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# Chapter 3

## Retailing in Electronic Commerce: Products and Services



# Learning Objectives



1. Describe electronic retailing (e-tailing) and its characteristics.
2. Define and describe the primary e-tailing business models.
3. Describe how online travel and tourism services operate and their impact on the industry.

# Learning Objectives



4. Discuss the online employment market, including its participants, benefits, and limitations.
5. Describe online real estate services.
6. Discuss online stock-trading services.
7. Discuss cyberbanking and online personal finance.
8. Describe on-demand delivery by e-grocers.

# Learning Objectives



9. Describe the delivery of digital products and online entertainment.
10. Discuss various e-tail consumer aids, including comparison-shopping aids.
11. Identify the critical success factors and failure avoidance tactics for direct online marketing and e-tailing.
12. Describe reintermediation, channel conflict, and personalization in e-tailing.

# Internet Marketing and Electronic Retailing



- Overview of Electronic Retailing  
**electronic retailing (e-tailing)**  
Retailing conducted online, over the Internet

## **e-tailers**

Retailers who sell over the Internet

# Internet Marketing and Electronic Retailing



- Size and Growth of the B2C Market
  - Reported amounts of online sales *deviate substantially* based on how the numbers are derived
    - Annual online 2004 sales were estimated to be over \$70 billion
    - The average online shopper spent over \$350 per quarter
    - Forrester Research estimates that e-tailing will reach \$316 billion by 2010

# Internet Marketing and Electronic Retailing



## What Sells Well on the Internet?

- Computer hardware and software
- Consumer electronics
- Office supplies
- Sporting goods
- Books and music
- Toys
- Health and beauty
- Apparel and clothing
- Jewelry
- Cars
- Services
- Others

# Internet Marketing and Electronic Retailing



- Characteristics of Successful E-Tailing
  - High brand recognition
  - A guarantee provided by highly reliable or well-known vendors
  - Digitized format
  - Relatively inexpensive items
  - Frequently purchased items
  - Commodities with standard specifications
  - Well-known packaged items that cannot be opened even in a traditional store



# E-Retailing Business Models



- Classification by Distribution Channel
  1. Mail-order retailers that go online
  2. Direct marketing from manufacturers
  3. Pure-play e-tailers
  4. Click-and-mortar retailers
  5. Internet (online) malls

# E-Retailing Business Models



## **direct marketing**

Broadly, marketing that takes place without intermediaries between manufacturers and buyers; in the context of this book, marketing done online between any seller and buyer

# E-Retailing Business Models



- Direct Sales by Manufacturers
  - Sellers can understand their markets better because of the direct connection to consumers
  - Consumers gain greater information about the products through their direct connection to the manufacturers

# E-Retailing Business Models



## **virtual (pure-play) e-tailers**

Firms that sell directly to consumers over the Internet without maintaining a physical sales channel

## **click-and-mortar retailers**

Brick-and-mortar retailers that offer a transactional Web site from which to conduct business

# E-Retailing Business Models



## **brick-and-mortar retailers**

Retailers who do business in the non-Internet, physical world in traditional brick-and-mortar stores

## **multichannel business model**

A business model where a company sells in multiple marketing channels simultaneously (e.g., both physical and online stores)

# E-Retailing Business Models



- Retailing in Online Malls
  - Referring Directories
  - Malls with Shared Services
- Representative B2C Services
  - Postal Services
  - Services and Products for Adults
  - Wedding Channels
  - Gift Registries

# Travel and Tourism Services Online



- Online travel is probably the most successful e-commerce implementation
- Services provided include:
  - General information
  - Reserving and purchasing tickets, accommodations, and entertainment
  - Travel tips
  - Electronic travel magazines
  - Fare comparisons

# Travel and Tourism Services Online



- Benefits of Online Travel Services
  - Benefits to consumers
    - Large amount of free information available 24/7
    - Substantial discounts can be found
  - Benefits to providers
    - Airlines, hotels, and cruise lines are selling otherwise-empty spaces
    - Direct selling saves the provider's commission and its processing



