Some important trends in B2C EC need to be noted at this point. First, many offline transactions are now heavily influenced by research conducted online, with approximately 85 percent of online shoppers now reporting that they used the Internet to research and influence their offline shopping choices (Jupitermedia.com 2006). Furthermore, it is estimated that by 2010, the Internet will influence approximately 50 percent of all retail sales, a significant increase over just 27 percent of all sales in 2005 (Jupitermedia.com 2006). Thus, multichannel retailers, those that have a physical presence and an online presence, seem destined to be the winners. They support the convenience of online research and sales, offer excellent order fulfillment and delivery if the sale is completed online, and enable customers to touch and feel and try on an item in a physical store. The need and opportunity to integrate offerings across all channels and to seek incentives for cross-channel sales is seen as an important development into the future (Mulpuru 2006). This becomes extremely important as the numbers of online shoppers reaches saturation, and successful e-tailers will be those who are able to increase the spending of existing buyers rather than purely focusing on attracting new buyers (Jupitermedia.com 2006).

Another trend in B2C is the use of rich media in online advertising. For example, virtual reality is used in an online mall (Lepouras and Vassilakis 2006). Scene7.com is a leading vendor in the area. Finally, the use of cell phones to shop online is increasing rapidly. For example, in Japan about 25 percent of all B2C is done from cell phones (see Insights and Additions W3.1.1).

Although EC in Japan is only 20 percent of that in the United States, m-commerce in Japan is growing exponentially and now represents the largest amount of m-commerce sales in the world. Over 60 million Japanese are buying over their cell phones while riding the trains, even buying their train tickets. Such shopping is popular with busy single parents, executives, and teenagers (who are doing over 80 percent of their EC shopping from cell phones). Cell phones allow direct communication with consumers; they are the ultimate one-to-one channel (see Chapter 4).

Traditional retailers in Japan, such as 7-Eleven and I Holding Company, have been losing millions of customers to Web shopping companies such as Rakuten Inc. A group of convenience stores and 7-Eleven Japan Co. have set up 7dream.com, offering online services for music, travel, tickets, gifts, and other goods to its 8,000 7-Eleven stores in Japan. Meanwhile pure m-commerce operators such as Xavel Inc. (xavel.com) are growing rapidly, forcing traditional retailers, such as Marui department stores, to expand their e-commerce to include m-commerce.

A major contributor to the success of m-commerce is the spread of 3G high-speed mobile phone services that are offered on a flat-fee (e.g., monthly) basis. According to the Daiwa Institute of Research (reported by Izumi 2006), impulse shopping accounts for most of the purchases that are done on mobile phones, but only if the users are on flat-fee-based service.

Sources: Compiled from Izumi (2006) and PBS.org (2006).
REFERENCES FOR ONLINE FILE W3.1


ONLINE FILE W3.2

LITTLEWOODS SHOP DIRECT GROUP: FROM MAIL-ORDER CATALOG TO HIGH STREET TO THE WEB

Littlewoods Shop Direct Group (LSDG) boasts a long, proud tradition. It can trace its origins to 1923, when it was originally owned by the Moores family in Liverpool in northwest England and made money by allowing customers to wager on the results of soccer matches. Inspired by the success of flourishing companies in the United States, such as Sears Roebuck, Littlewoods entered the catalog retail business in 1932. Such was the success of this early catalog business that the family decided to expand the business and open High Street department stores, with the first store opening in 1937 in Blackpool, England. However, the catalog business flourished in the United Kingdom, and by the 1990s Littlewoods controlled 28 percent of the $7 billion mail-order business.

Facing pressure from other established retail chains, and with the growing penetration of the Internet and online retail, in 2005 a decision was taken to sell off all High Street stores and to refocus the organization on reestablishing its preeminence in the home-shopping arena. The last Littlewoods stores disappeared in March 2006. Through a series of acquisitions & mergers, Littlewoods was merged with Shop Direct to form Littlewoods Shop Direct Group (LSDG), the largest mail-order shopping business in the United Kingdom. Annual sales for LSDG in 2005 were $5.5 billion, with profits of $164 million. LSDG is now ranked as Britain’s eighth top-performing private company.

