E-commerce 2014

business. technology. society.

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Chapter 9

Online Retail and Services

e Commerce Course :

Parts of Chapters
1.1 & 1.2,
5.1
8.1, 8.2 & 8.3
10.1

Complete Chapters
2, 3, 4, 6, 7 and 9

What's New in Online Retail, 2013–2014

- **Mobile commerce nearly doubles**

- **Rapid growth in social commerce**

- **Online retail still the fastest growing retail channel**

- **Buying online a normal, mainstream experience**

- **Selection of goods increases, includes luxury goods**

- **Informational shopping for big-ticket items expands**

- **Specialty retail sites show rapid growth**

- **Integration of multiple retailing channels**

The Online Retail Sector

- **Most important theme in online retailing is effort to integrate online and offline operations**
- **$16 trillion U.S. economy**
- **U.S. retail market**
    - ❖ $11.4 trillion
    - ❖ 71% of total gross domestic product (GDP)

The Retail Industry

- **7 segments (clothing, durable goods, etc.)**
  - ❖ For each, uses of Internet may differ
    - ■ Information vs. direct purchasing
- **General merchandisers vs. specialty retailers**
- **Mail order/telephone order (MOTO) sector most similar to online retail sector**
  - ❖ Sophisticated order entry, delivery, inventory control systems

Composition of the U.S. Retail Industry

MOTO 3%

Online Retail 6%

Gasoline and Fuel 13%

Consumer Durables 31%

General Merchandise 18%
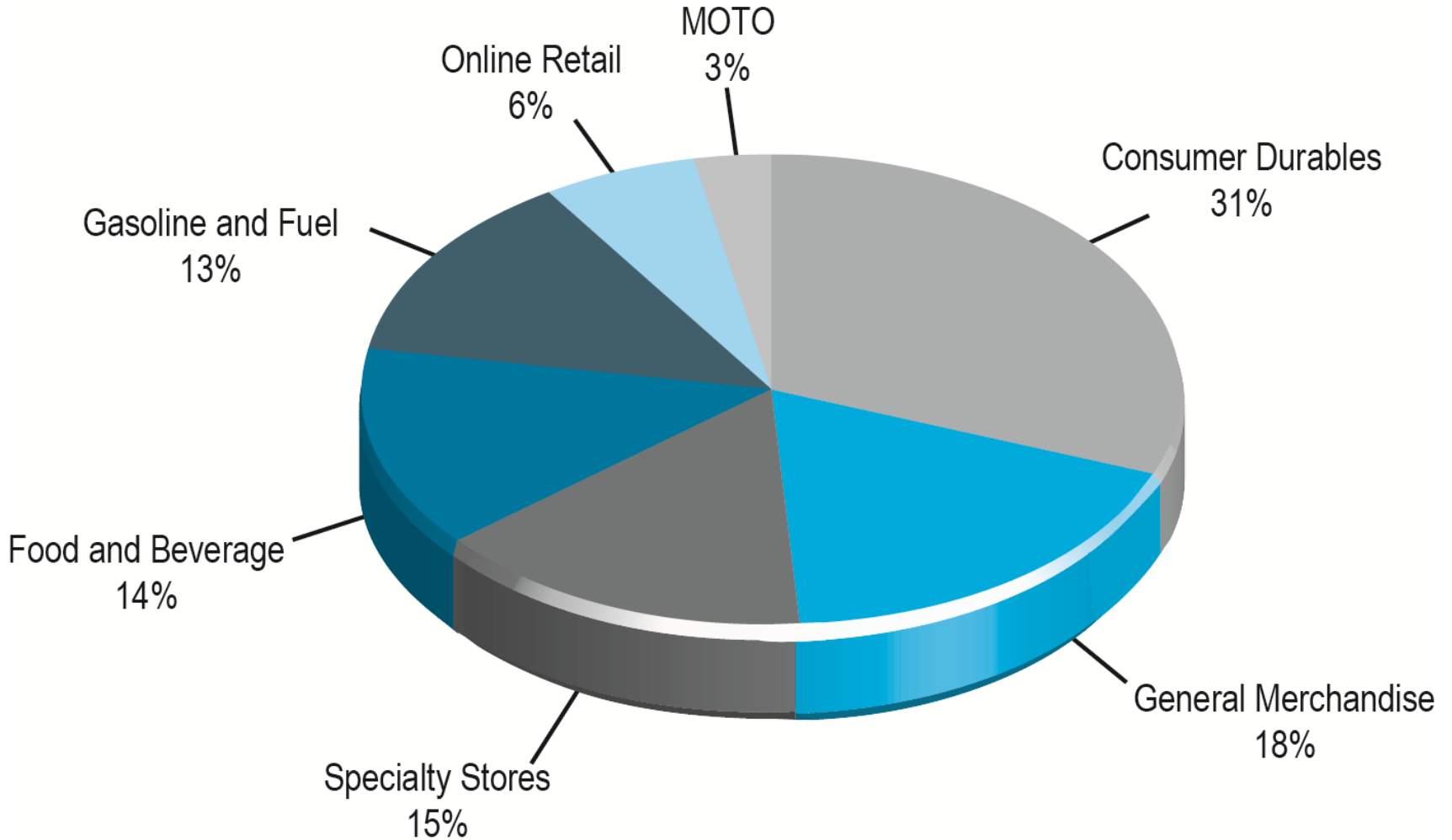
Food and Beverage 14%

