



E-commerce Retailing and Services



What's New in Online Retail

- **Mobile commerce exploding**
- **Social networks experiment with 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**
- **Big Data used for predictive marketing**



The Online Retail Sector

- **Most important theme in online retailing is effort to integrate online and offline operations**
- **\$17 trillion U.S. economy**
- **U.S. retail market**
 - ❖ Personal consumption of goods and services accounts for \$11.8 trillion (about 69%) 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
- **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

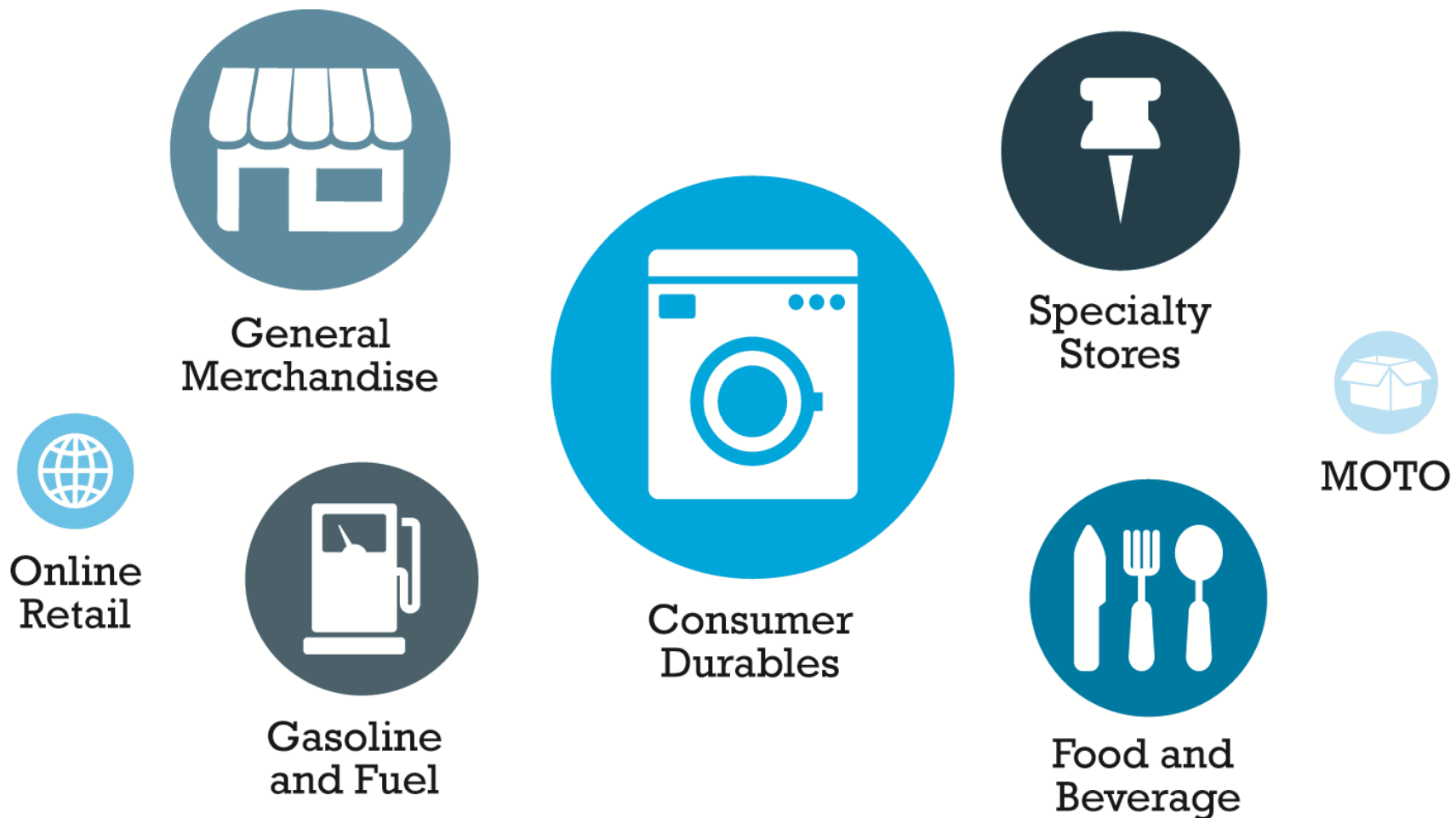


Figure 11.1, Page 724

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 omni-channel firms and supported a few pure-play merchants**