LSDG has implemented its vision of being “the natural choice” for customers who shop from home through investment in a network of sorting centers, depots and distribution centers, customer contact centers, warehousing and returns facilities, document management and data services centers, and a sourcing facility. LSDG continues to distribute its catalog, mailing over 9 million “books,” each one 200 pages long and containing more than 70,000 items from a variety of categories, including brand name apparel, accessories and footwear, home and garden, sport and leisure, appliances and electronics, and toys and gifts. With online sales becoming an increasing part of the LSDG business, the entire catalog is now available online. Because of investment in order fulfillment capabilities, the B2C sales are supported by low-cost delivery services to residential addresses within 48 hours, without signature required, overcoming the problem of failed deliveries if customers are not at home. LSDG offers its customers a range of services. Customers can access a range of credit cards, financial services, insurance, and warranty products. Online shoppers can request a catalog be sent to them or they can phone LSDG’s customer contact centers for personal assistance with their requirements. The LSDG Web site contains detailed information for the customer, including specific sizing, instructions on how to take measurements, fabric information, and close-up photos to show special detail on garments. Customers also can track the status of their orders and any returned goods.

The Web site offers detailed instructions on how to navigate the LSDG Web site, recognizing the range of (continued)
abilities of customers who might be enticed to shop online and migrate from the traditional catalog. All indicators, suggest that the move from the catalog to the Web is well underway.

Questions

1. In rolling back from department store outlets and relying on catalog and online shopping, Littlewoods is adopting a different strategy from other leading online and direct mail-order companies, such as Lands’ End. Discuss the advantages and disadvantages of Littlewoods’ approach.

2. If Littlewoods is to remain a successful catalog and online retailer, what factors do you believe will be essential to its success? What will Littlewoods have to do to survive and prosper in this competitive market space?

3. Use the Littlewoods’ site to select a gift purchase and some garments for yourself. Try the same thing with other online retailers. Compare the experiences.

REFERENCES FOR ONLINE FILE W3.2

littlewoods.co.uk (accessed November 2006).

Thecatalogshop.co.uk. “Littlewoods Catalogue Home Shopping: 7 Decades of Mail Order Shopping in Britain.” 2006. thecatalogshop.co.uk (no longer available online).


ONLINE FILE W3.3

CATTOYS.COM, A SPECIALTY E-TAILER

CatToys.com is a specialized e-tail site that sells cat toys. Its Web site (cattoys.com) is designed to appeal to cat enthusiasts, with cat images everywhere and informal typefaces to put buyers at ease. It has no banner ads, is easy to navigate, is updated weekly, and displays products in clear categories. The company’s retail prices are comparable with those of other pet stores and are kept low through aggressive cost control. Buyers can receive discounts by donating cat toys to animal shelters. Marketing is mostly accomplished through search engines and an affiliate program in which any cat lover can participate. The site has no membership or personalization features.

CatToys.com hosts its site through Yahoo!’s Merchant Solutions (smallbusiness.yahoo.com/merchant). This allows it to use sophisticated technologies (e.g., cookies for the shopping-cart process and payment security) and have access to a large audience. Because Yahoo! takes care of the Web site technology, CatToys.com can concentrate on its core competency—selecting the right cat toys and marketing them effectively. CatToys.com is an example of a low-volume specialized store that attracts people with specific shopping needs.

A sister company is dogtoys.com, which offers similar services including gift certificates and the ability to earn points. Both companies are evaluated at epinions.com.

Questions

1. Visit cattoys.com and examine the company’s revenue model.

2. Examine the relationship between cattoys.com and dogtoys.com. These two URLs are owned by the same company. Why do they have separate URLs for each product, whereas Amazon.com is adding more products under one URL?
Of the many other B2C services, four examples that deliver physical products, digital products, or digital services are discussed.

**Postal Services**

One of the early applications of EC was online postal services with pioneering sites such as *estamp.com* (now *stamps.com*). Today, Internet postage services are available in dozens of countries and on a variety of sites.