Specialty Stores 15%

Figure 9.1, Page 566

SOURCE: Based on data from U.S. Census Bureau, 2012.

E-commerce Retail: The Vision

❖ Reduced search and transaction costs; customers able to find lowest prices

❖ Lowered market entry costs, lower operating costs, higher efficiency

❖ Traditional physical store merchants forced out of business

❖ Some industries would be disintermediated

■ **Few of these assumptions were correct—structure of retail marketplace has not been revolutionized**

■ **Internet has created new venues for multi-channel firms and supported a few pure-play merchants**

The Online Retail Sector Today

- **Smallest segment of retail industry (5–6%)**
- **Growing at faster rate than offline segments**
- **Revenues have resumed growth**
- **Around 73% of Internet users bought online in 2013**
- **Primary beneficiaries:**
  - Established offline retailers with online presence (e.g., Staples)
  - First mover dot-com companies (e.g., Amazon)
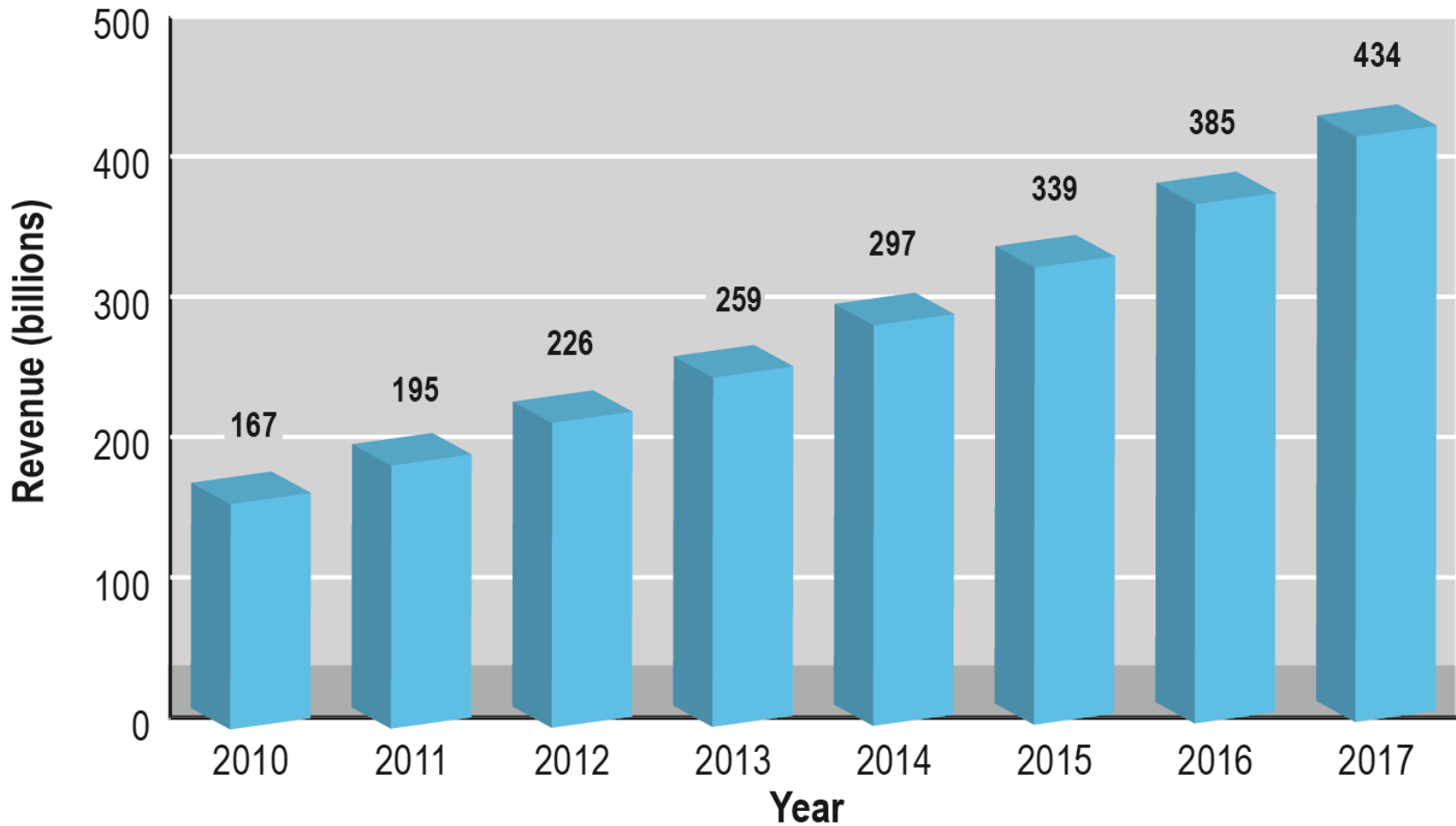
The Growth of Online Retail in the United States

