

# 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

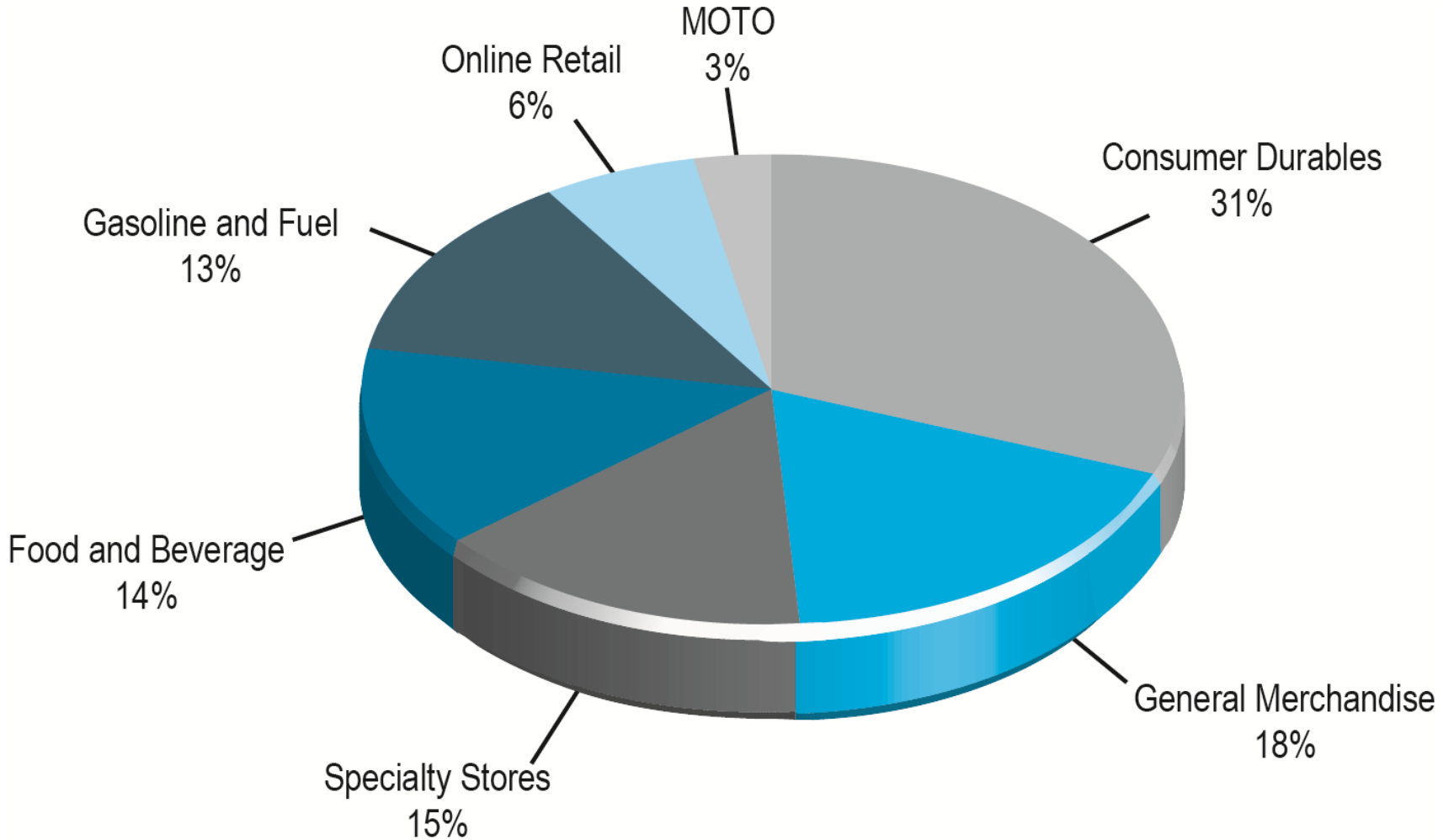


Figure 9.1, Page 566

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

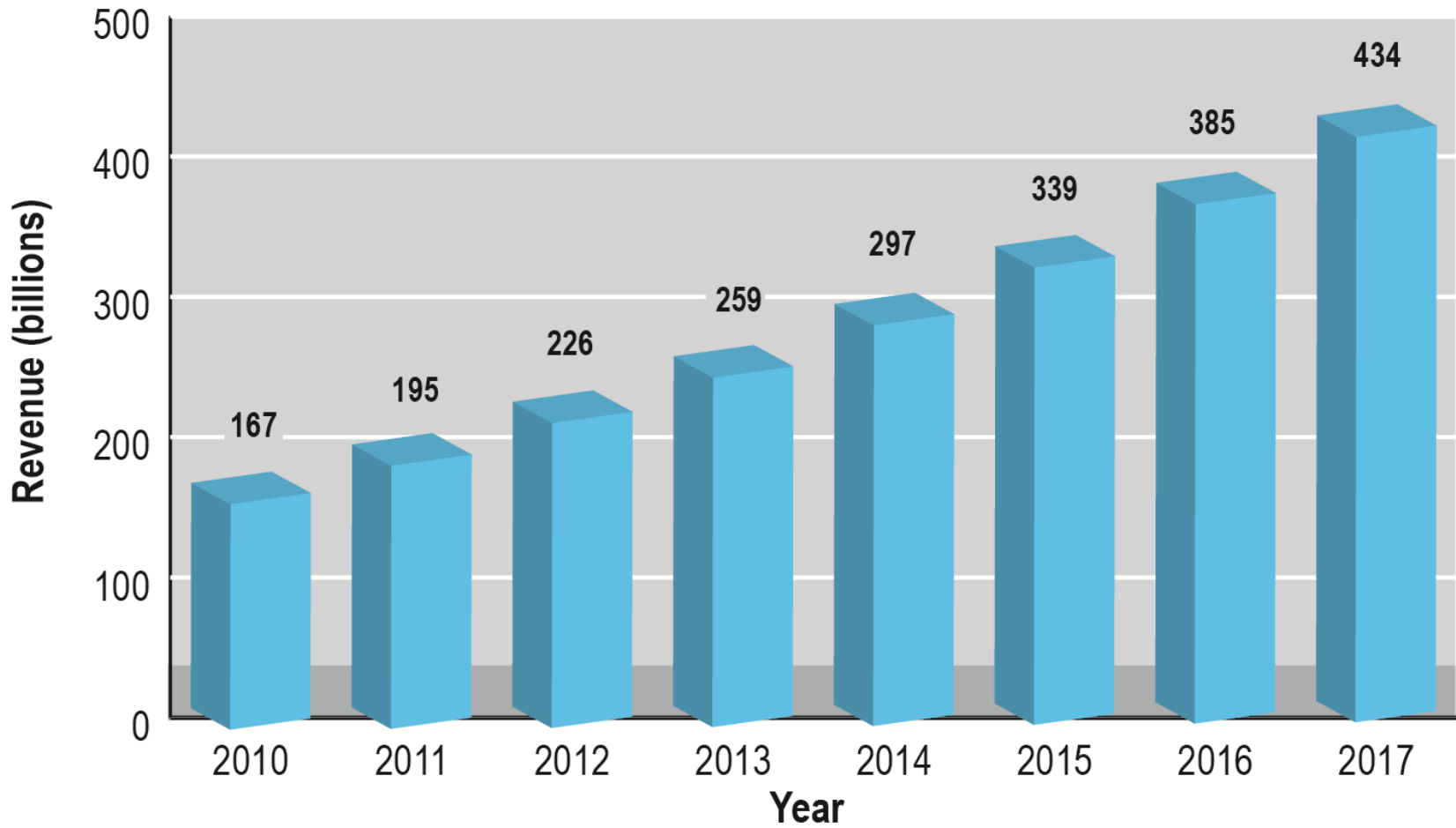


Figure 9.2, p. 569

SOURCES: Based on data from eMarketer, Inc.,



# 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**



# 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





# E-commerce in Action: Amazon.com

## ■ Vision:

- ❖ Earth's biggest selection, most customer-centric

## ■ Business model:

- ❖ Retail, Third-Party Merchants, and Amazon Web Services (merchant and developer services)

## ■ Financial analysis:

- ❖ Continued explosive revenue growth, profitable

## ■ Strategic analysis/business strategy:

- ❖ Maximize sales volume, lower costs and cut prices, acquisitions, mobile shopping, Kindle

## ■ Strategic analysis/competition:

- ❖ Online and offline general merchandisers, Web services



# E-commerce in Action: Amazon.com

## ■ Strategic analysis/technology:

- ❖ Largest, most sophisticated collection of online retailing technologies available

## ■ Strategic analysis/social, legal:

- ❖ Sales tax, patent lawsuits

## ■ Future prospects:

- ❖ In 2013, Amazon registered more than \$31 billion in sales, compared to \$26 billion in 2012 for same period
- ❖ Increased spending on new technology initiatives
  - Smartphone and Kindle TV set-top box
  - Video content
  - New product categories and territories



# 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



# The Service Sector: Offline and Online

## ■ Service sector:

- ❖ Largest and most rapidly expanding part of economies of advanced industrial nations
- ❖ Concerned with performing tasks in and around households, business firms, and institutions
  - Includes doctors, lawyers, accountants, business consultants, and so on
- ❖ Employs 4 out of 5 U.S. workers
- ❖ 75% of economic activity



# Service Industries

## ■ Major service industry groups:

- ❖ Finance
- ❖ Insurance
- ❖ Real estate
- ❖ Travel
- ❖ Professional services—legal, accounting
- ❖ Business services—consulting, advertising, marketing, and so on
- ❖ Health services
- ❖ Educational services