The U.S. Postal Service offers a system that enables customers to purchase and print postage around the clock, weigh packages up to 4.4 pounds, and prepare first class, priority, express, and international mail. Meters can be leased from commercial manufacturers in cooperation with the U.S. Postal Service that allow customers to download postage directly into their machines and then print it as they need it. Customers can store frequent mailing addresses, print exact postage, track postage use, and more. The hardware is small enough to fit in the palm of a hand.

**Services and Products for Adults**

Selling virtual sex on the Internet is probably the most profitable B2C model, with estimates that Internet pornography generates about $2.5 billion per year. In 2006, 4.2 million pornographic Web sites existed, representing 12 percent of total Web sites. Each year, 72 million users visit pornographic Web sites (Ropelato 2006). With little or no advertising effort to attract viewers, many of these sites are making good money. According to reports by market research firms that monitor the industry, such as Forrester, IDC, DataMonitor, Jupiter Media, and NetRating, viewers eagerly pay substantial subscription fees to view adult sites.

A major problem for these sites is their ability to work within the regulatory framework of the local environment. Also, competition is strong; as with any other successful business model, newcomers are continuously trying their luck. Increased competition drives down prices, and many porn sites may go out of business.

**Prescription Drugs**

Increasing prescription drug prices are driving millions of U.S. consumers, particularly seniors, to purchase prescription drugs online (Pharmacy Choice 2006). Those buying online tend to come from higher income households and have at least 6 years of online experience. Drugs purchased online were mostly for chronic disorders (e.g., arthritis).

Some of the more established sites offering online prescription drugs are *drugstore.com* (which is partnered with Rite Aid), *cvs.com*, *more.com*, and *longs.com*. These and other companies are experimenting with different strategies to capture a share of the $140 billion market.

Although welcoming the low prices and convenience of buying prescription drugs online, consumers are concerned about safety and quality issues (Lipsman 2005). An innovation that might significantly help consumers of prescription drugs is a new e-commerce company, BidRx. The BidRx Web site connects consumers and prescribing doctors with pharmacies, manufacturers, and benefit sponsors in an effort to promote better pharmaceutical decision making along with lower prices and convenience.

Another element of prescription drugs and e-commerce is e-prescriptions. E-prescriptions include not only the distribution of drugs, but also the entering of prescriptions by physicians by voice, handwriting, or typing directly into special wireless PDAs that can recognize any entry and have it confirmed by the prescriber (e.g., PocketScript from Zix Corp.).

(continued)
Chapter Three: Retailing in Electronic Commerce: Products and Services

Online File W3.4 (continued)

Wedding Channels

Weddings are big business. In the United States, 2.2 million weddings took place in 2006, with an average cost of $26,400 (TheWeddingReport.com 2006). Seventy-seven percent of couples will use the Internet to plan some aspect of their wedding online, with about 13 percent making purchases for their wedding online. The online wedding industry is thus worth about $7.9 billion per year in the United States alone (TheWeddingReport.com 2006). Each year, brides-to-be use TheKnot.com (theknot.com), the largest online wedding site, to plan their weddings. Approximately 2.1 million unique visitors per month visit The Knot, and 3,600 new members sign up each day to receive information on wedding-related products and services. A “Knot Box” with insert folders is sent to users by regular mail. Each insert is linked to a corresponding page on themknot.com. Advertisers underwrite the mail campaign. The Web site provides brides with information and help in planning the wedding and selecting vendors. Orders can be placed by phone or online (although not all products can be ordered online). The WeddingChannel (weddingchannel.com) offers similar features. SelltheBride (sellthebride.com) offers advice and consultancy services to organizations planning to sell a variety of goods and services to prospective brides and grooms.

Gift Registries

The U.S. bridal industry is estimated to have annual revenues of $72 billion. The gift-registry part of the industry—where the lucky couple lists what presents they hope their guests will buy for them—is estimated to be about $19 billion (TheKnot.com 2006). Gift registries also are used by people buying gifts for other occasions (anniversaries, birthdays, graduations, etc.).

