CPET 581 E-Commerce & Business Technologies

Online Retail and Services

References:
- Chapter 9 Online Retail and Services, 8th edition, 2012, by K. C. Laudon and C. G. Traver, publisher Pearson Education Inc.,

Paul I-Hai Lin, Professor
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M.S. in Technology IT/Advanced Computer Applications Program
Purdue University Fort Wayne Campus

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Topics

- The Retail Industry Sector and Major Trend in Online Retails
- E-Commerce Retail: the Vision
- E-Tailing Business Models
- Multi-Channel Integration
- Analyzing the Viability of Online Firms
  - Strategic Analysis Factors
  - Financial Analysis Factors
- Common Themes in Online Retailing
- Case Study: E-Commerce in Action - Amazon.com

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Topics

- The Service Sector
- Service Industries
  - Online Financial Services
  - Online Banking and Brokerage
  - Financial Portals and Account Aggregators
  - Online Mortgage and Lending Services
  - Online Insurance Services
  - Online Real Estate Services
  - Online Travel Services
  - Online Career Services

Blue Nile Sparkles for Your Cleopatra

- Why is selling (or buying) diamonds over the Internet difficult?
- How has Blue Nile built its supply chain to keep costs low?
- How has Blue Nile reduced consumer anxiety over online diamond purchases?
- What are some vulnerabilities facing Blue Nile?
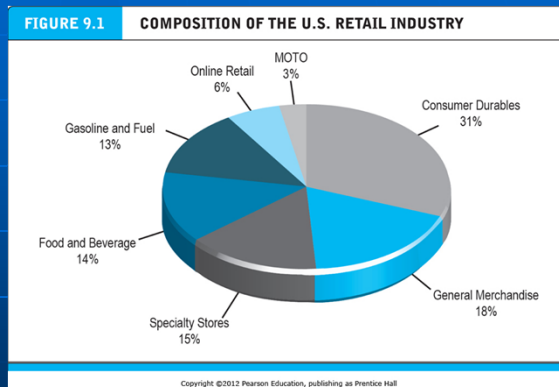- Would you buy a $5,000 engagement ring at Blue Nile?

The Retail Sector

- Most important theme in online retailing is effort to integrate online and offline operations
- U.S. retail market accounts for $10.7 trillion (70%) of total GDP
- Personal consumption:
  - Services: 65%
  - Nondurable goods: 25%
  - Durable goods: 10%
- "Goods" vs. "services" ambiguity

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The Retail Industry

- 7 segments
  - **Durable Goods**
  - **General Merchandise**
  - **Food & Beverage**
  - **Special Stores**
  - **Gasoline and Fuel**
  - **Mail order/Telephone Order (MOTO)**
  - **Online Retail**

FIGURE 9.1 COMPOSITION OF THE U.S. RETAIL INDUSTRY

MOTO 3%
Online Retail 6%
Gasoline and Fuel 13%
Consumer Durables 31%
Food and Beverage 14%
General Merchandise 18%
Specialty Stores 15%

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Major Trends in Online Retail, 2011–2012

- Growth in social shopping
- Online retail still 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 most rapid growth
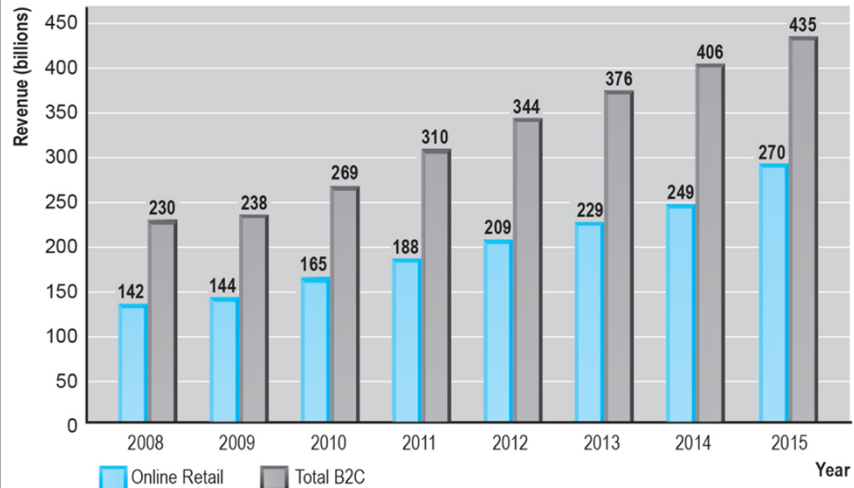- Increased use of interactive, Web 2.0 marketing

