 each

Books Subtotal: \$ 12.00

Shipping: \$ 5.95

Tax: \$ 0.00

TOTAL DUE: \$ 17.95

Your order will NOT be processed until you press this button.

We will notify you before processing your order should there be any change in price. See our [Pricing and Availability Policy](#).

You may return any book in its original condition within 15 days for a full refund. See our [Returns Policy](#).

If you have any difficulties filling out this order form, send e-mail to help@amazon.com or call (800) 201-7575. From outside the U.S. or Canada, call (206) 694-2992. You may want to bookmark this page before calling so you can come back to this step in the ordering process.



[Go to Amazon.com Home Page \(without completing your order\)](#)

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Your order has been submitted. Thank you for shopping at Amazon.com.

New! We have just turned on 1-Click™ express ordering for you!

Click here to [learn more about 1-Click](#).

Important: 1-Click is now on. If you share your computer or use a public terminal you may want to click on the button below to turn off 1-Click express ordering for this computer or terminal. [Read more about 1-Click security.](#)

[Turn off 1-Click ordering](#)

[Return to the Amazon.com Store.](#)



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Subject: Your Order with Amazon.com Books (#7672-3041956-757053)
Date: Mon, 13 Oct 1997 00:43:35 -0700 (PDT)
From: orders@amazon.com
To: austen@shudo-u.ac.jp

Thank you for ordering from Amazon.com!

Your order information appears below. If you need to get in touch with us about your order, send an e-mail message to orders@amazon.com (or just reply to this message).

-- Amazon.com Customer Service

Your order reads as follows:

E-mail address: austen@shudo-u.ac.jp

Ship via: Standard International Shipping

Ship to: Robert B. Austenfeld, Jr.
Hiroshima Shudo University
1717 Ozuka, Numata-cho
Asaminami-ku, Hiroshima
Hiroshima
731-31
Japan

Tel: 82-830-1146

1 copy of "Trust : The Social Virtues and the Creation of Prosperity"
Francis Fukuyama; Paperback; @ \$12.00 each

Books Subtotal:	\$ 12.00
Shipping:	\$ 5.95
Tax:	\$ 0.00

TOTAL DUE:	\$ 17.95

Please note that you can view the status of your account and your orders at any time through the "Your Account" link on the navigation bar. After selecting either our secure server or standard server, you'll be prompted to enter your e-mail address and password; then click on the button marked "Account Maintenance."

This will lead you to the account information page, where you can examine your orders. Here, you have the opportunity to change your e-mail address or your password, as well as check your subscriptions to our Personal Notification Services.

Thank you for shopping at Amazon.com!

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orders@amazon.com <http://www.amazon.com/>

APPENDIX B

THE PRODUCTS OF SECURITY FIRST NATIONAL BANK

(printed from the WWW October 14, 1997)

Lobby ▶ Information Desk ▶ Products

information



A Higher Form Of Banking!

We've gone to great lengths to offer you something special; features and pricing you can't get from a traditional "brick and mortar" bank. Select one of the products below for information and current yields. If you have any questions or concerns, call us at 1.800.SFNB.321 (1-800-736-2321) or e-mail us.

-
- | | |
|---------------------------------|--|
| <u>Basic Checking</u> | Security First offers 20 free electronic payments monthly, on-line statements and registers, on-line images of cleared checks and financial reporting! |
| <u>Interest Checking</u> | All the convenience of Basic Checking plus interest and additional electronic bill payments! Free with a \$5,000 minimum balance! |
| <u>Credit Cards</u> | Security First Network Bank is issuing Visa Classic and Visa Gold Cards to prequalified customers! Transactions are updated as they clear - so you'll always know what's on the next statement. Enjoy one-click balance payment, even on the due date, worldwide acceptance and our SecureMiles™ travel program! |
| <u>Basic Savings</u> | Benefit from a competitive interest rate on your savings - for a new car, a child's schooling or just putting cash aside. No monthly fee with our low minimum balance requirement! |
| <u>Money Markets</u> | SFNB offers some of the highest money market rates in the country! Keep your money in an SFNB Money Market, earn interest, then transfer your funds to checking when it's time to pay bills! |
| <u>C.D.s</u> | Certificates of Deposit are an extremely easy way to earn interest on your funds. We offer some of the highest rates available. Compare for yourself! |
| <u>Current Rates</u> | Current rates and monthly fees for our products. |
| <u>Macro*World</u> | Full financial research, e-mail updates of portfolio activity, news, market information and more! |
| <u>Our Guarantee</u> | Find out how Security First Network Bank stands behind your transactions 100% with the No Risk Guarantee. |

