



## Major Trends in Online Retail 2009–2010

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- Growth in social shopping
- Online retail remained profitable during recession
- 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

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## The Retail Sector

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- Most important theme in online retailing is effort to integrate online and offline operations
- U.S. retail market accounts for over \$9.7 trillion (70%) of total GDP
- Personal consumption:
  - 60% services
  - 29% nondurable goods
  - 11% durable goods
- Distinction between “goods” and “services” becoming more ambiguous

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## The Retail Industry

- Divided into Nine segments (clothing, durable goods, etc.)
  - Each offers different opportunities for online retail
    - Information
    - 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

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## Composition of the U.S. Retail Industry

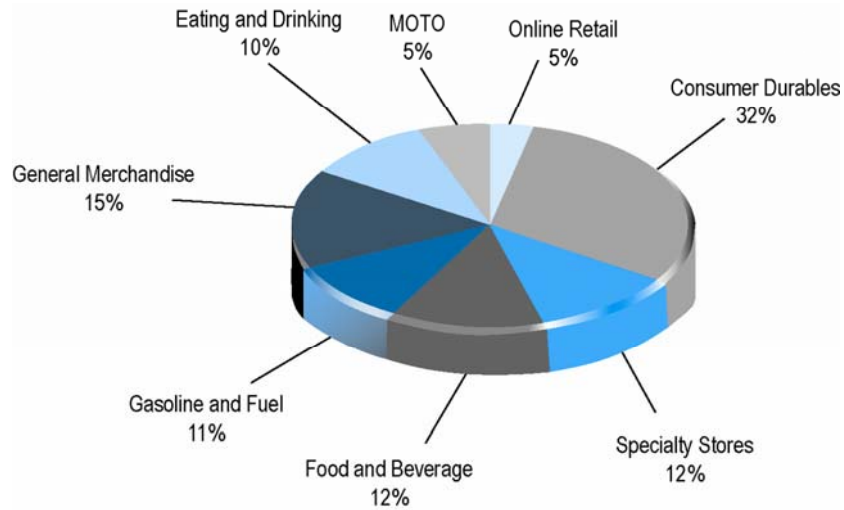


Figure 9.1, Page 577

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## E-commerce Retail: The Vision

- Greatly reduced search and transaction costs would result in customers using Web to find lowest prices
- Market entry costs would be lower than those for physical storefronts, and online merchants would be more efficient than offline competitors
- Traditional offline physical store merchants would be forced out of business
- Some industries would become disintermediated as manufacturers built direct relationship with consumer
- **Few of these assumptions were correct**—structure of retail marketplace has not been revolutionized
- Internet has created new venues for multichannel firms and supported a few pure-play merchants

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## The Online Retail Sector Today

- Smallest segment of retail industry (5%)
- Growing at faster rate than offline segments
- Revenues flat during recession, expected to continue growth between 2010–2013
- 70% Internet users bought online in 2009
- Primary beneficiaries:
  - Established offline retailers with online presence (e.g., Staples)
  - First mover dot-com companies (e.g., Amazon)

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## Multi-Channel Integration

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- 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
  - Online order, store directory and inventory
  - In-store kiosk or clerk Web order, home delivery
  - Web order, in-store returns and adjustments
  - Online Web catalog
  - Web promotions to drive customers to stores
  - Gift cards, program points usable in any channel

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## Analyzing the Viability of Online Firms

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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:
  1. Strategic analysis
    - Focuses on both industry as a whole and firm itself
  2. Financial analysis
    - How firm is performing

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## 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
  
- Strategic factors related to specific firm
  - Firm value chain
  - Core competencies
  - Synergies
  - Technology
  - Social and legal challenges

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## 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 and long-term debt
  - Working capital

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## E-tailing Business Models

- Four main types of online retail business models:
- Virtual merchant
  - Single channel Web firms that generate almost all revenues from online sales
  - e.g. Amazon
- Bricks-and-clicks
  - Companies with physical stores as primary retail channel, but also online offerings
  - e.g. Wal-Mart, J.C. Penney, Sears

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## E-tailing Business Models (cont'd)