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The Online Retail Sector Today

- Smallest segment of retail industry (5%–6%)
- Growing at faster rate than offline segments
- Revenues have resumed growth
- Around 72% of Internet users bought online in 2011
- Primary beneficiaries:
  - Established offline retailers with online presence (e.g., Staples)
  - First mover dot-com companies (e.g., Amazon)

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FIGURE 9.2 — ONLINE RETAIL AND B2C E-COMMERCE IS ALIVE AND WELL

Revenue (billions) by Year, comparing Online Retail and Total B2C:

Year	Online Retail	Total B2C
2008	142	230
2009	144	238
2010	165	269
2011	188	310
2012	209	344
2013	229	376
2014	249	406
2015	270	435

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TABLE 9.2 — ADVANTAGES AND CHALLENGES TO ONLINE RETAIL

ADVANTAGES	CHALLENGES
Lower supply chain costs by aggregating demand at a single site and increasing purchasing power	Consumer concerns about the security of transactions
Lower cost of distribution using Web sites rather than physical stores	Consumer concerns about the privacy of personal information given to Web sites
Ability to reach and serve a much larger geographically distributed group of customers	Delays in delivery of goods when compared to store shopping
Ability to react quickly to customer tastes and demand	Inconvenience associated with return of damaged or exchange goods
Ability to change prices nearly instantly	Overcoming lack of consumer trust in online brand names
Ability to rapidly change visual presentation of goods	Added expenses for online photography, video and animated presentations
Avoidance of direct marketing costs of catalogs and physical mail	Online marketing costs for search, e-mail, and displays
Increased opportunities for personalization, customization	Added complexity to product offerings and customer service
Ability to greatly improve information and knowledge delivered to consumer	Greater customer information can translate into price competition and lower profits
Ability to lower consumers' overall market transaction costs	

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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
  - In-store kiosk or clerk Web order, home delivery
  - Web promotions to drive customers to stores
  - Gift cards usable in any channel
- Increasing importance of mobile devices

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TABLE 9.3 — RETAIL E-COMMERCE: MULTI-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 Web order, home delivery	When retail store is out of stock, customer orders in store and receives at home. Presumes customer is Web familiar.
In-store retail clerk Web order, home delivery	Similar to above, but the retail clerk searches Web inventory if local store is out of stock as a normal part of the in-store checkout process.
Web order, in-store returns, and adjustments	Defective or rejected products ordered on the Web can be returned to any store location.
Online Web catalog	Online Web catalog supplements offline physical catalog and often the online catalog has substantially more product on display.
Manufacturers use online Web site promotions to drive customers to their distributors' retail stores	Consumer product manufacturers such as Colgate-Palmolive and Procter & Gamble use their Web channels to design new products and promote existing product retail sales.
Gift card, loyalty program points can be used in any channel	Recipient of gift card, loyalty program points can use it to purchase in-store, online, or via catalog, if offered by merchant.

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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

Strategic Analysis Factors

- Key industry strategic factors
- **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**
- Balance sheet
  - **Assets, current assets**
  - **Liabilities, current liabilities, long-term debt**
  - **Working capital**

E-tailing Business Models

- Virtual merchant
    - Amazon
- Bricks and clicks
    - Walmart, J.C. Penney, Sears
- Catalog merchant
    - Lands' End, L.L. Bean, Victoria's Secret
- Manufacturer-direct
    - Dell

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E-commerce in Action: Amazon.com

- Vision:
    - Earth's biggest selection
    - Most customer-centric
- Business model:
    - Retail
    - Third Party Merchants
    - Amazon Web Services (merchant and developer services)
- Financial analysis:
    - Continued explosive revenue growth, profitable