# Service Industries

## ■ Two categories

- ❖ Transaction brokers
- ❖ Hands-on service providers

## ■ Features:

- ❖ Knowledge- and information-intensive
  - Makes them uniquely suited to e-commerce applications
- ❖ Personalization and customization
  - Level differs depending on type of service





# Online Financial Services

## ■ E-commerce has transformed banking and financial services

- ❖ Major institutions deploy online services

## ■ Online financial consumer behavior

- ❖ Most online consumers use financial services sites
  - Check balances
  - Pay bills
- ❖ Experienced users move on to more complex financial services
- ❖ Number of people using mobile devices for financial services is surging



# Online Banking and Brokerage

- Online banking pioneered by NetBank and Wingspan; no longer in existence
- Established brand-name national banks have taken substantial lead in market share
- Two-thirds of U.S. Internet users use online banking
- Early innovators in online brokerage (E\*Trade) have been displaced by established brokerages (Fidelity, Schwab)



## Multi-channel vs.

### Pure Online Financial Service Firms

- **Online consumers prefer multi-channel firms with physical presence**
- **Multi-channel firms**
  - ❖ Growing faster than pure online firms
  - ❖ Lower online customer acquisition costs
- **Pure online firms**
  - ❖ Cannot provide all services that require face-to-face interaction



# Financial Portals and Account Aggregators

## ■ Financial portals

- ❖ Comparison shopping services, independent financial advice, financial planning
- ❖ Revenues from advertising, referrals, subscriptions
- ❖ Example: Yahoo! Finance, Quicken.com, MSN Money

## ■ Account aggregation

- ❖ Pulls together all of a customer's financial data at a personalized Web site
- ❖ Privacy concerns: control of personal data, security, and so on
- ❖ Example: Yodlee



# Online Mortgage and Lending Services

- **Early entrants hoped to simplify and speed up mortgage value chain**
- **Three kinds of online mortgage vendor today**
  - ❖ Established online banks, brokerages, and lending organizations
  - ❖ Traditional mortgage vendors
  - ❖ Pure online mortgage firms
- **Online mortgage industry has not transformed process of obtaining mortgage**
  - ❖ Complexity of process



# Online Insurance Services

- **Online term life insurance:**
  - ❖ One of few online insurance with lowered search costs, increased price comparison, lower prices
  - ❖ Commodity
- **Most insurance not purchased online**
- **Online industry geared more toward**
  - ❖ Product information, search
  - ❖ Price discovery
  - ❖ Online quotes
  - ❖ Influencing the offline purchasing decision





# Online Real Estate Services

- **Early vision: Disintermediation of a complex industry**
- **However, major impact is influencing of purchases offline**
  - ❖ Impossible to complete property transaction online
  - ❖ Main services are online property listings, loan calculators, research and reference material, with mobile apps increasing
- **Despite revolution in available information, there has not been a revolution in the industry value chain**



# Online Travel Services

- **One of the most successful B2C e-commerce segments**
  - ❖ More travel is booked online than offline
  - ❖ Online travel services revenues in 2013: \$137 billion
- **For consumers: More convenience than traditional travel agents**
- **For suppliers: A singular, focused customer pool that can be efficiently reached through onsite advertising**



## Online Travel Services (cont.)

- **Travel an ideal service/product for Internet**
  - ❖ Information-intensive product
  - ❖ Electronic product—travel arrangements can be accomplished for the most part online
  - ❖ Does not require inventory
  - ❖ Does not require physical offices with multiple employees
  - ❖ Suppliers are always looking for customers to fill excess capacity
  - ❖ Does not require an expensive multi-channel presence



