

### **The Retail Sector**

- Most important theme in online retailing is effort to integrate online and offline operations
- U.S. retail market accounts for \$5 trillion of total GDP (\$18.56 trillion) - 2016

### **The Retail Industry**

- Seven segments (clothing, durable goods, etc.)
  - For each, uses of Internet may differ
    - Information vs. direct purchasing
- Mail order/telephone order (MOTO) sector most similar to online retail sector
  - Sophisticated order entry, delivery, inventory control systems

### **E-commerce Retail: The Vision**

- Reduced search and transaction costs; customers able to find lowest prices
- Lowered market entry costs, lower operating costs, higher efficiency
- Traditional physical store merchants forced out of business
- Some industries would be disintermediated
  - Few of these assumptions proved correct—structure of retail marketplace has not been revolutionized
  - Internet has created new venues for multi-channel firms and supported a few pure-play merchants

### **The Online Retail Sector Today**

- Smallest segment of retail industry (8.3% in 2016)
- Growing at faster rate than offline segments
- Revenues have resumed growth
- Around 80% of Internet users bought online in 2016
- Primary beneficiaries:
  - Established offline retailers with online presence (e.g.: Staples)
- First mover dot-com companies (e.g.: Amazon)

### **Multi-channel Integration**

- 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
  - Web promotions to drive customers to stores
  - Gift cards usable in any channel
- Increasing importance of mobile devices, social commerce, and tablets

### **E-tailing Business Models**

- Virtual merchant - Amazon
- Bricks and clicks - Walmart, J.C. Penney, Sears
- Catalog merchant - Lands' End, L.L. Bean, Victoria's Secret
- Manufacturer-direct - Dell

### **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
- Established merchants need to create integrated shopping experience to succeed online
- Growth of online specialty merchants, e.g. Blue Nile
- Extraordinary growth of social, local, and mobile e-commerce

### **Online Services**

- Service sector:
  - Largest and most rapidly expanding part of economies of advanced industrial nations
  - Concerned with performing tasks in and around households, business firms, and institutions
    - Includes doctors, lawyers, accountants, business consultants, etc.
  - Employs four out of five U.S. workers
  - 75% of economic activity

### **Online Financial Services**

- Example of e-commerce success story, but success is somewhat different from what had been predicted
- Brokerage industry transformed
- 62% of customers prefer online banking
- Effects less powerful in insurance, real estate
- Multi-channel, established financial services firms continue to show growth

### **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
- Number of people using mobile devices for financial services is surging

### **Online Banking and Brokerage**

- Online banking pioneered by NetBank and Wingspan; neither still in existence
- Established brand-name national banks have taken substantial lead in market share
- 54% of US adults use online banking in 2016
- Early innovators in online brokerage (E\*Trade) have been challenged by established brokerages (Fidelity, Schwab)

### **Multi-channel vs. Pure Online Financial Service Firms**

- Online consumers prefer multi-channel firms with physical presence
- Multi-channel firms

BUS 168 - Chapter 8  
Online Retail and Services

- Growing faster than pure online firms
- Lower online customer acquisition costs
- Pure online firms
  - Cannot provide all services that require face-to-face interaction

**Financial Portals and Account Aggregators**

- Financial portals
  - Comparison shopping services, independent financial advice, financial planning
  - Revenues from advertising, referrals, subscriptions
  - e.g.: Yahoo! Finance, Quicken.com, MSN Money
- Account aggregation
  - Pulls together all of a customer's financial data at a personalized Web site
  - e.g.: Yodlee: provides account aggregation technology
  - Privacy concerns; control of personal data, security, etc.

**Online Mortgage and Lending Services**

- Early entrants hoped to simplify and speed up mortgage value chain
- Most early-entry, pure-online firms failed
- Today, slowly growing; dominated by established online banks, financial services firms and traditional mortgage vendors

**Online Insurance Services**

- Online term life insurance
  - One of few online insurance with lowered search costs, increased price comparison, lower prices
  - Commodity
- Most insurance not purchased online
- Online industry geared more toward
  - Product information, search
  - Price discovery
  - Online quotes
  - Influencing the offline purchasing decision

**Online Real Estate Services**

- Early vision: Disintermediation of a complex industry
- 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, with mobile apps increasing
- Despite revolution in available information, there has not been a revolution in the industry value chain

**Online Travel Services**

- One of the most successful B2C e-commerce segments
- For consumers: More convenient than traditional travel agents
- For suppliers: A singular, focused customer pool that can be efficiently reached through onsite

advertising

- 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

#### **The Online Travel Market**

- Four major sectors: Airline tickets, Hotel reservations, Car rentals, Cruises/tours
- 57% purchase airline tickets from airline's Web site, 22% from travel booking Web site (e.g.: Expedia)

#### **Online Travel Industry Dynamics**

- Intense competition among online providers
- Price competition difficult
- Industry consolidation
- Industry impacted by meta-search engines
  - Commoditize online travel
- Mobile applications are also transforming industry
- Social media content, reviews have an increasing influence on travel purchases

#### **Online Career Services**

- Top sites generate over \$1 billion annually
- Two main players: CareerBuilder, Monster
- Traditional recruitment tools
  - 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-intensive nature of process