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

Goods and/or services

Seller

Buyer

Seller

www.monash.edu.au
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></th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>E-Commerce</td>
<td></td>
</tr>
<tr>
<td>1&lt;sup&gt;st&lt;/sup&gt; Q 2002</td>
<td>743,810</td>
<td>9,880</td>
<td>1.3</td>
</tr>
<tr>
<td>2&lt;sup&gt;nd&lt;/sup&gt; Q 2002</td>
<td>825,243</td>
<td>10,265</td>
<td>1.2</td>
</tr>
<tr>
<td>3&lt;sup&gt;rd&lt;/sup&gt; Q 2002</td>
<td>827,585</td>
<td>11,083</td>
<td>1.3</td>
</tr>
<tr>
<td>4&lt;sup&gt;th&lt;/sup&gt; Q 2002</td>
<td>869,588</td>
<td>14,334</td>
<td>1.6</td>
</tr>
</tbody>
</table>

(US Dep of Commerce, 2003)

In 4<sup>th</sup> 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
- 57% information
- 37% banking & finance
- 32% keeping informed
- 28% buying & selling
- 24% entertainment
- 18% education services
- 32% downloading

10% purchase goods/services

(Adopted from NOIE, 2003)
## Top 20 Online Activities

(from Nielsen/NetRatings, 2003)

<table>
<thead>
<tr>
<th>Activity</th>
<th>Dec-00</th>
<th>Jun-01</th>
<th>Dec-01</th>
<th>Feb-02</th>
<th>Jun-03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronic mail</td>
<td>63</td>
<td>67</td>
<td>70</td>
<td>70</td>
<td>74</td>
</tr>
<tr>
<td>General 'surfing'</td>
<td>33</td>
<td>36</td>
<td>40</td>
<td>40</td>
<td>38</td>
</tr>
<tr>
<td>Internet Banking</td>
<td>15</td>
<td>21</td>
<td>26</td>
<td>27</td>
<td>36</td>
</tr>
<tr>
<td>Searching for information on products</td>
<td>29</td>
<td>30</td>
<td>32</td>
<td>33</td>
<td>35</td>
</tr>
<tr>
<td>Check account balance</td>
<td>14</td>
<td>19</td>
<td>24</td>
<td>25</td>
<td>34</td>
</tr>
<tr>
<td>eGovernment services**</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>32</td>
<td>33</td>
</tr>
<tr>
<td>Downloading software/files</td>
<td>29</td>
<td>30</td>
<td>32</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>Transfer funds between accounts</td>
<td>9</td>
<td>12</td>
<td>16</td>
<td>17</td>
<td>24</td>
</tr>
<tr>
<td>Accessing News and Current Affairs</td>
<td>17</td>
<td>18</td>
<td>21</td>
<td>21</td>
<td>23</td>
</tr>
<tr>
<td>Searching for information on a company</td>
<td>20</td>
<td>21</td>
<td>22</td>
<td>22</td>
<td>23</td>
</tr>
<tr>
<td>Pay bills online</td>
<td>8</td>
<td>11</td>
<td>15</td>
<td>16</td>
<td>23</td>
</tr>
<tr>
<td>Accessing education services</td>
<td>16</td>
<td>17</td>
<td>18</td>
<td>17</td>
<td>18</td>
</tr>
<tr>
<td>Playing games</td>
<td>13</td>
<td>14</td>
<td>16</td>
<td>16</td>
<td>17</td>
</tr>
<tr>
<td>Participate in an interactive discussion</td>
<td>14</td>
<td>14</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Other</td>
<td>7</td>
<td>8</td>
<td>10</td>
<td>11</td>
<td>14</td>
</tr>
<tr>
<td>Purchase of goods/services</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>Reading electronic magazines</td>
<td>10</td>
<td>10</td>
<td>11</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>Accessing Classified Advertising</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Review mortgage/loan status</td>
<td>3</td>
<td>4</td>
<td>7</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Participate in a non interactive discussion</td>
<td>5</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Listening to Radio</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>5</td>
</tr>
</tbody>
</table>
## 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/groceries</td>
<td>Food &amp; groceries</td>
</tr>
<tr>
<td>7</td>
<td>Clothing</td>
<td>Videos &amp; DVDs</td>
</tr>
<tr>
<td>8</td>
<td>Hardware</td>
<td>Clothing, shoes, etc</td>
</tr>
</tbody>
</table>

ABS (2002) 
Look at these trends

Goods & Services purchased online (Nielsen/Netratings, 2003)

Online purchase of travel services (Nielsen/Netratings, 2003)
Compared with Internet Subscribers…. 