Figure 9.2, p. 569

Multi-Channel Integration

- **Integrating Web operations with traditional physical store operations**
  - ❖ Provide integrated shopping experience
  - ❖ Leverage value of physical store
- **Types of integration**
  - ❖ Online order, in-store pickup
  - ❖ Web promotions to drive customers to stores
  - ❖ Gift cards usable in any channel
- **Increasing importance of mobile devices, social commerce, and tablets**

TABLE 11.4	RETAIL E-COMMERCE: OMNI-CHANNEL INTEGRATION METHODS
INTEGRATION TYPE	**DESCRIPTION**
Online order, in-store pickup	Probably one of the first types of integration.
Online order, store directory, and inventory	When items are out of stock online, customer is directed to physical store network inventory and store location.
In-store kiosk online order, home delivery	When retail store is out of stock, customer orders in store and receives at home.
In-store retail clerk online order, home delivery	Similar to above, but the retail clerk searches online inventory if local store is out of stock as a normal part of the in-store checkout process.
Order online, in-store returns, and adjustments	Defective or rejected products ordered online can be returned to any store location.
Online catalog	Online catalog supplements offline physical catalog and often the online catalog has substantially more product on display.
Manufacturers use online promotions to drive customers to their distributors' retail stores	Consumer product manufacturers such as Colgate-Palmolive and Procter & Gamble use online channels to design new products and promote existing product retail sales.

TABLE 11.4	RETAIL E-COMMERCE: OMNI-CHANNEL INTEGRATION METHODS	
INTEGRATION TYPE	**DESCRIPTION**	
Gift card, loyalty program points can be used in any channel	Recipient of gift card, loyalty program points can use them to purchase in-store, online, or via catalog, if offered by merchant.	
Mobile order, website and physical store sales	Apps take users directly to specially formatted website for ordering, or to in-store bargains.	
Geo-fencing mobile notification, in-store sales	Use of smartphone geo-location technology to target ads for nearby stores and restaurants.	

Analyzing the Viability of Online Firms

- **Economic viability:**
  - Ability of firms to survive as profitable business firms during specified period (i.e., 1–3 years)

- **Two business analysis approaches:**
  - Strategic analysis
    - Focuses on both industry as a whole and firm itself
  - Financial analysis
    - How firm is performing

Strategic Analysis Factors

- **Key industry strategic factors**

  - Barriers to entry
  - Power of suppliers
  - Power of customers
  - Existence of substitute products
  - Industry value chain
  - Nature of intra-industry competition

- **Firm-specific factors**

  - Firm value chain
  - Core competencies
  - Synergies
  - Technology
  - Social and legal challenges

Financial Analysis Factors

- ■ **Statements of Operations**
    - ❖ Revenues
    - ❖ Cost of sales
    - ❖ Gross margin
    - ❖ Operating expenses
    - ❖ Operating margin
    - ❖ Net margin **-** Earnings before income taxes, depreciation, and amortization (EBITDA)

- ■ **Balance sheet**
    - ❖ Assets, current assets
    - ❖ Liabilities, current liabilities, long-term debt
    - ❖ Working capital

E-tailing Business Models

- **Virtual merchant**
  - ❖ Amazon
- **Bricks-and-clicks**
  - ❖ Walmart, JCPenney, Sears
- **Catalog merchant**
  - ❖ Lands' End, L.L. Bean, Victoria's Secret
- **Manufacturer-direct**
  - ❖ Apple, Dell, Sony

Common Themes in Online Retailing

- **Online retail fastest growing channel on revenue basis**

- **Profits for startup ventures have been difficult to achieve**

- **Disintermediation has not occurred**

- **Established merchants need to create integrated shopping experience to succeed online**

- **Growth of online specialty merchants (e.g., Blue Nile)**

- **Extraordinary growth of social, local, and mobile e-commerce**