- **Catalog merchant**
  - Established companies that have national offline catalog operation as largest retail channel, but also have online capabilities
  - e.g. Lands' End, L.L. Bean, Victoria's Secret
- **Manufacturer-direct**
  - Single or multi-channel manufacturers who sell directly online to consumers without intervention of retailers
  - e.g. Dell

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## E-commerce in Action: Amazon.com

- **Vision:**
  - Earth's biggest selection, most customer-centric
- **Business model:**
  - Amazon Retail, Third Party Merchants, and Amazon Web Services (merchant and developer services)
- **Financial analysis:**
  - Greatly improved, profitable; still heavy long-term debt
- **Strategic analysis/business strategy:**
  - Maximize sales volume, cut prices
- **Strategic analysis/competition:**
  - Online and offline general merchandisers

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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:
  - Antitrust, sales tax, patent lawsuits
  - Toys'R'Us lawsuit
- Future prospects:
  - In 2008, net sales grew 30%
  - Ranks among top five in customer service, speed, accuracy
  - However, net margins still much narrower than Wal-Mart

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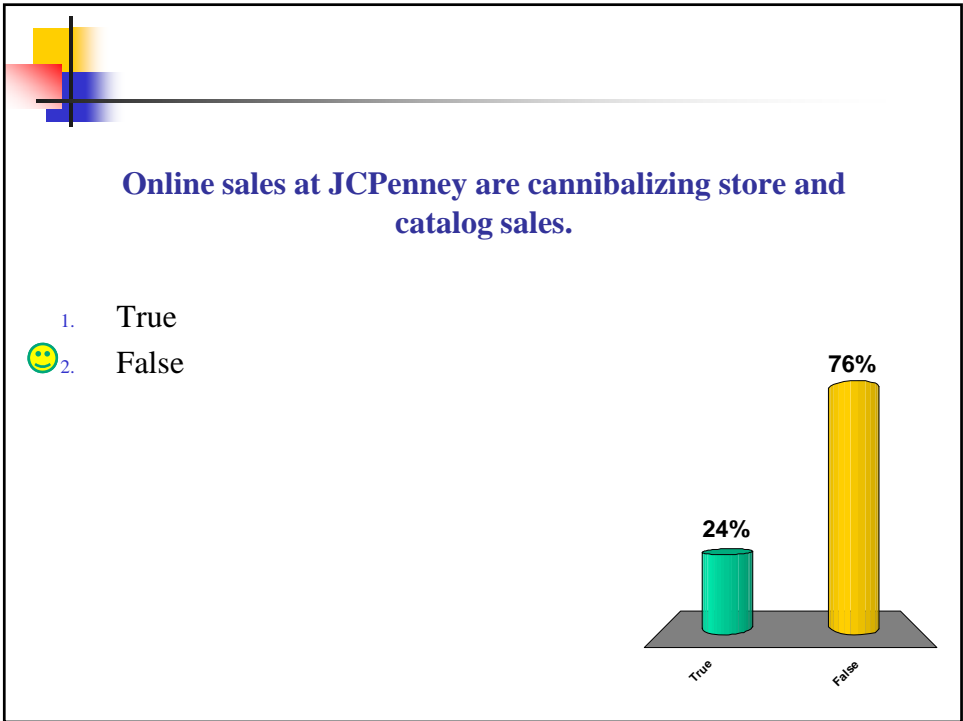
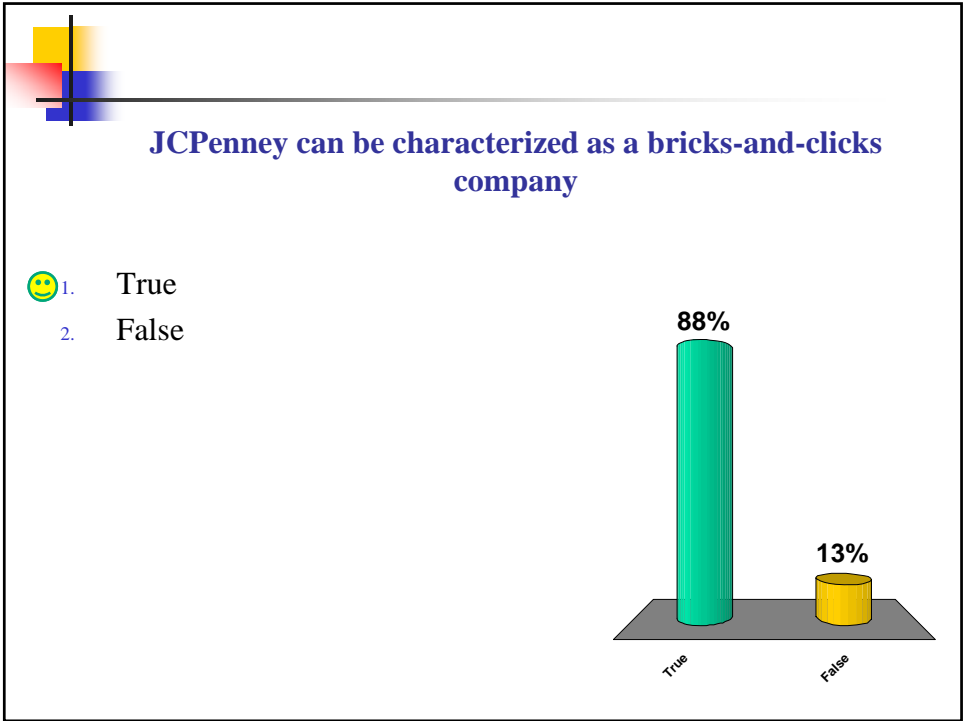