From an IT point of view, a gift registry is a relatively complex set of database and supply chain interactions. Usually the gift registry is done jointly between the gift registry company and a department store (e.g., macys.com). The database has to present a secure environment to the person who is registering. That information is then displayed to those who are buying the gifts. When a specific gift is selected, it is removed from the list before anyone else orders the same thing. Meanwhile, the database has to interact with the selling company’s inventory lists, showing what’s in stock and, in the best of all possible worlds, alerting buyers and registrants when items are backordered.

Selling physical products online requires their physical delivery. In contrast, selling services online usually involves online delivery. Therefore, the potential savings are very large, and online services are very popular.

REFERENCES FOR ONLINE FILE W3.4


CONTENT-BASED FILTERING AT EUROVACATIONS.COM

Increasingly, travel and tourism Web sites are using recommendation systems to help travelers make more informed decisions for their vacations in less time. EuroVacations.com (eurovactions.com), one of the most successful travel-counseling Web sites, uses TripleHop Technologies’ TripMatcher to provide customized recommendations on destinations and travel products, according to the site visitor’s stated or implied preferences.

The software, called Destination Wizard on EuroVacations.com, takes a content-based approach in generating recommendations. The site asks users to indicate their needs and constraints (e.g., activities interests, budget, duration) by selecting the options available under a list of questions. The system then compares the user inputs with the attributes of a list of available travel products and destinations in the database.

To reduce user effort, the system simultaneously builds an attribute-based behavioral profile of the user as he or she interacts with the system each time he or she visits the Web site. From this interaction, implicit information about the user’s interests can be extracted. The system then predicts the user’s preference by combining statistics on his or her past queries and a weighted average of importance of different attributes assigned by similar users. Hence, users need to answer only a limited number of questions to obtain personalized recommendations targeted to their interests. The system presents the output to users in order of relevance. By exploiting content-based recommendation technology, it is possible for EuroVacations.com to achieve a higher browser-to-buyer conversion rate.

Questions
1. Explain how the system makes recommendations.
2. In your opinion, what are the limitations of such a system?
3. Can you use any other Web 2.0 technologies to improve this system?

REFERENCES FOR ONLINE FILE W3.5


eurovacations.com

ONLINE FILE W3.6

GATEWAY’S “BOOK-IT-IN-THE-BOX” E-TRAVEL SOLUTIONS

Gateway, Inc., a Fortune-500 computer manufacturing company that employs 21,000 people globally, with sales and support centers on four continents, focuses on meeting clients’ technological needs through strong customer relationships. The company was purchased by Acer, a Taiwanese multinational electronics manufacturer in August 2007.

In 2002, the company’s travel expenses exceeded $10 million and were growing. Gateway took a proactive step to address these operating costs by implementing an Internet-based travel management service for its domestic travelers. With solutions from e-Travel (e-travel.com), Gateway implemented the “Book-It-in-the-Box” travel program. With this application, Gateway employees can plan, book, and purchase complete travel itineraries, including air, car, rail, and hotel, using a standard Web browser. Also, the company can incorporate the elements of its travel program, including travel policies, preferred suppliers, and negotiated rates, into an Internet-based self-service system for travel planning and purchasing.

The results have been dramatic. The company projected $1.2 million in savings over the first 12 months of usage. A critical part of installing new software was gaining employee acceptance. This can be especially tricky when it comes to corporate travel, because employees fear that they may be forced into uncomfortable or unfamiliar travel habits. Gateway phased in the new program over a month and was successful in achieving employees’ behavioral change due to a number of factors: careful communication about the initiative, guiding employees through the process, and responding to employees’ questions. Teams from e-Travel and Gateway worked together to deliver a variety of useful tools to benefit employees, including in-person and Web-based training sessions and placing a “Book-It-in-the-Box” icon on computer desktops company-wide. E-travel’s reservations were integrated with the global distributions system of Gateway’s travel agency, Rosenbluth International’s Senior-Level Management’s Acceptance, which further validated the use of the program. Future initiatives will bring even more travel functions online, including full integration with the travel agency’s technology, rollout of e-Travel’s pretrip approval function, international bookings, and wireless access. E-travel Mobile will give traveling employees the ability to update existing travel plans, book new ones, and obtain flight status. The wireless program will help Gateway achieve its goal of 100 percent agent-free travel bookings.