# Travel and Tourism Services Online



- Limitations of Online Travel Services
  - Many people do not use the Internet
  - The amount of time and the difficulty of using virtual travel agencies may be significant
  - Complex trips or those that require stopovers may not be available online because they require specialized knowledge and arrangements

# Travel and Tourism Services Online



- Corporate Travel
  - To reduce corporate travel costs, companies can make arrangements that enable employees to plan and book their own trips using online optimization tools provided by travel companies, such as those offered by Rosenbluth International
  - Travel authorization software that checks availability of funds and compliance with corporate guidelines is usually provided by travel companies

# Travel and Tourism Services Online



- Intelligent Agents in Travel Services
  - Software agents emulate the work and behavior of human agents in executing organizational processes like travel authorization, planning or decision making
  - Each agent is capable of acting autonomously, cooperatively, or collectively to achieve the stated goal

# Employment Placement and the Job Market Online



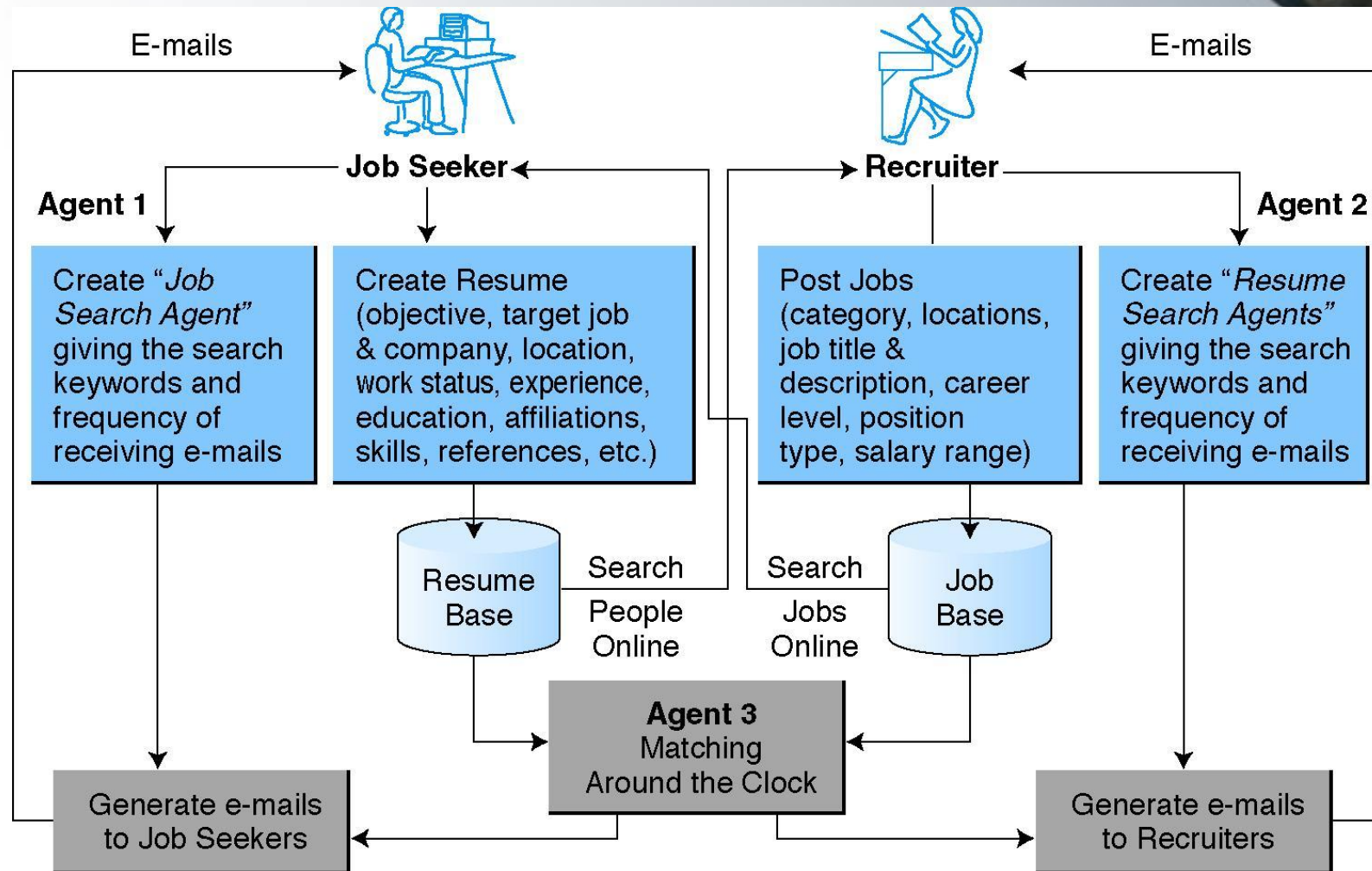
- The Internet Job Market
  - Job seekers
  - Employers seeking employees
  - Job agencies
  - Government agencies and institutions
- The Internet is a global online portal for job seekers

