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

Buyer
The Simplified Chain

Supply side                      Demand Side

Supplier A --- Supplier C --- Supplier B --- Supplier D

Wholesaler

Retail Firm

Buyer A --- Buyer B

With E-Commerce can we…

Retail & e-commerce

<table>
<thead>
<tr>
<th>Period</th>
<th>Total Retail Sales (in mil of $)</th>
<th>E-Commerce Sales</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Q 2002</td>
<td>1,652,585</td>
<td>11,265</td>
<td>1.3</td>
</tr>
<tr>
<td>2nd Q 2002</td>
<td>1,428,585</td>
<td>10,354</td>
<td>0.7</td>
</tr>
<tr>
<td>3rd Q 2002</td>
<td>1,127,785</td>
<td>11,083</td>
<td>1.0</td>
</tr>
<tr>
<td>4th Q 2002</td>
<td>968,785</td>
<td>14,138</td>
<td>1.5</td>
</tr>
</tbody>
</table>


In 1st Q 2002, 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
- 37% banking & finance
- 32% keeping informed
- 28% buying & selling
- 24% entertainment
- 18% education services
- 18% 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>Book/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>
Look at these trends

Compared with Internet Subscribers…

What about the business?
Reasons for having Internet presence

<table>
<thead>
<tr>
<th>Reasons</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve company reputation</td>
<td>60%</td>
</tr>
<tr>
<td>Increase sales</td>
<td>45%</td>
</tr>
<tr>
<td>Reduce costs</td>
<td>35%</td>
</tr>
<tr>
<td>Enhance customer service</td>
<td>30%</td>
</tr>
</tbody>
</table>

(From Yellow Pages Business Index, 2003)

Business Online Activities 2002-2003

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>E-commerce</td>
<td>70%</td>
</tr>
<tr>
<td>Billing</td>
<td>65%</td>
</tr>
<tr>
<td>Customer service</td>
<td>60%</td>
</tr>
<tr>
<td>Product information</td>
<td>55%</td>
</tr>
<tr>
<td>Online marketing</td>
<td>50%</td>
</tr>
</tbody>
</table>

(From 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??

Familiarity & Confidence

Consumer Categories

www.monash.edu.au

(De-Kare Silver, 1999)
Consumer Categories

Know thy customers

- Social shoppers: Enjoy shopping
- Experimenters: Ready to try new things
- Convenience: Will purchase wherever there is value
- Value shoppers: Will purchase wherever there is value
- Habit die-hards: Stuck in their traditional ways
- Ethical: Will purchase provided it's honest

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 multichannel
- External channels relationships
  - Conflict with traditional business partners?
  - Do the relationships matter?
- Spin-off, click & mortar, do we want?
  - Are we changing the structure of the 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>Relative importance of threatened channel</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Address channel conflict</td>
<td>Accept the decline of threatened channel</td>
</tr>
<tr>
<td>Low</td>
<td>Restore members of threatened channel</td>
<td>Ignore</td>
</tr>
</tbody>
</table>


What business needs to consider

The structure of the organisation

Separation
- Greater focus
- 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 bl 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 15%
  - 2003 were projected at 20%
- Capabilities
  - Affiliates network that pays 5% commission for every sale that comes from a referral
  - B2B “store” (landsend.com/corporate)
  - 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 alliances 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, 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

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