Questions
1. What category of e-commerce is this?
2. Identify the areas in which cost savings have materialized for Gateway.
3. How was employee participation achieved?

REFERENCES FOR ONLINE FILE W3.6

EC will play an even greater role in the travel industry in the future. One area that is currently gaining prominence is that of the travel meta-search engine, or travel bot (Hedna.org 2005). Leading examples of such sites are Sidestep (sidestep.com), Kayak (kayak.com), and Mobissimo (mobissimo.com). These sites are all able to search across multiple other travel sites simultaneously, making it much easier for consumers to source information, compare prices, and locate the very best deals to suit their requirements. Mobissimo searches across 169 sites directly; Kayak searches through more than 120 sites related to airline flight availability. In addition to the usual flights, accommodations, and car rentals, Sidestep searches across events and activities by city, provides detailed travel guides, and features a forum for customers to ask advice and questions of other interested travelers. This makes booking travel and holidays a lot simpler than using many different travel agent sites at once. See Insights and Additions W3.7.1.

Insights and Additions W3.7.1 Travel Bots Make Online Travel Purchases Easier

As the Internet grows and an increasing number of organizations strive to attract consumers to their sites, it can be almost overwhelming for consumers to conveniently locate required goods and services at attractive prices. In the travel space, for example, a number of large, reputable, successful companies are online, all vying for the consumer dollar, and all offering a range of attractively bundled services for consumers. In addition to these travel companies, a number of travel search engines purport to search through travel sites. For the consumer, having to go from Web site to Web site or from search engine to search engine can be time consuming and tedious. The travel bot is one innovation that aims to alleviate some of that tedium.

Travel bots are meta-search engines that search a range of related sites or search engines, seeking the best product or service for a particular consumer (Hedna.org 2005). Using travel bots, prospective travelers can elect a very broad or much more specific search without moving from one site to another. These meta-search engines search airline, hotel, and other travel sites seeking a good price or a package of value to the consumer. Kayak has recently announced KayakMobile, which will enable consumers with Internet-enabled cell phones to access Kayak’s service via the phone’s browser. Generally speaking, meta-search engines make money not through charging fees to the customers as they direct the customer to a specific airline or hotel site (for example) to complete their booking, but rather through paid advertisements, click-throughs on advertisements, and kickbacks from the airlines and hotels (Consumersearch.com 2005). Their business models are not dissimilar to that of Google.

These meta engines do not have the same market power as the large travel sites, such as Expedia and Travelocity, but growth rates in excess of 300 percent are predicted for 2005–2006. No doubt both the dedicated travel sites and the meta-search engines will play different roles in the future, and hence will work in complementary ways. Travel sites are supposedly better equipped to deal with searching for packages and offer more flexibility. However, if you know exactly when you want to travel and where, then the meta-search engines are often able to secure the best deal.


Another promising area is the use of software (intelligent) agents. The agents emulate the work and behavior of human agents in executing organizational processes, such as travel authorization, planning (Camacho et al. 2001), or decision making (Milidiu et al. 2003). Each agent is capable of acting autonomously, cooperatively, or collectively to achieve the stated goal. The system increases organizational productivity by carrying out several tedious watchdog activities, thereby freeing humans to work on more challenging and creative tasks.
THE EUROPEAN JOB MOBILITY PORTAL (EURES CV-SEARCH) AND XING.COM

EURES CV-Search (europa.eu.int/eures) is an electronic meeting point for employers and job seekers. Job seekers can use the site to introduce themselves to employers; employers can use the site to find and contact promising candidates. EURES CV-Search gives job seekers the ability to post their curriculum vitas (CVs) on the site if they wish to advertise that they would like to work in another country. Employers can view job seekers’ CVs by registering with the service. Job seekers can post their CVs anonymously. If this option is selected, employers can only contact the job seeker through the EURES service. Job seekers can present their profiles in English, German, or French. EURES is a free service for both job seekers and employers, subject to the rules set down by individual EURES country members.