## Common Themes in Online Retailing

- Online retail fastest growing channel on revenue basis
- Profits for startup ventures have been difficult to achieve
- Disintermediation has not occurred
- Most significant online growth: offline general merchandiser giants extending brand to online channel
- Second area of rapid growth:
  - Specialty merchants with high-end goods, e.g., Blue Nile

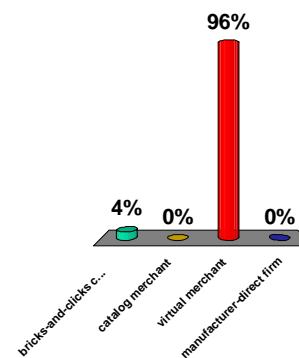
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A \_\_\_\_ is a single channel Web firm that generates almost all its revenues from online sales.

1. bricks-and-clicks company
2. catalog merchant
3. virtual merchant
4. manufacturer-direct firm



## What are Services?

- Service occupations:
  - Concerned with performing tasks in and around households, business firms, and institutions
- Service industries:
  - Provide services to consumers, businesses, governments, and other organizations
- Service sector
  - Largest and most rapidly expanding part of economies of advanced industrial nations
- Major service industry groups:
  - Finance, insurance, real estate
  - Travel
  - Professional services
  - Business services
  - Health services
  - Educational services

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## The Service Sector: Offline and Online

- Service sector:
  - Concerned with performing tasks in and around households, business firms, and institutions
    - Includes doctors, lawyers, accountants, business consultants, etc.
  - 76% of U.S. labor force—108 million
  - 58% of GDP—\$7.7 trillion

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## Service Industries

- Companies can be further categorized as:
  - Transaction brokers
  - Hands-on service providers
- Services industry features:
  - Knowledge- and information-intensive
    - Makes them uniquely suited to e-commerce applications
  - Amount of personalization and customization required differs depending on type of service
    - E.g., medical services vs. financial services

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## Online Financial Services

- Example of e-commerce success story, but success is somewhat different from what had been predicted
- Brokerage industry transformed
- 4 of 5 households use online banking
- Effects less powerful in insurance, real estate
- Multi-channel established financial services firms continue to show strong growth

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## Financial Service Industry Trends

- Financial services industry provides four generic kinds of services:
  - Storage of and access to funds                      Bank
  - Protection of assets    Insurance
  - Means to grow assets    Brokerage
  - Movement of funds    Bank, credit card
- Two important global trends
  - Industry consolidation
  - Movement toward integrated financial services (financial supermarket model)

