Week 5
ECOM13003 Electronic Commerce

Retailing on the Web
Chapters 10 & 13

Outcomes
after this class you should be able to:
- Identify the major features of the retail sector
- Identify the challenges faced by different types of online retailers
- Describe the major types of auctions
- Describe the major types of portals
- Describe the different types of online communities
- Understand the business value of online communities

The Retail Sector
- Most important theme in online retailing is effort to integrate online and offline operations
- U.S. retail market accounts for over $7.7 trillion of total GDP (2/3rds of all economic activity)
- Retail industry can be divided in segments, each of which offers opportunities for online retail
- Biggest opportunities for online retail sales: Those segments that sell small ticket items (specialty stores, general merchandisers, mail-order catalogs, groceries)
- Mail order/telephone order (MOTO) sector most similar to online retail sector

The Online Retail Sector Today
- Online retailing segment, although smallest segment of retail industry, is growing at exceptionally fast rate
- Online retail revenues: $85 billion, 115 million consumers estimated for 2005
- Primary beneficiaries of growing consumer support: Established offline retailers with an online presence

E-tailing Business Models
- Four main types of online retail business models:
  - Virtual merchant
  - Bricks-and-clicks
  - Catalog merchant
  - Manufacturer direct

Virtual Merchants
- Single channel Web firms that generate almost all revenues from online sales
- Example: Amazon.com
Multi-channel Merchants: Bricks and Clicks

- Companies that have a network of physical stores as primary retail channel, but also online offerings
- Examples: Wal-Mart, J.C. Penney, Sears

Catalog Merchants

- Established companies that have a national offline catalog operation as largest retail channel, but also have online capabilities
- Examples: Lands’ End, L.L. Bean, Eddie Bauer, Victoria’s Secret, Lillian Vernon

Manufacturer-Direct

- Single or multi-channel manufacturers who sell directly online to consumers without intervention of retailers
- Example: Dell

Common Themes in Online Retailing

- Online retail fastest growing channel, has fastest growing consumer base, growing penetration rate across many categories of goods
- Many online retail firms have begun to raise prices
- Disintermediation has not occurred, and most manufacturers use Web primarily as an informational resource
- Most significant online growth has been that of offline giants who are focusing on extending brand to online channel
- Second area of rapid growth: specialty merchants

Auctions

- Online auction sites among the most popular consumer-to-consumer sites on the Internet
- eBay.com: market leader
- Several hundred different auction sites in U.S. alone
- Established portals and online retail sites increasingly are adding auctions to their sites

Benefits of Auctions

- Liquidity
- Price discovery
- Price transparency
- Market efficiency
- Lower transaction costs
- Consumer aggregation
- Network effects
Risks and Costs of Auctions for Consumers and Businesses

- Delayed consumption costs
- Monitoring costs
- Possible solutions include:
  - Fixed pricing
  - Watch lists
  - Proxy bidding
- Equipment costs
- Trust risks
  - Possible solution—rating systems (not always successful)
- Fulfillment costs

Internet Auction Basics

- Internet auctions are different from traditional auctions
  - Tend to go on much longer (usually a week)
  - Have a variable number of bidders who come and go from auction arena
- Market power and bias in dynamically priced markets
  - Where number of buyers and sellers is few or equal: neutral
  - Where one or small number of sellers and many buyers: seller bias
  - Where many sellers and few buyers: buyer bias

Internet Auction Basics (cont’d)

- Price Allocation Rules
  - Uniform pricing rule: Multiple winners who all pay the same price
  - Discriminatory pricing rule: Winners pay different amount depending on what they bid

Types of Auctions

- English auctions:
  - Easiest to understand and most common
  - Single item up for sale to single seller
  - Highest bidder wins
- Traditional Dutch auction
  - Uses a clock visible to all that displays starting price, ticks down until buyer stops it
- Dutch Internet auction
  - Public ascending price, multiple units
  - Final price is lowest successful bid, which sets price for all higher bidders

Types of Auctions (cont’d)

- Name Your Own Price Auctions
  - Pioneered by Priceline
  - Users specify what they are willing to pay for goods or services and multiple providers bid for their business
  - Prices do not descend and are fixed

Types of Auctions (cont’d)

- Group Buying Auctions (Demand Aggregators)
  - Facilitate group buying of products at dynamically adjusted discount prices based on high volume purchases
  - Based on two principles
    - Sellers are more likely to offer discounts to buyers purchasing in volume
    - Buyers increase their purchases as prices fall
- Professional Service Auctions—Elance.com
  - Auction Aggregators—use Web crawlers to search thousands of Web auction sites and accumulate information on products, bids, auction duration, etc.
  - Unlicensed aggregators opposed by eBay
Types of Portals: Figure 13.5, Page 780

General Purpose and Vertical Market

- General purpose portals: Attempt to attract a very large general audience and then retain it on-site by providing in-depth vertical content channels
- Vertical market portals: Attempt to attract highly focused, loyal audiences with a deep interest in either community (affinity group) or specialized content

Portal Business Models

- Major portal revenue sources include:
  - ISP services (AOL, MSN)
  - General advertising revenue/tenancy deals
  - Commissions on sales
  - Subscription fees

Online Communities

- Communities involve:
  - A group of people
  - Shared social interaction
  - Common ties among members
  - People who share an area for some period of time
- Communities do not necessarily have shared goal, purposes, or intentions
- Virtual community: an area online where people who share common ties can interact with one another
- Debate about relative merits of virtual communities versus ordinary communities

Types of Online Communities:

- General communities: Offer members opportunities to interact with a general audience organized into general topics
- Practice communities: Offer members focused discussion groups, help and knowledge related to an area of shared practice
- Interest communities: Offer members focused discussion groups based on a shared interest in some specific subject
- Affinity communities: Offer members focused discussion and interaction with other people who share the same affinity (self or group identification)
- Sponsored communities: Online communities created by government, non-profit or for-profit organizations for purpose of pursuing organizational goals

Commercially Sponsored Communities:

- Sponsored commercial communities can play an important role as customer relationship management tools
- Can extend an existing brand name
- Can gather customer feedback and suggestions

Class Discussion

- Case study – page 799
- Question 5 on page 803
Next Week

- E-commerce Payment Systems
- Case study page 345
  - Question 2 & 4
- Group Presentation 3