Lecture 3
Business to Consumer E-Commerce

"the sale of commodities or goods in small quantities to ultimate consumers"
(Merriam-Webster’s 11th Collegiate Dictionary, 2004)

The Basic Concept

The Simplified Chain

With E-Commerce can we....

Retail & e-commerce

<table>
<thead>
<tr>
<th>Period</th>
<th>Retail Sales (in mil of $)</th>
<th>E-Commerce %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Q 2002</td>
<td>765,100</td>
<td>9.865</td>
</tr>
<tr>
<td>2nd Q 2002</td>
<td>825,283</td>
<td>10.365</td>
</tr>
<tr>
<td>3rd Q 2002</td>
<td>827,585</td>
<td>11.165</td>
</tr>
<tr>
<td>4th Q 2002</td>
<td>805,586</td>
<td>14.316</td>
</tr>
</tbody>
</table>

(US Dep of Commerce, 2002)

In 4th Q 2001, online retail sales = US$ 11.2 billion
In 1999, online retail sales = 0.7% of all sales (worth approximately US$ 5.3 billion) (Forrester Research, 1999)
What about Australia?

- 56% (9.6 mil) Australians >14 years used the Internet during June 03
- 75% communication
- 67% information
- 32% keeping informed
- 28% buying & selling
- 24% entertainment
- 18% education services
- 32% downloading

(Adopted from NOIE, 2003)

Top 20 Online Activities

Most Popular Items in e-Tailing

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Travel</td>
<td>Travel</td>
</tr>
<tr>
<td>2</td>
<td>Books</td>
<td>Books/magazines</td>
</tr>
<tr>
<td>3</td>
<td>Music/Video</td>
<td>Tickets</td>
</tr>
<tr>
<td>4</td>
<td>Tickets</td>
<td>Software</td>
</tr>
<tr>
<td>5</td>
<td>Software</td>
<td>Music/CDs</td>
</tr>
<tr>
<td>6</td>
<td>Food &amp; groceries</td>
<td>Food &amp; groceries</td>
</tr>
<tr>
<td>7</td>
<td>Clothing</td>
<td>Videos &amp; V/D</td>
</tr>
<tr>
<td>8</td>
<td>Hardware</td>
<td>Clothing, shoe, etc</td>
</tr>
</tbody>
</table>

Look at these trends

Compared with Internet Subscribers....

What about the business?
Reasons for having Internet presence

Business Online Activities 2002-2003

What would be ‘sellable’ in Internet Retailing Environment?

• The ‘ES Test’ (Electronic Shopping Test)  
  (de-Kare Silver, 2000)  
  – Product characteristics  
  – Familiarity and confidence  
  – Consumer attributes

Product Characteristics

But surely it’s more complex than this??

Familiarity & Confidence

Consumer Categories

- Exploration of the market  
- Differentiation  
- Innovation  
- Innovation

- Familiarity & Confidence  
- Differentiation  
- Understanding of the trends  
- Understanding of the market

(de-Kare Silver, 1999)
Consumer Categories

**Know thy customers**

- **Social shoppers:** Enjoy shopping
- **Experiencers:** Ready to try new things
- **Convenience:** Will purchase whenever there is ease
- **Value shoppers:** Will purchase wherever there is value
- **Habitual-hoarders:** Will purchase whatever there is value

* (de-KareSilver, 1999)

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Consumer Concerns

- **Privacy**
- **Security**
- **Shipping & Return Policy**
- **Others??**

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Consumer Frustrations

- Complicated and/or ‘cluttered’ sites
- Uninformative sites
- Minimal assistance (“where’s the customer service?”)
- Lengthy web forms
- Undisclosed expenses (i.e., s/h costs, tax)

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What business needs to consider

**Gear our effort to please the customers**

- Build relationships with customers
- Build consumer trust & assurance
  - Toys R Us failure in 1999 to fulfill Christmas order to its customers
  - Amazon’s row with ToysRUs.com
- Provide value-added services
- Provide “convenience”
- “Can we provide more for less?”

Build the company’s image & reputation

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What business needs to consider

**Excel from within**

- **Cannibalism of the ‘old’ by the ‘new’**
- **Internal channel relationships**
  - The need for a harmonious & complementary relationship
  - Leverage the multichannel
- **External channel relationships**
  -レsuperior，the key is to exploit the inherent strengths?
  - Do the relationships matter?
  - Can we influence & manage the relationships?
  - Are we changing the structure of our organisation?
  - Remember the costs
  - Reengineer the business processes
  - Reengineer the value chain?
- **Business relationships & alliances**
  - The recent dispute between Amazon.com & Toys R Us
  - Resistance of Compaq’s e-commerce initiative by Australian store chains

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What business needs to consider

**The channel conflict**

- **Relative importance of threatened channel**
- **Risk of conflict between threatened channel & new channel**
- **Accept the decline of threatened channel**
- **Ignore**
- **Reassure members of threatened channel**
- **High**
- **Low**
- **Address members of threatened channel**
- **High**
- **Low**
- **Build the company’s image & reputation**

Build the company’s image & reputation
What business needs to consider

The structure of the organisation

Independent business/spin-off
- BOL.de

Strategic alliance
- Amazon.com & Borders

Joint venture
- KB Toys & Brain-Play.com

In-house division
- Tesco.com

Separation
- Greater focus
- More flexibility
- Entrepreneurial culture
- Access to VC for funding

Integration
- Established brand
- Shared information
- Cross-promotion
- Purchasing leverage
- Distribution efficiencies
- Shared customer services

Which part of the spectrum is more appealing?

Never forget...

- The back-office functions, infrastructure, processes & activities that support & enable e-commerce
- The underlying ‘traditional’ business philosophy

What about Egghead Inc?

- Software store chain established in 1984, worth US$ 100 mil in 1998
- Moved the business online, and became Egghead.com Inc
  - The promise: US$ 1 bil by 2002 & 30% of all consumer s/w sales
  - Closed 80 stores
  - Laid off 4 out of 5 employees (saved US$ 20 mil)

Where’s Egghead.com now?

- Filed for bankruptcy on 15 Aug 2001
- Suspended all operations on 28 Oct 2001

Where did it go wrong?

What about other Companies E-Tailing Initiatives?

- Levi Strauss?
- Compaq?
- Dell?
- Boo.Com?
- Amazon.com?
- Toys R Us?
- Bertelsmann OnLine (BOL)?
Toys 'R' Us conducts its Internet business largely through an alliance with Amazon.com. In fiscal 2003, we expect Toysrus.com sales to reach $365 million, up 32% from the prior year. In addition to a co-branded toy and video-game online store, which launched in 2000, Toysrus.com includes two additional stores – Babiesrus.com and Imaginarium.com – which launched in 2001. In fiscal 2002, the Internet unit had an operating loss, net of minority interest, of $76 million. We expect a smaller loss in fiscal 2003.

Business Week Online, Dec 2, 2002

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Readings from Jelassi & Enders (2005)

- Please read chapter 9
- Please read chapter 2 for the tutorial’s case study preparation
- Please read chapter 4 for next week