The Online Retail Sector Today

- **Smallest segment of retail industry (6%)**
- **Growing at faster rate than offline segments**
- **Revenues have resumed growth**
- **Around 75% of Internet users bought online in 2014**
- **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

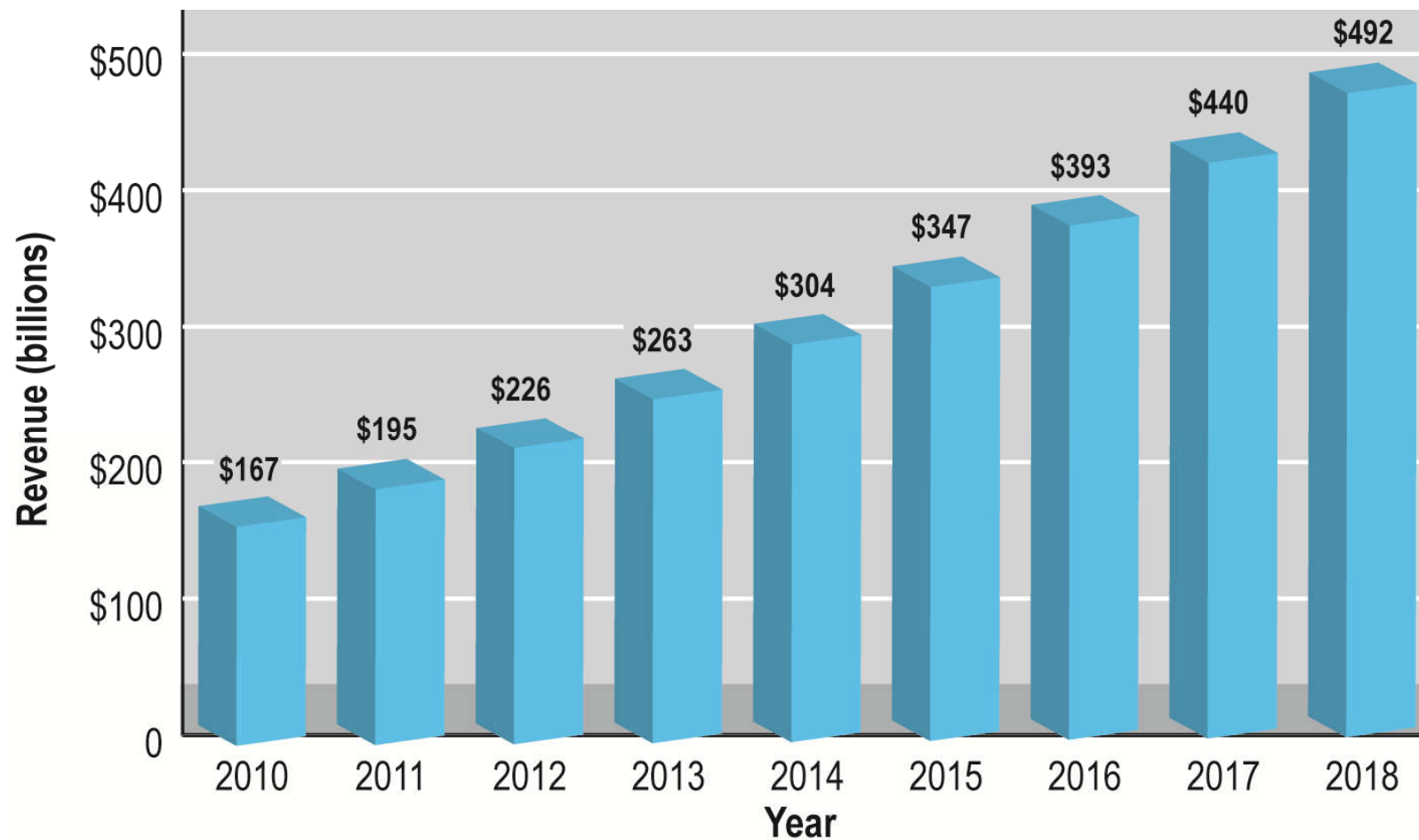


Figure 11.2, Page 727

SOURCES: Based on data from eMarketer, Inc. 2014a



The Online Retail Sector Today (cont.)

■ **Omni-channel integration**

- ❖ Integrating Web operations with traditional physical store operations
 - Leverage value of physical store
 - Types of integration, e.g. online order, in-store pickup

■ **Social commerce growth**

■ **Location-based marketing of local goods and services**

■ **Rapidly growing mobile platform**

- ❖ Tablets – the “ultimate shopping machine”



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
 - Pro forma earnings—EBITDA

■ Balance sheet

- ❖ Assets, current assets
- ❖ Liabilities, current liabilities, long-term debt
- ❖ Working capital



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 prices, acquisitions, mobile shopping, new products and services, Amazon Fire phone and TV

■ 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 2014, Amazon registered more than \$39 billion in sales, compared to \$31 billion in 2013
- ❖ Increased selection and in-stock availability
- ❖ Increased spending on new technology initiatives (Fire phone), new warehouses, video library, original programming, and new products/services



E-tailing Business Models

■ Virtual merchant

- ❖ Amazon

■ Omni-channel (bricks-and-clicks)

- ❖ Walmart, Macy's

■ Catalog merchant

- ❖ Lands' End, L.L. Bean

■ Manufacturer-direct

- ❖ Apple, Dell, Sony
- ❖ Channel conflict
- ❖ Move from supply-push model to demand-pull



Common Themes in Online Retailing

- **Online retail fastest growing channel in retail commerce**
 - ❖ 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**
- **Increasing use of Big Data analytics by retailers**

Big Data and Predictive Marketing

- **How does Big Data enable predictive marketing?**
- **Are there any drawbacks to the increasing use of predictive marketing?**
- **Have you experienced predictive marketing in your own shopping? If so, what was the experience like – were suggestions accurate and helpful?**



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
- ❖ 80% of U.S. GDP



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**
- **Over half of U.S. adults 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 influence 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 2014: Over \$145 billion
- **For consumers: More convenient 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

Phony Reviews

- **Should there be repercussions to individuals and/or businesses for posting false reviews of products or services?**
- **Can phony reviews be recognized and moderated?**
- **Do you rely more on some types of reviews or comments on Web sites and blogs over others?**