# Employment Placement and the Job Market Online



- Limitations of the Electronic Job Market
  - Many people do not use the Internet. This limitation is even more serious with non-technology-oriented jobs
  - Security and privacy: resumes and other online communications are usually not encrypted, so one's job-seeking activities may not be secure

# Exhibit 3.7 Intelligent Agents Match Resumes with Available Jobs



# Real Estate, Insurance, and Stock Trading Online



- Real Estate Applications
  - Advice to consumers on buying or selling a home
  - Commercial real estate listings
  - Listings of residential real estate in multiple databases
  - The National Association of Realtors (*realtor.com*) has links to house listings in all major cities

# Real Estate, Insurance, and Stock Trading Online



- Real Estate Applications
  - Maps are available
  - Information on current mortgage rates
  - Mortgage brokers can pass loan applications over the Internet and receive bids from lenders who want to issue mortgages
  - Online lenders can tentatively approve loans online
  - Automated closing of real estate transactions



# Real Estate, Insurance, and Stock Trading Online



- Real Estate Applications
  - Property management companies (residential, commercial, and industrial) are using the Internet for many applications ranging from security to communication with tenants
  - Sites for persons who want to sell their homes privately, without using a real estate agent
  - Rental properties are listed

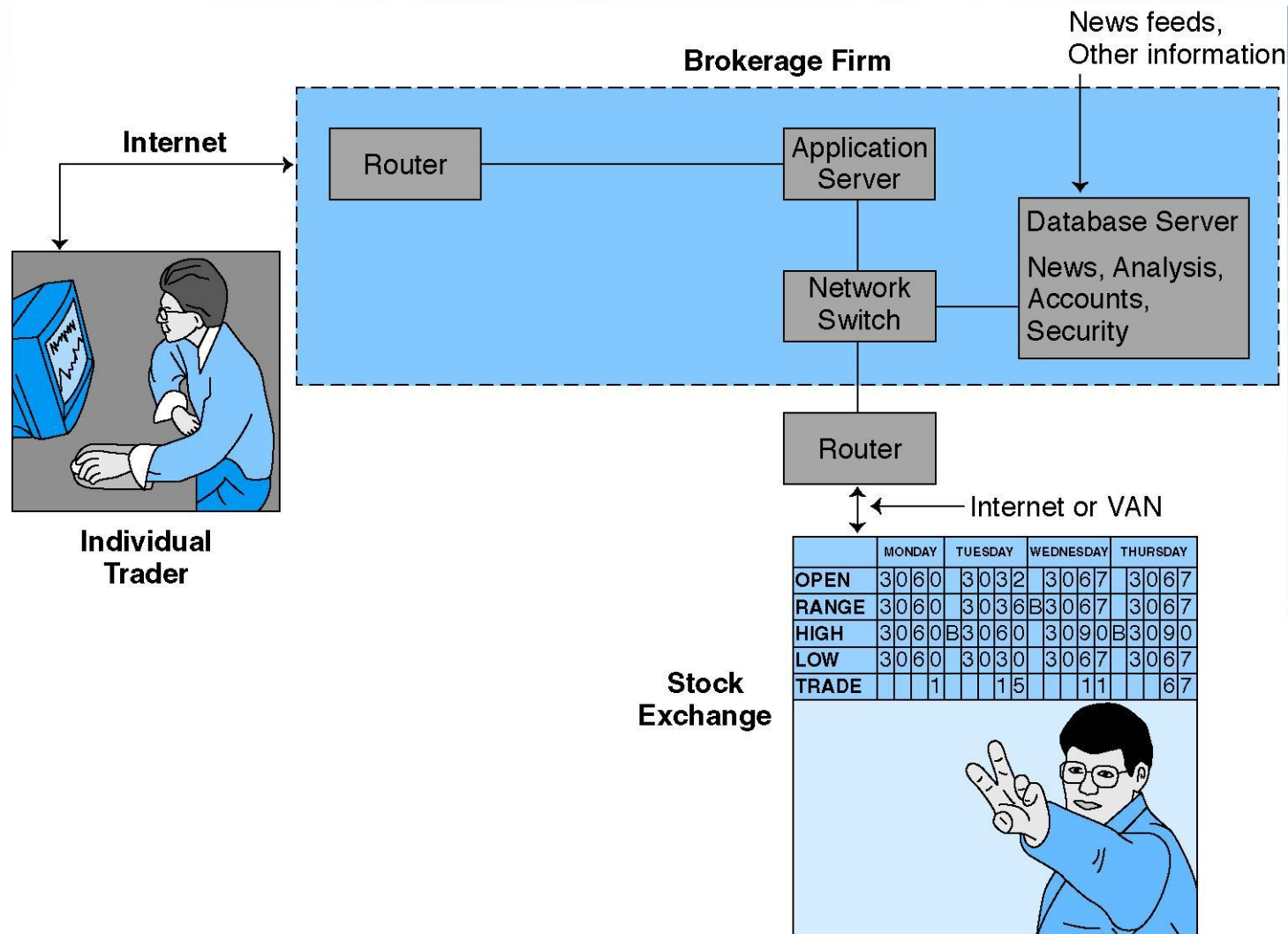
# Real Estate, Insurance, and Stock Trading Online



- Insurance Online

- An increasing number of companies use the Internet to offer standard insurance policies (auto, home, life, or health) at a substantial discount
- Third-party aggregators offer free comparisons of available policies
- Several large insurance and risk-management companies offer comprehensive insurance contracts online

# Exhibit 3.8 Online Electronic Stock Trading



# Real Estate, Insurance, and Stock Trading Online



- Investment Information Online