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E-commerce in Action: Amazon.com

- Strategic analysis/business strategy:
  - Maximize sales volume
  - Cut prices
  - Acquisitions
  - Mobile shopping
  - Kindle
- Strategic analysis/competition:
  - Online and offline general merchandisers
  - Web services

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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 2010, net sales grew 40%, and significant gains thus far in 2011
  - Ranks among top five in customer service, speed, accuracy

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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, etc.
  - Employs 4 out of 5 U.S. workers
  - 75% of economic activity
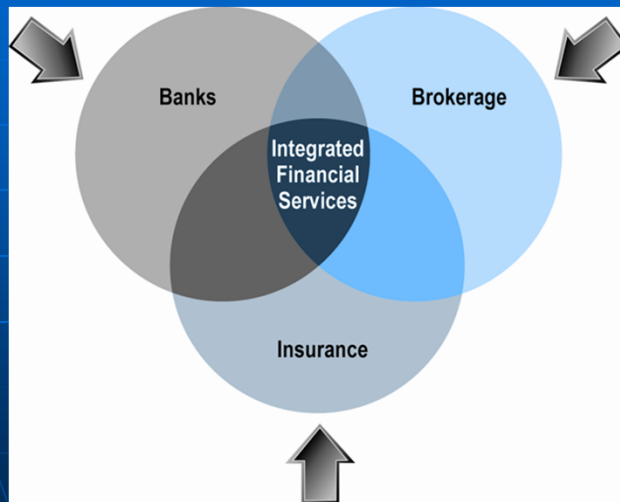
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Service Industries

- Major service industry groups:
  - Finance
  - Insurance
  - Real estate
  - Travel
  - Professional services—legal, accounting
  - Business services—consulting, advertising, marketing, etc.
  - Health services
  - Educational services

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Figure 9.3 Industry Consolidation and Integrated Financial Services

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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
  - Rely on Web sites, advertising to acquire customers
  - Users utilize services more intensively
  - Users shop more, are more price-driven and less loyal

Figure 9.7 Top Online Brokerages, 2011

TABLE 9.7	TOP ONLINE BROKERAGES, 2011
FIRM	NUMBER OF UNIQUE VISITORS (IN MILLIONS)
Fidelity.com	6.04
Scottrade	2.38
Charles Schwab	2.31
Vanguard	2.12
TD Ameritrade	1.7
E*Trade	1.4
Merrill Lynch	1.07
ShareBuilder	1.06
Zecco	0.78
Troweprice.com	0.6

Financial Portals

- Financial portals
  - Comparison shopping services, independent financial advice, financial planning
  - Revenues from advertising, referrals, subscriptions
  - e.g., Yahoo! Finance, Quicken.com, MSN Money

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Account Aggregators

- Account aggregation
  - Pulls together all of a customer's financial data at a personalized Web site
  - e.g., Yodlee: provides account aggregation technology
  - Privacy concerns; control of personal data, security, etc.

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 Travel Services

- One of the most successful B2C e-commerce segments

- Online travel bookings declined slightly due to recession but expected to grow to $107.5 billion in 2011

- For consumers: More convenience than traditional travel agents

- For suppliers: A singular, focused customer pool that can be efficiently reached through onsite advertising

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The Online Travel Market

- Four major sectors:
  - **Airline tickets**
  - **Hotel reservations**
  - **Car rentals**
  - **Cruises/tours**
- 57% purchase airline tickets from airline's Web site, 22% from travel booking Web site (e.g., Expedia)
- Corporate online-booking solutions (COBS)
  - Integrated travel services

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TABLE 9.8   MAJOR ONLINE TRAVEL SITES

NAME	DESCRIPTION
LEISURE/UNMANAGED BUSINESS TRAVEL	
Expedia	Largest online travel service; leisure focus.
Travelocity	Second-largest online travel service; leisure focus. Owned by Sabre Holdings.
TripAdvisor	Travel shopping bot that searches for the lowest fares across all other sites.
Orbitz	Began as supplier-owned reservation system; now part of Orbitz Worldwide, a public company.
Priceline	"Name your price" model; leisure focus.
CheapTickets	Discount airline tickets, hotel reservations, and auto rentals. Part of Orbitz Worldwide.
Hotels.com	Largest hotel reservation network; leisure and corporate focus. Owned by Expedia.
Hotwire	Seeks out discount fares based on airline excess inventory. Owned by Expedia.
MANAGED BUSINESS TRAVEL	
GetThere.com	Corporate online booking solution (COBS). Owned by Sabre Holdings.
Travelocity Business	Full-service corporate travel agency.

