

**E-commerce**  
business. technology. society.  
Fourth Edition

**Kenneth C. Laudon**  
**Carol Guercio Traver**

# Chapter 9

## Online Retail and Services

### Major Trends in Online Retail, 2007-2008

See also Table 9.1, Page 551.

- Social shopping
- Online retail increasingly profitable
- Buying online becomes normal, mainstream experience
- Selection of goods online increases, including customized goods
- Average annual amount of purchases increases
- Specialty retail sites show most rapid growth
- Increased emphasis on improved shopping experience
- Increased use of interactive multimedia marketing
- Retail intermediaries strengthen in many areas
- Retailers increasingly efficient at integrating multiple channels
- Personalized goods, especially in apparel, become financially successful.
- Online shopping becomes more multi-seasonal
- Most online shopping occurs at work, evenings at home

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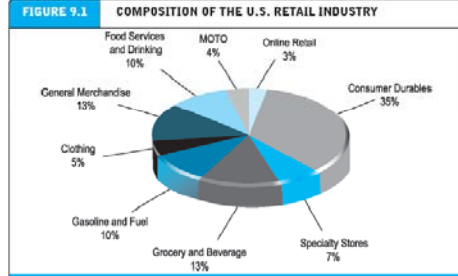
### The Retail Sector

- Most important theme in online retailing is effort to integrate online and offline operations
- U.S. retail market accounts for over \$8.7 trillion of total GDP (2/3rds of all economic activity)
- Retail industry can be divided into segments, each of which offers opportunities for online retail
- Biggest opportunities for online retail sales: Those segments that sell small ticket items (specialty stores, general merchandisers, mail-order catalogs, groceries)
- Mail order/telephone order (MOTO) sector most similar to online retail sector

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### Composition of the U.S. Retail Industry

Figure 9.1, Page 553



Category	Percentage
Consumer Durables	35%
General Merchandise	13%
Gasoline and Fuel	10%
Grocery and Beverage	13%
Food Services and Drinking	10%
Specialty Stores	7%
Clothing	5%
MOTO	4%
Online Retail	3%

SOURCE: Based on data from U.S. Census Bureau, 2007.

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### Online Retailing: The Vision

- Greatly reduced search costs on the Internet would encourage consumers to abandon traditional marketplaces in order to find lower prices for goods
- Market entry costs would be much 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
- Ultimately, few of the above assumptions proved to be correct, and structure of retail marketplace in the U.S. has not been revolutionized

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## The Online Retail Sector Today

- Online retailing segment, although smallest segment of retail industry, is growing at exceptionally fast rate
- Online retail revenues: \$137 billion, 120 million consumers estimated for 2007
- Primary beneficiaries of growing consumer support: Established offline retailers with an online presence

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## Online Retail and B2C E-commerce is Alive and Well

Figure 9.2, Page 556



SOURCES: Based on data from eMarketer, Inc. 2007a; U.S. Department of Commerce, 2007; Forrester Research, 2006; authors' estimates.

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## Analyzing the Viability of Online Firms: Financial Analysis

- Financial analysis helps us understand how a firm is performing
- Includes two main parts:
  - Statement of Operations: Tells us how much income or loss a firm is achieving based on current sales and costs
  - Balance sheet: Provides a financial snapshot of a company's assets and liabilities

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## E-tailing Business Models

- Four main types of online retail business models:
  - Virtual merchant
  - Bricks-and-clicks
  - Catalog merchant
  - Manufacturer direct

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## Virtual Merchants

- Single channel Web firms that generate almost all revenues from online sales
- Example: Amazon

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## E-commerce in Action: Amazon.com

- Vision: Earth's biggest selection, most customer-centric
- Business Model: Amazon Retail and Amazon Services (merchant and developer services)
- Financial Analysis: Greatly improved, but not yet consistently profitable; still heavy long-term debt
- Strategic Analysis: Business strategy: Maximize revenue, cut costs
- Strategic Analysis: Competition: Online and offline general merchandisers Strategic Analysis: Technology: Largest, most sophisticated collection of online retailing technologies available
- Strategic Analysis: Social, Legal: Antitrust, sales tax, patent lawsuits; ToysRUs lawsuit
- Future Prospects: Long-term profitability still uncertain

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### Multi-channel Merchants: Bricks and Clicks

- Companies that have network of physical stores as primary retail channel, but also online offerings
- Examples: Wal-Mart, J.C. Penney, Sears

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### Catalog Merchants

- Established companies that have national offline catalog operation as largest retail channel, but also have online capabilities
- Examples: Lands' End, L.L. Bean, Eddie Bauer, Victoria's Secret, Lillian Vernon

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### Manufacturer-Direct

- Single or multi-channel manufacturers who sell directly online to consumers without intervention of retailers
- Example: Dell