  - Current financial news
  - Municipal bond prices
  - Many tools are available to help investors in the bond market
  - Free “guru” (expert) advice
  - Stock screening and evaluation tools

# Real Estate, Insurance, and Stock Trading Online



- Investment Information Online
  - Articles from the *Journal of the American Association of Individual Investors*
  - Schwab Trader encourages consumers to practice trading strategies
  - The latest on funding and pricing of IPOs
  - Earnings estimates
- The major risk of online trading is security

# Banking and Personal Finance Online



## **electronic banking (e-banking)**

Various banking activities conducted from home or the road using an Internet connection; also known as cyberbanking, virtual banking, online banking, and home banking

# Exhibit 3.9 Online Banking Capabilities



<b>Informational</b>	General bank information and history Financial education information Employment information Interest rate quotes Financial calculators Current bank and local news
<b>Administrative</b>	Account information access Applications for services Personal finance software applications
<b>Transactional</b>	Account transfer capabilities Bill-pay services Corporate services (e.g., cash management, treasury) Online insurance services Online brokerage services Online trust services
<b>Portal</b>	Links to financial information Links to community information Links to local business Links to nonlocal businesses (and/or advertisers)
<b>Others</b>	Wireless capabilities Search function

# Banking and Personal Finance Online



- Virtual Banks
  - *Virtual banks* have no physical location, but only conduct online transactions
- International and Multiple-Currency Banking
  - Hong Kong and Shanghai Banking Corporation (*hsbc.com.hk*)
  - Tradecard and MasterCard for global transactions (see *tradecard.com*)
  - Bank of America and most other major banks
  - *Fxall.com* is a multidealer foreign exchange service