Online Travel Services Revenues

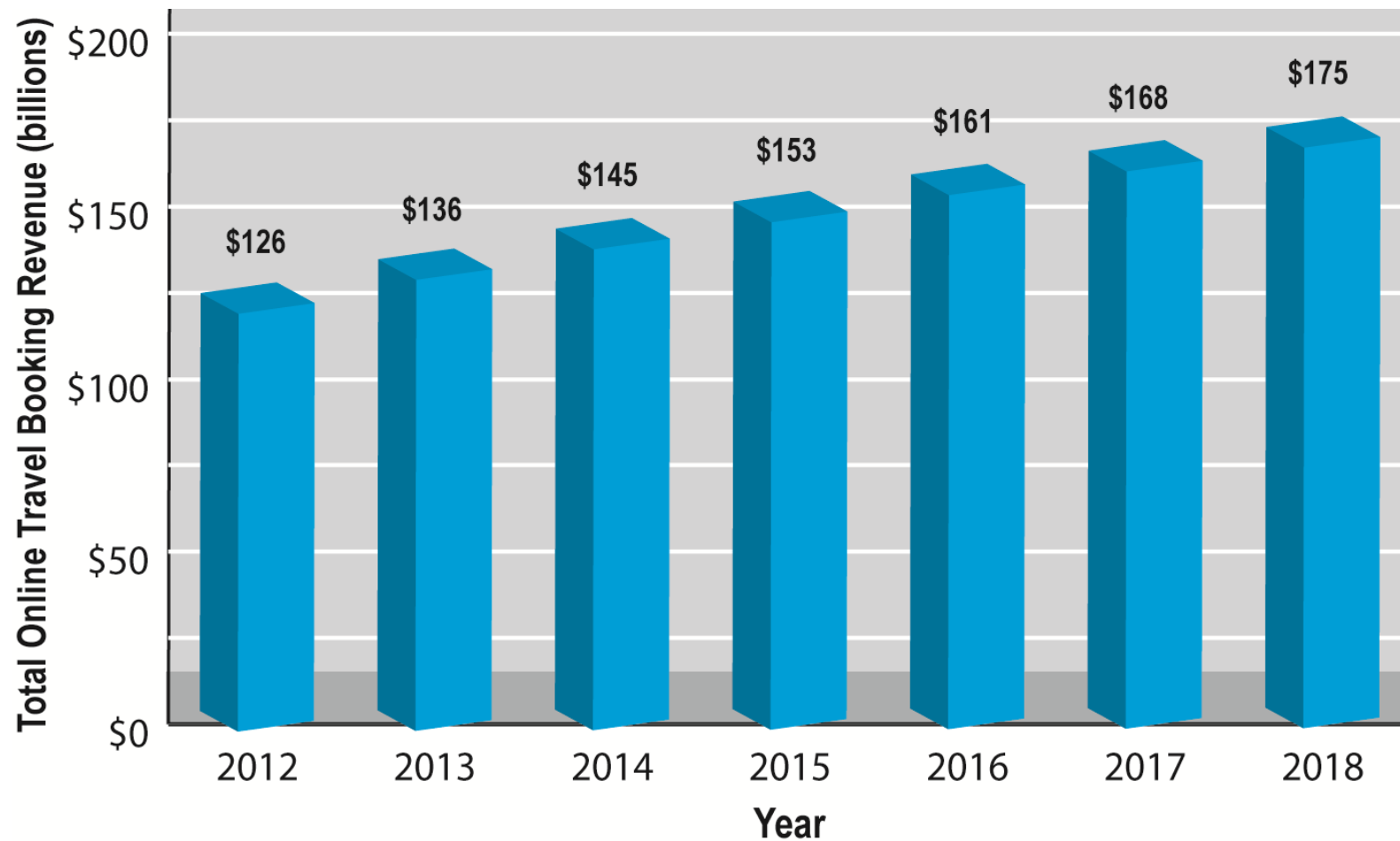


Figure 11.3, Page 759

SOURCE: Based on data from eMarketer, Inc., 2014e.



The Online Travel Market

- **Four major sectors:**
 - ❖ Airline tickets
 - Greatest source of revenue
 - ❖ Hotel reservations
 - ❖ Car rentals
 - ❖ Travel packages
- **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

- **Two main players: CareerBuilder, Monster**
- **Five traditional recruitment tools:**
 - ❖ Classified and 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**



Sharing Economy Companies

- **Platforms for users to share/lease assets and resources**
 - ❖ Bikes, cars, homes, rooms with beds, etc.
 - ❖ Fees collected from sellers and buyers
- **Use of online reputation systems, peer review**
- **Successful firms are disrupters, lowering cost of services**
 - ❖ Uber
 - ❖ Airbnb

Uber Revs Up

- **What features or practices have made Uber so successful?**
- **What challenges do sharing economy services face?**
- **Have you used any sharing economy services? If so, what was your experience?**