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### Common Themes in Online Retailing

- Online retail fastest growing channel, has fastest growing consumer base, growing penetration rate across many categories of goods
- Many online retail firms have begun to raise prices
- Disintermediation has not occurred, and most manufacturers use Web primarily as an informational resource
- Most significant online growth has been that of offline giants who are focusing on extending brand to online channel
- Second area of rapid growth: specialty merchants

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### Insight on Technology: Using the Web to Shop 'Till You Drop Class Discussion

- What do shopping bots and comparison sites offer consumers?
- Why are shopping bots more successful with hard goods than soft goods?
- What is the strategy of Shopping.com?
- How can shopping bots compare luxury goods?
- How will adding content to comparison sites help consumers?

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### The Service Sector: Offline and Online

- Service sector: Largest and most rapidly expanding part of economies of advanced industrial nations
- In the United States, services employs about 76% of labor force; accounts for \$7.1 trillion of GDP in 2007

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## What are Services?

- Service occupations: "Concerned with performing tasks" in and around households, business firms, and institutions
- Service industries: "Domestic establishments providing services to consumers, businesses, governments, and other organizations"
- Major service industry groups:
  - FIRE (Finance, insurance, real estate)
  - Travel
  - Professional services
  - Business services
  - Health services
  - Educational services

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## Online Banking

- Online banking pioneered by NetBank and WingSpan
- Established brand name national banks have taken substantial lead in market share
- Over 80 million people use online banking, and around 40 million households
- Movement toward online banking is global

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## Online Real Estate Services

- Early visions (that the historically local, complex, and agent-driven real estate industry would be transformed into a disintermediated marketplace where buyers and sellers would transact directly) has not been realized
- Major impact is influencing of purchases offline
- Despite revolution in available information, there has not been a revolution in the industry value chain

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## Online Travel Services

- Arguably, single most successful B2C e-commerce segment; attracts single largest audience, and largest slice of B2C revenues
- Internet becoming most common channel used to research travel and book reservations
- 2007: \$94 billion in revenue, expected to grow to \$146 billion by 2010
- Popular because they offer consumers more convenience (one stop; offers content, commerce, community, customer service) than traditional travel agents
- For suppliers, offers a singular, focused customer pool that can be efficiently reached

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## Travel as an Ideal Internet Product/Service

- Information-intensive product
- Electronic product in the sense that travel arrangements can be accomplished for the most part online
- Does not require inventory
- Suppliers are always looking for customers to fill excess capacity
- Do not require an expensive multi-channel presence

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## Online Travel Services Components

- Airline reservations the largest single component (\$42.6 billion in 2007; \$64 billion in 2010)
- Hotel reservations (\$24.1 billion in 2002, \$45.9 billion in 2010)
- Car reservations (\$3.2 billion in 2005, \$5.8 billion in 2010)
- Cruise/tour reservations: fairly slow growth since not as well suited for online environment
- Major segments:
  - Leisure
  - Business travel – expected to be a major growth area as corporations seek better control of corporate travel expenses

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## Projected Growth of Online Travel Market Segments

Figure 9.6, Page 597



SOURCES: Based on data from eMarketer, Inc. 2007f, 2005c; authors' estimates.

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## Insight on Business: Zipcars Class Discussion

- 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?

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## E-commerce in Action: Expedia.com

- Online travel services company that provides access to information about and sales of travel arrangements
- Originally started by Microsoft, subsequently purchased by InterActiveCorp, then spun-off into separate public company in 2005
- One of top players in online travel services, generating revenues of \$2.2 billion in 2006

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## Online Career Services

- Next to travel services, one of Internet's most successful online services.
- Dominated by CareerBuilder, Monster (owned by Monster Worldwide), and Yahoo HotJobs
- Online recruiting provides more efficient and cost-effective method of linking employers and potential employees, while reducing total time-to-hire
- Enables job hunters to more easily build, update, and distribute resumes while gathering information about prospective employers and conducting job searches
- Ideally suited for Web due to information-intensive nature of process

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## Why are Job Sites So Popular?

- Saves time and money for both job hunters and employers
- For employers: Expand geographic reach of search, lower cost, and result in faster hiring decisions
- For job seekers: Make resumes more widely available, and provides a variety of related job-hunting services
- One of most important functions: Ability to establish market prices and terms (online national marketplace)

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## Online Recruitment Industry Dynamics

- Major trends:
  - Consolidation: CareerBuilder, Monster, and HotJobs together dominate the market
  - Diversification of product line: niche sites
  - Localization: Local boards compete with local newspapers, Craigslist
  - Job search engines "scrape" listings: Indeed.com, SimplyJobs, JobCentral
  - Social networking: LinkedIn; Facebook apps

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