# Banking and Personal Finance Online



- Implementation Issues in Online Financial Transactions
  - Securing financial transactions
  - Access to banks' intranets by outsiders
  - Using imaging systems
  - Pricing online versus off-line services
  - Risks

# Banking and Personal Finance Online



- Online Billing and Bill Paying
  - Automatic transfer of mortgage payments
  - Automatic transfer of funds to pay monthly utility bills
  - Paying bills from online banking accounts
  - Merchant-to-customer direct billing
  - Using an intermediary for bill consolidation
  - Person-to-person direct payment
  - Pay bills at bank kiosks
  - Taxes

# On-Demand Delivery Services and E-grocers



## **on-demand delivery service**

Express delivery made fairly quickly after an online order is received

## **e-grocer**

A grocer that takes orders online and provides deliveries on a daily or other regular schedule or within a very short period of time

# Online Delivery of Digital Products, Entertainment, and Media



- Certain goods, (software, music, or news stories) may be distributed in a physical form or they may be digitized and delivered over the Internet
- For sellers, the costs associated with the manufacture, storage, and distribution of physical products can be enormous
- Inventory management also becomes a critical cost issue, and so does delivery and distribution

# Online Delivery of Digital Products, Entertainment, and Media



- Interactive Entertainment
  - Web browsing
  - Internet gaming
  - Fantasy sport games
  - Single and multiplayer games
  - Adult entertainment
  - Card games
  - Participatory Web sites
  - Reading

# Online Delivery of Digital Products, Entertainment, and Media



- Noninteractive Entertainment
  - Event ticketing
  - Restaurants
  - Information retrieval
  - Retrieval of audio and video entertainment
  - Live events

# Online Purchase-Decision Aids



## **shopping portals**

Gateways to e-storefronts and e-malls; may be comprehensive or niche oriented

## **shopping robots (shopping agents or shopbots)**

Tools that scout the Web on behalf of consumers who specify search criteria

- Wireless Shopping Comparisons—Enable shoppers to compare prices any time from anywhere, including from any physical store

# Online Purchase-Decision Aids



- Business Ratings Sites
- Trust Verification Sites
- Other Shopper Tools
  - Escrow services
  - Communities of consumers who offer advice and opinions
  - E-wallet (or e-purse)



# Online Purchase-Decision Aids



- Other Shopper Tools
  - Amazon.com's A9 Search Engine
    - Remembers information
    - A user can make notes about any Web page and search them
    - Offers a new way to store and organize bookmarks
    - Recommends new sites and favorite old sites specifically for the user to visit

# Successful Click-and-Mortar Strategies



- A traditional brick-and-mortar store with a mature Web site uses a click-and-mortar strategy to:
  - Speak with one voice
  - Leverage the multichannels
  - Empower the customer

# Problems with E-tailing and Lessons Learned



- Don't ignore profitability
- Manage new risk exposure
- Watch the cost of branding
- Do not start with insufficient funds
- The Web site must be effective
- Keep it interesting