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General
Merchandise



Specialty
Stores



Consumer
Durables



MOTO



Online
Retail

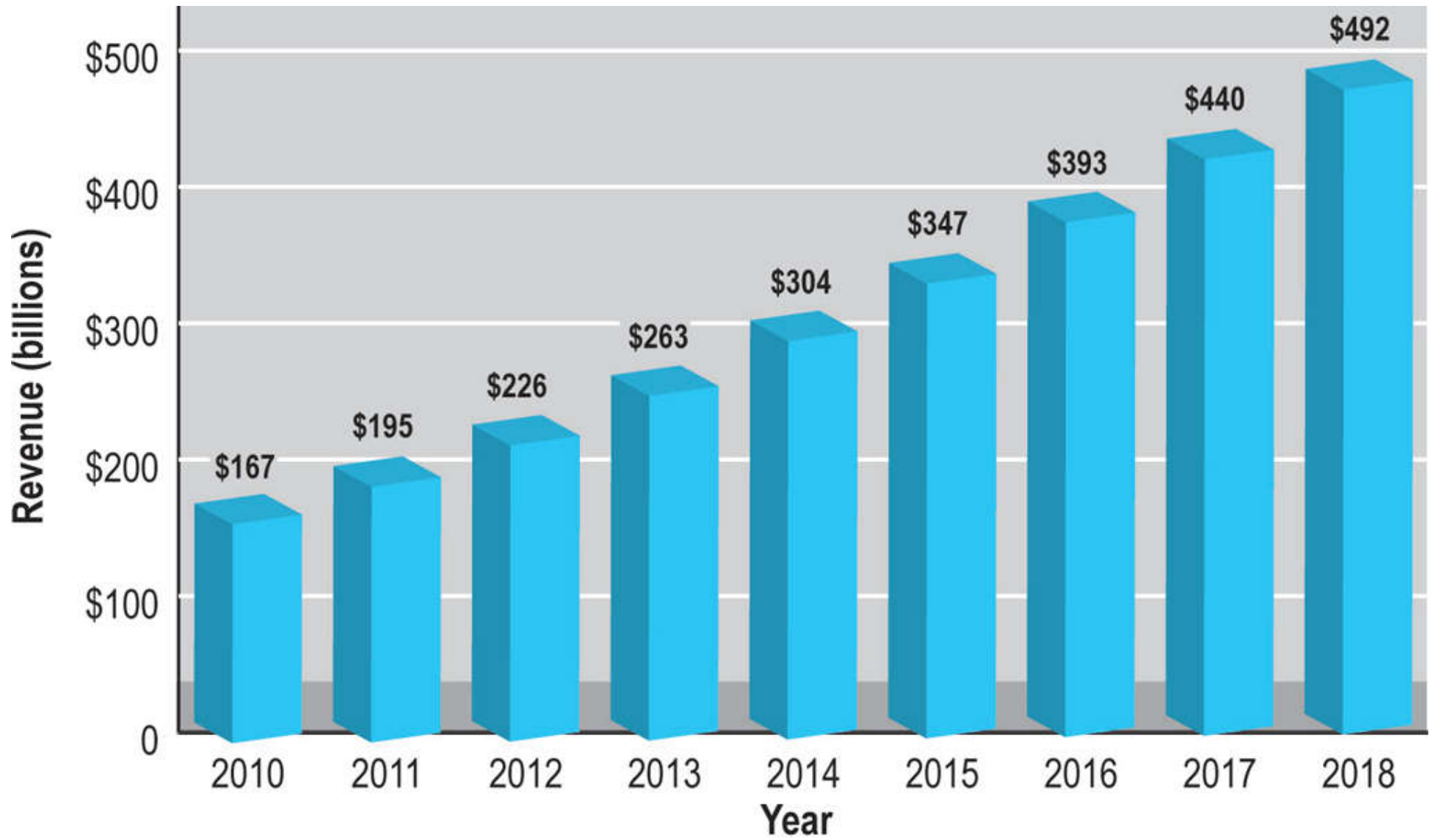


Gasoline
and Fuel

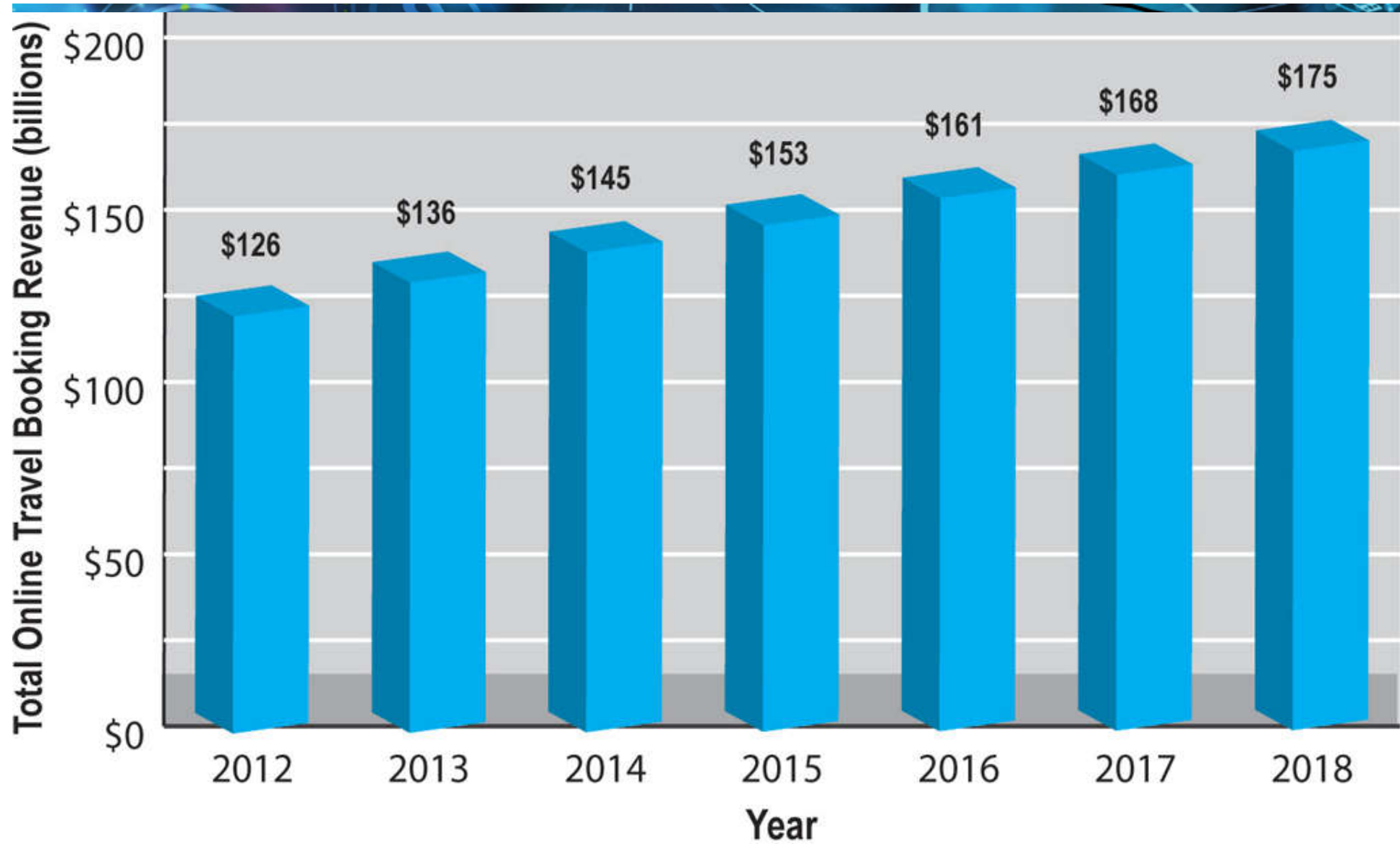


Food and
Beverage

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