Lobby ▶ Information Desk ▶ Products

Contact us
phone: 1.800.SFNB.321, 24 hours 7 days
email: comments@sfnb.com



Equal Housing Lender | Member FDIC

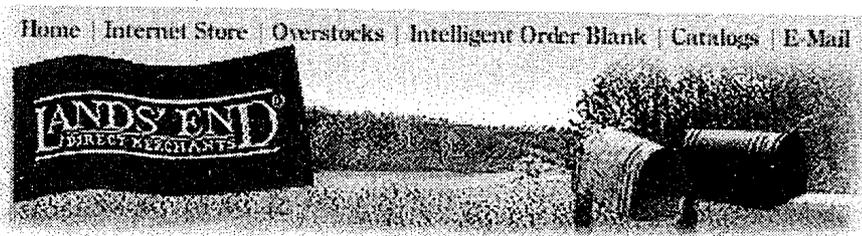


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APPENDIX C

INFORMATION ABOUT LANDS' END'S SPECIALTY SHOPPER

(printed from the WWW September 4, 1997)



A Specialty Shopper can help you with everything from fabric care to what-to-wear. And even help solve some of your shopping puzzles.

Perhaps you'd like some suggestions as to what a very special person on your shopping list is likely to find most pleasing, which tie sets off one of our handsome dress (or even sport) shirts, or which cut of our pants will fit you best. Even how to get a spot off your favorite blouse or tie.

Whatever your questions - and we know you have plenty when you shop by catalog (whether printed or on-line) - we have an expert with all the answers! Our mail order innovation called a Specialty Shopper.

A Specialty Shopper is like a trusted shop clerk.

She has all our products right at her fingertips, and can tell you anything about their make, fit and fabric.

Take advantage of her fine eye for color by letting her coordinate an outfit or a whole wardrobe. She can offer helpful hints to extend the life of your clothing. Tell you how to find the right size garment or accessory. Stumped for gift ideas? She can help there too, with items you find in our Internet store or in any of our catalogs - for men, women, kids or the home.

Solve your shopping dilemmas with one simple phone call.

Don't spend another minute worrying, You're not alone when you shop through Lands' End - expert guidance is just a phone call (or a click of the mouse) away.

Just a sample of Specialty Shopper services

- Coordinate outfits of a whole wardrobe
- Find your correct size
- Give garment details like construction, fit and fabric
- Send you fabric swatches
- Offer handy fabric care tips
- Help you make gift selections any time of year, including holiday time
- Keep a file on your sizes, tastes, past purchases, even address and credit card number

They're available to help you 7 days a week.

You can ask for a Specialty Shopper between 7:30 a.m. and midnight Central Time (1400 hours and 0600 hours GMT). Just call us at 1-800-963-4816 if you're calling from the U.S. or Canada; from other parts of the world, call (International Access Code) 1-608-935-6170 and ask to speak with a Specialty Shopper. If you would like you can fax us at (International Access Code) 1-608-935-4000. Or, [e-mail](#) your questions and we'll get back to you.

Call as often as you like. There's absolutely no pressure, no hassles. She's convenient, friendly and comforting. And her expertise is absolutely free!

APPENDIX D

A COPY OF AMAZON BOOKS' SECURITY CERTIFICATE

(printed from the WWW October 13, 1997)

Netscap: Document info

Amazon.com Order Form - page 1 has the following structure:

- <https://www.amazon.com/exec/obidos/order/7672-1796521-294942>
 - Form 1:
 - Action URL:
<https://www.amazon.com/exec/obidos/order-form-page1/7672-1796521-294942>
 - Encoding: application/x-www-form-urlencoded (default)
 - Method: Post
 - Image: <https://www.amazon.com/giftwraps/coy.gif>
 - Image: <https://www.amazon.com/giftwraps/flowers.gif>
 - Image: <https://www.amazon.com/giftwraps/heart.gif>
 - Image: <https://www.amazon.com/giftwraps/sunflowers.gif>
 - Image: <https://www.amazon.com/giftwraps/maps.gif>
 - Image: <https://www.amazon.com/giftwraps/big-balloons.gif>
 - Image: <https://www.amazon.com/giftwraps/animated-animals.gif>
 - Image: <https://www.amazon.com/g3/misc/reditca.gif>

NetSite: <https://www.amazon.com/exec/obidos/order/7672-1796521-294942>

File MIME Type: text/html

Source: Currently in memory cache

Local cache file: none

Last Modified: Unknown

Last Modified: Unknown

Content Length: 5455

Expires: No date given

Charset: iso-8859-1 (default)

Security: This is a secure document that uses a medium-grade encryption key suited for U.S. export (RC4-Export, 128 bit with 40 secret).

Certificate: **This Certificate belongs to:** www.amazon.com
Amazon.com
Seattle, Washington, US

This Certificate was issued by: Secure Server Certification Authority
RSA Data Security, Inc.
US

Serial Number: 02:F3:00:11:4B

This Certificate is valid from Thu May 29, 1997 to Sat May 30, 1998

Certificate Fingerprint:
EB BA 2F 23 7C 3B F9 2F 18 E6 1A F3 9E AC AC 69