Goods & Services purchased online (Nielsen/Netratings, 2003)
What about the business?
Reasons for having Internet presence

(Yellow Pages Business Index, 2003)
Business Online Activities 2002-2003

(Yellow Pages Business Index, 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??

(de-Kare Silver, 1999)
Familiarity & Confidence

(de-Kare Silver, 1999)
Consumer Categories

- **Immersion**
  - Exploration of the market
  - Searching of ‘value’
  - Observing the trends

- **Innovation**
  - Differentiation
  - More value
  - Product innovation
  - Service innovation
  - Providing what the market wants

- **Intuition**
  - Know the market & customers
  - Understanding of ‘value’
  - Understanding of the trends
  - Know ‘where the wind blows’

(de-Kare Silver, 2000)
Consumer Categories

Know thy customers

Social shoppers: Enjoy shopping

Social shoppers: Enjoy shopping

Habit die-hards: Stuck in their ‘traditional’ ways

Habit die-hards: Stuck in their ‘traditional’ ways

Experimenters: Ready to try new things

Experimenters: Ready to try new things

Ethical: Will purchase provided it’s honest

Ethical: Will purchase provided it’s honest

Convenience: Responsive to things that save time/make life ‘easier’

Convenience: Responsive to things that save time/make life ‘easier’

Value shoppers: Will purchase wherever there’s value

Value shoppers: Will purchase wherever there’s value

(de-Kare Silver, 1999)
Consumer Concerns

- Privacy
- Security
- Shipping & Return Policy
- Others??
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)
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
What business needs to consider
Excel from within

• Cannibalism of the ‘old’ by the ‘new’
• Internal channels relationships
  – The need for a harmonious & complementary relationship
  – Leverage this multi-channel
• External channels relationships
  – Conflict with ‘traditional business partners’?
  – Do the relationships matter?
• Spin-off? Click & mortar? Go virtual?
  – 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
What business needs to consider
The channel conflict

<table>
<thead>
<tr>
<th>Risk of conflict between different channels</th>
<th>Relative importance of threatened channel</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>High</td>
<td>Address channel conflict</td>
</tr>
<tr>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Low</td>
<td>Accept the decline of threatened channel</td>
</tr>
<tr>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Low</td>
<td>Ignore</td>
</tr>
<tr>
<td>High</td>
<td>Reassure members of Threatened channel</td>
</tr>
</tbody>
</table>
What business needs to consider
The structure of the organisation

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?

(adapted by Jelassi & Enders, 2005 from Gulati & Garino, 2000)
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?
Egghead.com Inc

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

Where did it go wrong?
Lands’ End

• One of the highly regarded success e-tailers
• Mail-order company once based solely on paper catalogs
  – Logistics system were already in place
  – 6.2 million customers in 2000
• Internet sales:
  – 1999 were 5% of company’s total sales
  – 2000 were 10%
  – 2003 were projected at 20%
• Capabilities
  – Affiliates network that pays 5% commission for every sale that comes from a referral
  – B2B “store” (landsend.com/corpsales)
  – Allows online customers to shop with the assistance of a “real” personal shopper
  – Global presence with localized sites
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 that launched in 2000, Toysrus.com includes two additional stores -- Babiesrus.com and Imaginarium.com -- which began operations 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
TV
Radio
Airplane
VCR
Electricity
Automobile
Telephone
Microwave
PC
Cell phone
Internet

(Brimelow, 1997)

www.monash.edu.au
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