## Financial Service Industry Trends

- Four generic kinds of financial services:
  - Storage of and access to funds
  - Protection of assets
  - Means to grow assets
  - Movement of funds
- Two important global trends
  - Industry consolidation
    - Financial Reform Act of 1998 amended Glass-Steagall Act and allows banks, brokerages, and insurance firms to merge
  - Movement toward integrated financial services
    - Financial supermarket model

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## Industry Consolidation and Integrated Financial Services

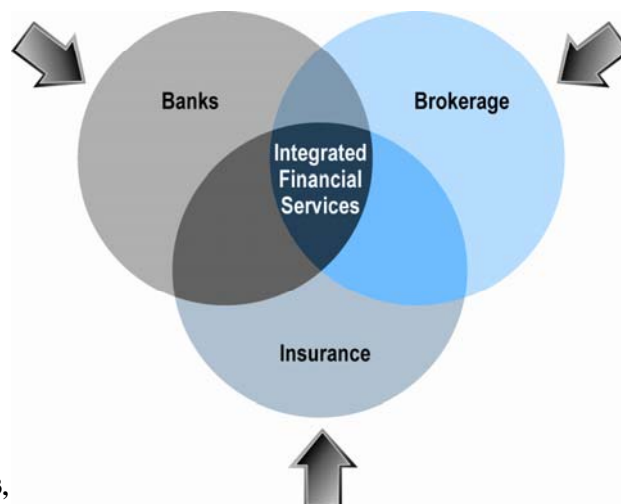
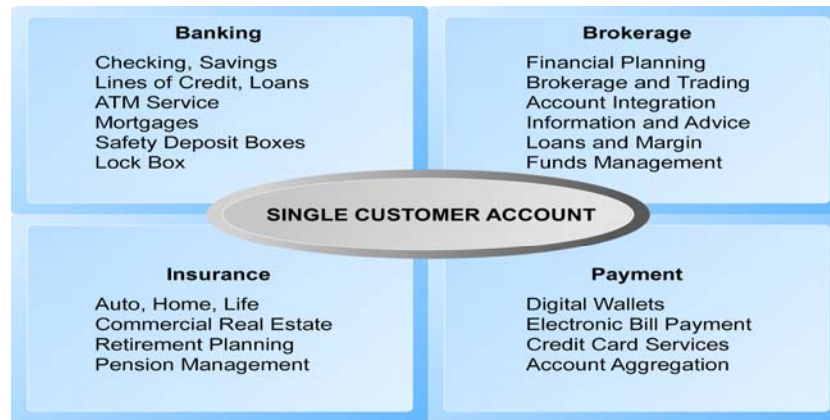


Figure 9.3,

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## The Financial Supermarket Model: Integrated Online Financial Services



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## Online Financial Consumer Behavior

- Consumers attracted to online financial sites because of desire to save time and access information rather than save money
- Most online consumers use financial services firms for mundane financial management
  - Check balances
  - Pay bills
- Greatest deterrents are fears about security and confidentiality



## 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 100 million people use online banking; expected to rise to 192 million in 2013
- Early innovators in online brokerage (E\*Trade) have also been displaced by established brokerages (Fidelity, Schwab)

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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

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## Financial Portals and Account Aggregators

- Financial portals
  - Comparison shopping services, independent financial advice and financial planning
  - Revenues from advertising, referrals, subscriptions
  - E.g., Yahoo! Finance, Quicken.com
- Account aggregation
  - Pulls together all of a customer's financial data at a personalized Web site
  - E.g., Yodlee: provides account aggregation technology
  - **Concerns-???**

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## Online Mortgage and Lending Services

- Early entrants hoped to simplify and speed up mortgage value chain
  - Many early pure-online firms failed due to difficulties of developing brand and simplifying mortgage generation process
- Three kinds of online mortgage vendor today
  1. Established online banks, brokerages, and lending organizations
  2. Pure online mortgage bankers
  3. Mortgage brokers
- Online mortgage industry has not transformed process of obtaining mortgage
  - Complexity of process

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## Online Insurance Services