# Online Travel Services Revenues

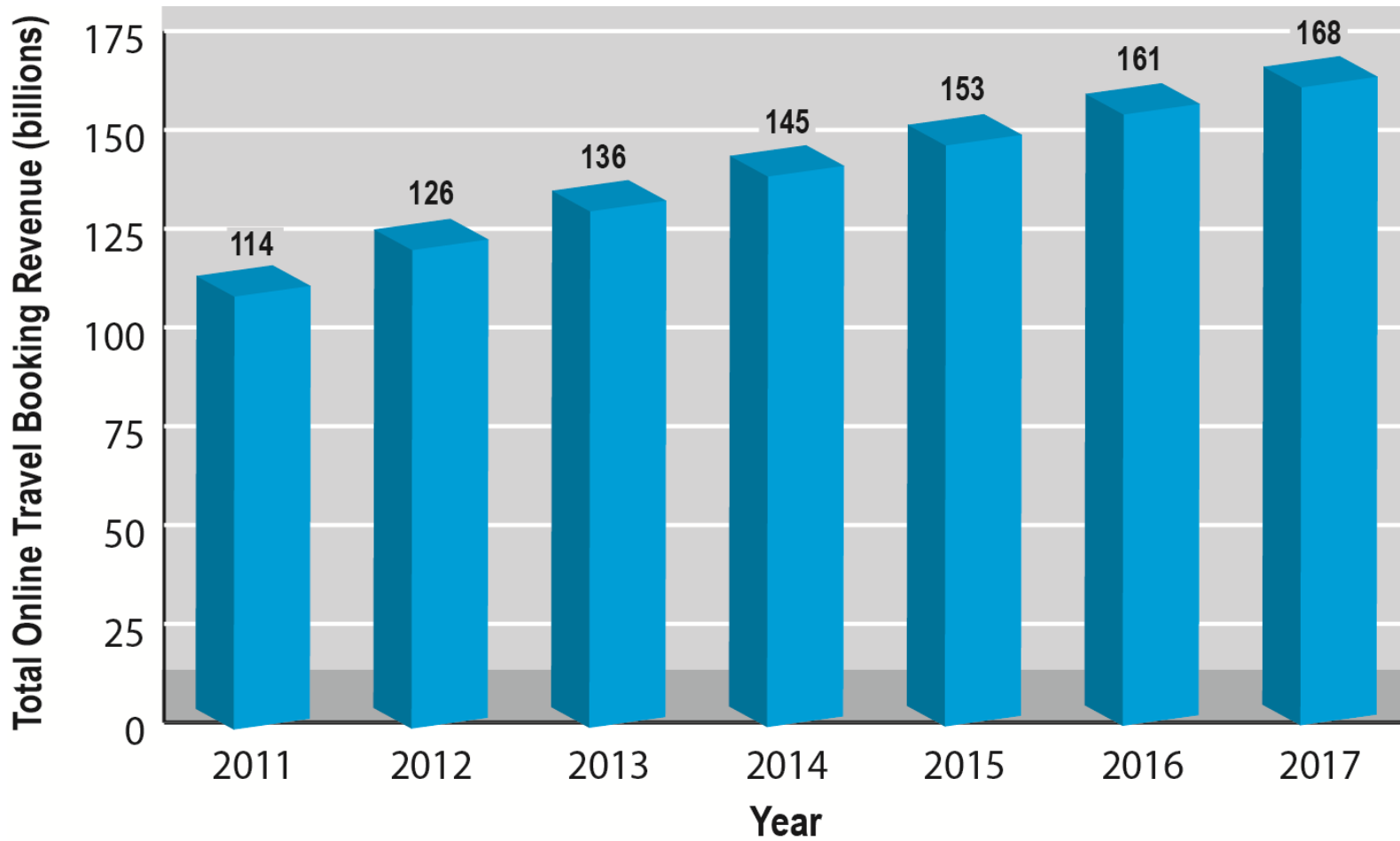


Figure 9.3 , Page 599

SOURCE: Based on data from eMarketer, Inc., 2013d.



# The Online Travel Market

## ■ Four major sectors:

### ❖ Airline tickets

- Greatest source of revenue
- Two-thirds of all online travel spending

### ❖ Hotel reservations

- 19% of travel spending in 2013

### ❖ Car rentals

- 9% of travel spending in 2013

### ❖ Travel packages

- 2% of travel spending in 2013

## ■ Corporate online-booking solutions (COBS)



# Online Travel Industry Dynamics

- Intense competition among online providers
- Price competition difficult
- Industry consolidation
- Industry impacted by meta-search engines
  - ❖ Commoditize online travel
- Mobile applications are also transforming industry
- Social media content, reviews have an increasing influence on travel purchases





# Online Career Services

- **Top sites generate more than \$1 billion annually**
- **Two main players: CareerBuilder, Monster**
- **Traditional recruitment tools:**
  - ❖ Classified, print ads, career expos, on-campus recruitment, staffing firms, internal referral programs
- **Online recruiting**
  - ❖ More efficient, cost-effective, reduces total time-to-hire
  - ❖ Enables job hunters to more easily distribute resumes while conducting job searches
  - ❖ Ideally suited for Web due to information-intensive nature of process



# It's Just Information: The Ideal Web Business?

- **Recruitment ideally suited for the Web**
  - ❖ Information-intensive process
  - ❖ Initial match-up doesn't require much personalization
- **Saves time and money for both job hunters and employers**
- **One of most important functions:**
  - ❖ Ability to establish market prices and terms (online national marketplace)



# Online Recruitment Industry Trends

- **Consolidation**
- **Diversification: Niche employment sites**
- **Localization:**
  - ❖ Local vs. national, Craigslist
- **Job search engines/aggregators:**
  - ❖ “Scraping” listings
- **Social networking:**
  - ❖ LinkedIn; Facebook apps
- **Mobile Web sites and apps**