# Issues in E-Tailing



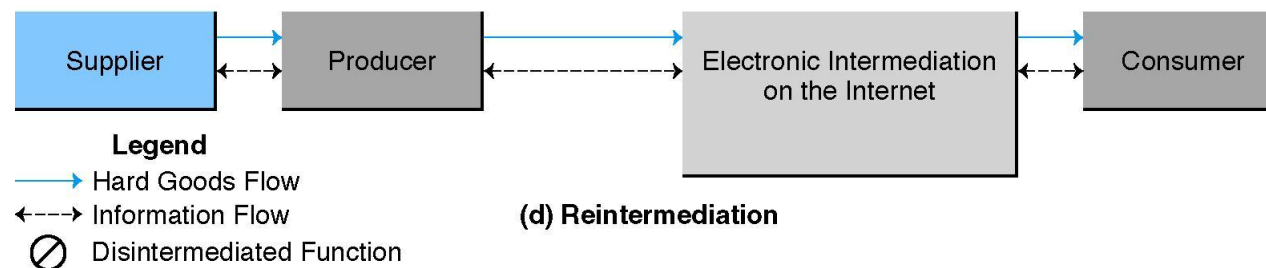
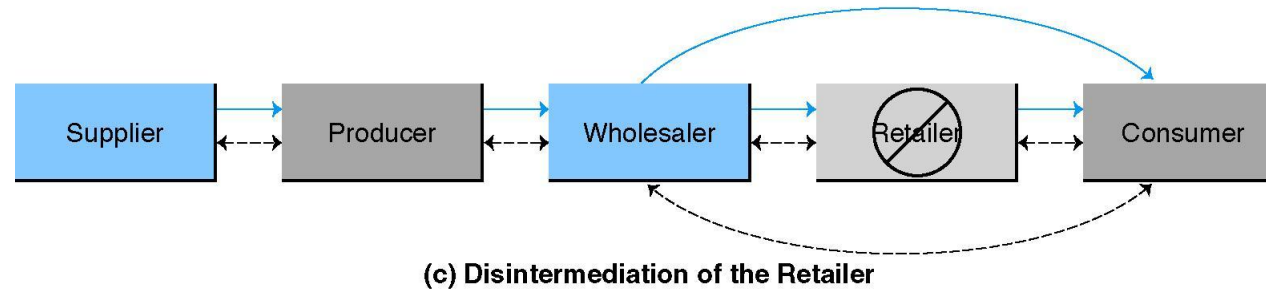
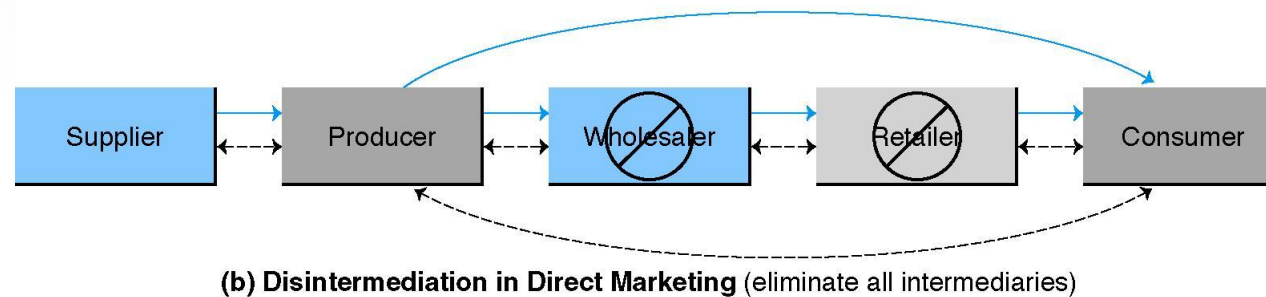
## **disintermediation**

The removal of organizations or business process layers responsible for certain intermediary steps in a given supply chain

## **reintermediation**

The process whereby intermediaries (either new ones or those that had been disintermediated) take on new intermediary roles

# Exhibit 3.12 Disintermediation and Reintermediation in the B2C Supply Chain



# Issues in E-Tailing



## **cybermediation (electronic intermediation)**

The use of software (intelligent) agents to facilitate intermediation

## **hypermediation**

Extensive use of both human and electronic intermediation to provide assistance in all phases of an e-commerce venture

# Issues in E-Tailing



## **channel conflict**

Situation in which an online marketing channel upsets the traditional channels due to real or perceived damage from competition

- Determining the right price
- Personalization
- Fraud and illegal activities
- How to make customers happy

# Managerial Issues



1. What should our strategic position be?
2. Are we financially viable?
3. Should we recruit out of town?
4. Are there international legal issues regarding online recruiting?
5. Do we have ethics and privacy guidelines?
6. How will intermediaries act in cyberspace?
7. Should we set up alliances?



# Summary



1. The scope of e-tailing.
2. E-tailing business models.
3. How online travel/tourism services operate.
4. The online job market and its benefits.
5. The electronic real estate market.
6. Online trading of stocks and bonds.

# Summary



7. Cyberbanking and personal finance.
8. On-demand delivery service.
9. Delivery of digital products.
10. Aiding consumer purchase decisions.
11. Critical success factors.
12. Disintermediation and reintermediation.