Online Career Services

- Top sites generate over $1 billion annually
- Two main players: CareerBuilder, Monster
- Traditional recruitment:
  - 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-intense nature of process

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 apps

TABLE 9.9	POPULAR ONLINE RECRUITMENT SITES
RECRUITMENT SITE	**BRIEF DESCRIPTION**
General Recruitment Sites	
CareerBuilder	Owned by Gannett, Tribune, McClatchy (all newspaper companies), and Microsoft. Provides job search centers for more than 9,000 Web sites, including AOL and MSN, and 140 newspapers; 1.6 million jobs listed.
Monster	One of the first commercial sites on the Web in 1994. Today, a public company offering general job searches in 50 countries, generating revenue of over $914 million a year.
Yahoo HotJobs	General job searches. Partners with consortium of newspapers, including Hearst, Cox, MediaNews General, Scripps, and others for cross-listing of job postings. Purchased by Monster in 2010 for $225 million.
Indeed.com	Job site aggregator
SimplyHired	Job site aggregator
Craigslist	Popular classified listing service focused on local recruiting
Executive Search Sites	
Futurestep	Korn/Ferry site, low-end executive recruiting
Spencerstuart.com	Middle-level executive recruiting
ExecuNet	Executive search firm
Niche Job Sites	
SnagAJob	Part-time and hourly jobs
USAJobs	Federal government jobs
HigherEdJobs	Education industry
EngineerJobs	Engineering jobs
Medzilla	Medical industry
Showbizjobs	Entertainment industry
Salesjobs	Sales and marketing
Dice	Information technology jobs
MBAGlobalNet	MBA-oriented community site

Case Study
OpenTable: Your Reservation is Waiting

- Web site, http://www.opentable.com/
- The leading supplier of Reservation, Table Management, and Guest Management Software for Restaurants
- Incorporated in 1998, name change in1999, 2009 IPO
- Tried-and-True Business Model

Case Study
OpenTable: Your Reservation is Waiting

- Revenue Sources
  - Subscription Fee
    - Software installation & training (one-time fee)
    - Monthly subscription fee for software & hardware
  - Per Transaction Charges
    - Transaction fee for each restaurant guest generated through online reservation
  - More than 50% revenue from B2B subscriptions

Case Study
OpenTable: Your Reservation is Waiting

- E-Commerce Technologies
  - A service-based (SaaS) e-commerce company
  - Electronic Reservation Book (ERB):
    - A Customer Relationship Management system (CRM)
    - Real-time map of restaurant floor
    - Meal patterns
  - Connect: a Web service for online reservations
  - Mobile Web site , Mobile apps, GPS

Case Study
OpenTable: Your Reservation is Waiting

- Web site, http://www.opentable.com/
- About OpenTable, http://www.opentable.com/info/aboutus.aspx
- Open Positions
- Investors
- Company and Press
- Strategic Partners
- Affiliated Program
- Help and Support
- Blog

Case Study
OpenTable: Your Reservation is Waiting

- Open Positions
  - Engineering
    - Sr. Software Engineer
    - Lead Business Intelligence Engineer/Architect
    - QA Engineer
  - Field Operations
  - Finance
    - Lead Business Intelligence Engineer/Architect
    - Financial System Analyst
    - Account Receivable Specialists
  - Marketing
  - Operations

Case Study Questions: OpenTable.com

1. Why will OpenTable competitors have a difficult time competing against OpenTable?

2. What characteristics of the restaurant market make it difficult for a national reservation system to work?

Case Study Questions: OpenTable.com

3. How did OpenTable change its marketing strategy to succeed?

4. Why would restaurants find the software-as-a-service model very attractive?

Summary