- Online term life insurance:
  - One of few products for which Internet lowered search costs, increased price comparison, and resulted in lower prices
- Other insurance product lines:
  - Web gives insurance companies new opportunities for product and service differentiation and price discrimination
  - Online use is more for discovering prices and terms of policies than purchasing policies online
  - Reduced search and price discovery costs
- Industry affected by being regulated at state as opposed to federal level

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## Online Real Estate Services

- Early vision: local, complex, and agent-driven real estate industry would transform into disintermediated marketplace where buyers and sellers would transact directly
- 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
- Despite revolution in available information, there has not been a revolution in the industry value chain

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## Online Travel Services

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- 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

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## Online Travel Services

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- One of most successful B2C e-commerce segments
- 2007: first year online bookings greater than offline
- 2009: online travel bookings declined slightly due to recession but expected to grow to \$118 billion by 2013
- For consumers: more convenient than traditional travel agents
- For suppliers: a singular, focused customer pool that can be efficiently reached through onsite advertising
- Offers
  - Content
  - Commerce
  - Community
  - customer service

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## The Online Travel Market

- Four major sectors:
  1. Airline tickets
  2. Hotel reservations
  3. Car rentals
  4. Cruises/tours
- Two major segments:
  1. Leisure/unmanaged business travel
  2. Managed business travel—expected to be a major growth area as corporations seek better control of corporate travel expenses
- Corporate online-booking solutions (COBS)

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## Online Travel Industry Dynamics

- Intense competition among online providers
- Price competition difficult
- Industry consolidation
  - Stronger, offline established firms purchasing weaker online firms to create multi-channel travel sites
- Industry impacted by meta-search engines
  - Commoditize online travel
- Suppliers are attempting to eliminate intermediaries—global distribution systems and travel agencies—using Web as means

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## The Travel Services Value Chain

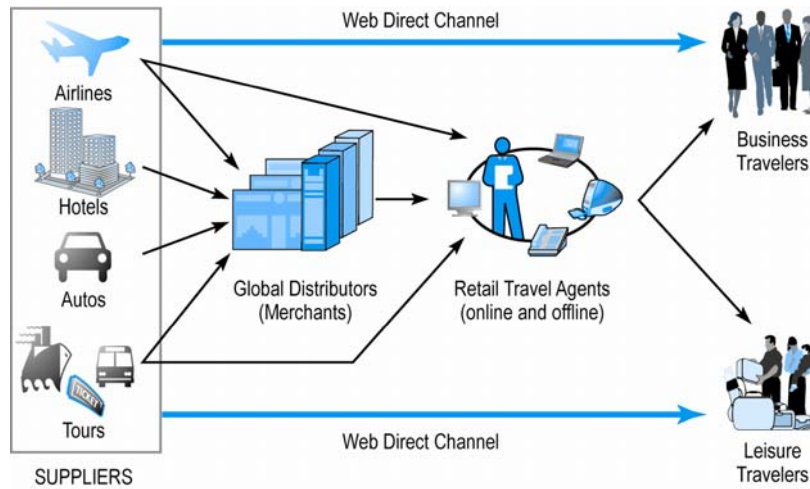


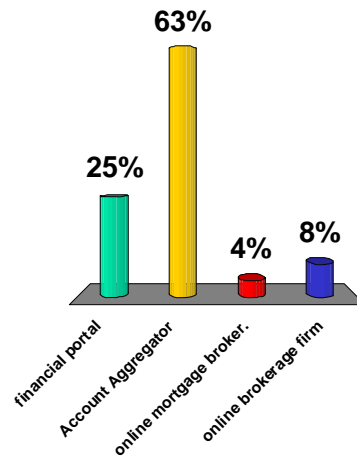
Figure 9.7, Page 628

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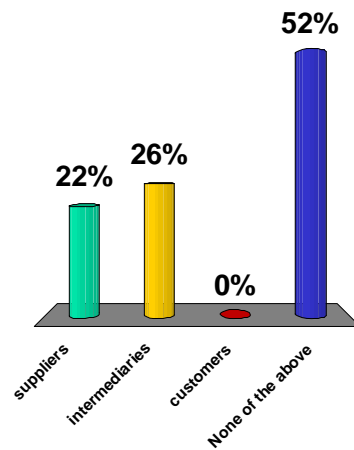
## Yodlee is an example of

1. financial portal
2. Account Aggregator
3. online mortgage broker.
4. online brokerage firm



Which of the following roles do Global Distribution Systems (GDSs) play in the travel services value chain

1. suppliers
2. intermediaries
3. customers
4. None of the above



*Zipcar*

- What is the Zipcar business model? How does it make money?
- How does Zipcar use the Internet?
- Does Zipcar compete with traditional car rental firms?
- Will Zipcar work only in urban markets? Can it expand to the suburbs?



## E-commerce in Action: Expedia.com

- One of top players in online travel services, generating revenues of \$2.7 billion in 2007
- Vision: Create global travel marketplace
- Business model: Agency model and merchant model
- Financial analysis: Assets catching up to liabilities
- Strategic Analysis/Business strategy:
  - Acquire complementary and competing travel companies, broaden scope of offerings, and expand into foreign markets, especially Asia

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## E-commerce in Action: Expedia.com

- Strategic Analysis/Competition
  - Other online commercial travel Web sites (e.g. Travelocity)
  - Direct suppliers of travel services
  - Suppliers of inventory
- Strategic Analysis/Technology
  - Developed a multi-layered platform capable of handling large transaction volumes, powerful search tools to assist consumers
- Strategic Analysis/Social and Legal
  - Former parent company
  - Taxation, international challenges, legislation on PII
- Future Prospects
  - Challenges: Economic conditions, cost control, competition

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## Online Career Services

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- Top sites generate over \$1 billion annually
- Three main players: CareerBuilder, Monster, HotJobs
- 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

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- Job hunters
    - Easily build, update, and distribute resumes
    - Easily gather information about prospective employers and conducting job searches
    - Both of these activities are simultaneous
  - Ideally suited for Web due to information-intense nature of process





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

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

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## Recruitment Market Segments

- Three major segments
  1. General job recruitment:
    - Largest segment and primary focus
  2. Executive search:
    - Highest revenue potential
  3. Specialized job placement services:
    - Often run by professional societies
- Online recruitment has focused on general job market, but increasing services for executive recruiting

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## Online Recruitment Industry Trends

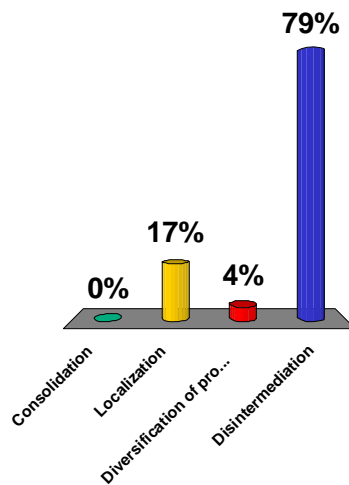
- Consolidation:
  - CareerBuilder, Monster, and HotJobs together dominate the market
- Diversification: niche employment sites
- Localization:
  - Local boards compete with local newspapers, Craigslist
- Job search engines/aggregators:
  - “Scraping” listings: Indeed.com, JobCentral
- Social networking:
  - LinkedIn; Facebook apps

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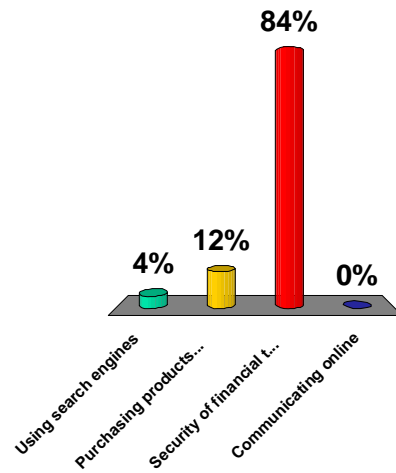
Which of the following is *not* a major trend in the online recruitment services industry?

1. Consolidation
2. Localization
3. Diversification of product line
4.  Disintermediation



Surveys indicate that online households are most concerned about which of the following?

1. Using search engines
2. Purchasing products online
3. Security of financial transactions
4. Communicating online



- Good For your project
- E-Commerce in Action-
- **Expedia.com**