What is offered on the site?
- Job vacancies throughout Europe, by country
- CV postings by area and country
- Information about the transitional rules regarding movement of workers to and from all member countries
- Information about living and working conditions in each country
- Information about training opportunities
- Information about public employment services
- Job-related news
- Personalized pages and accounts for applicants and employers
- Employment statistics
- Contact information and other resources
- A search engine for quick searches
- Search capabilities for employers to find the right CV

A similar site is xing.com, which is organized as a business/social network.

Questions
1. Enter europa.eu.int/eures and look at some CVs. How do you think jobs and people are matched?
2. Assume that you are looking for a job in one of the countries served by the portal. Do you think that the site offers sufficient information?
3. What tasks are performed by search agents?
4. Do you have any suggestions about how to improve this site?

REFERENCES FOR ONLINE FILE W3.7


Online File W3.9  Intelligent Agents in the Electronic Job Market

The large number of available jobs and résumés online makes it difficult both for employers and employees to search the Internet for useful information. Intelligent agents can solve this problem by matching résumés with open positions. Exhibit W3.9.1 shows how three intelligent agents in the online job market work for both job seekers and recruiters.

Intelligent Agents for Job Seekers
Many online recruitment sites are now employing intelligent agents to support both job seekers and employees. For example at CareerShop.com (careershop.com) and NowHiring.com (nowhiring.com), job seekers are offered a free service that uses intelligent agents to periodically search the Internet’s top job sites and databases for job postings based on users’ profiles. Basically, these intelligent agents work by periodically searching through a vast set of online job advertisements. Users receive an e-mail whenever a suitable match is made between their résumé and an advertisement. This saves the users a tremendous amount of time. For technology jobs, try dice.com.

EXHIBIT W3.9.1  Intelligent Agents Match Résumés with Available Jobs

(continued)
Intelligent Agents for Employers

Employers often are flooded by hundreds of thousands of applications. Various software tools are available to help recruiters deal with all these applications in a time- and cost-effective manner (see Online File W8.5.).

A special search engine powered by an intelligent agent can help employers find résumés that match specific job descriptions. Many such tools are available, and they are used by a number of the major e-recruitment sites.

Online File W3.9 (continued)

Online File W3.10 Real Estate Applications

The real estate industry is projected as one of the six industries to be changed by EC soon (Mullaney 2004). Some real estate applications and services, with their representative URLs, are shown in the following list. More applications and services are sure to proliferate in the coming years.

- Advice to consumers on buying or selling a home is available at assist2sell.com.
- The International Real Estate Directory and News (ired.com) is a comprehensive real estate Web site.
- Commercial real estate listings can be found at starboardnet.com.
- Listings of residential real estate in multiple databases can be viewed at homegain.com, justlisted.com, and realestate.yahoo.com.
- The National Association of Realtors (realtor.com) has links to house listings in all major cities. Also see move.com and homes.com.
- Maps are available on mapquest.com and realestate.yahoo.com.
- Information on current mortgage rates is available at bankrate.com, eloan.com, and quickenloans.com.
- Mortgage brokers can pass loan applications over the Internet and receive bids from lenders who want to issue mortgages (e.g., eloan.com).
- Online lenders, such as arcsystems.com, can tentatively approve loans online.
- To automate the closing of real estate transactions, which are notorious for the paperwork involved, see Broker Backoffice from realtystar.com.
- Property management companies (residential, commercial, and industrial) are using the Internet for many applications, ranging from security to communication with tenants. For an example, see superhome.net in Hong Kong.
- Sites for home sellers, such as owners.com, provide a place for those who want to sell their homes privately, without using a real estate agent.
- Decided not to buy? Rental properties are listed on homestore.net. Several services are available, including a virtual walk-through of some listings.
- Builders and commercial renters use craigslist.org and other classified sites to advertise offerings as do individuals that offer real estate for sale or rent.
- Several garden apartment rentals in New York (nyhabitat.com) and New Jersey (mynewplace.com) have their own blogs.
- Many developers use video clips on YouTube and/or their own Web sites.

In general, online real estate is supporting rather than replacing existing agents. Due to the complexity of the process, real estate agents are still charging high commissions. However, several Web sites have started to offer services at lower commissions (e.g., see assist2sell.com), some at 1 percent instead of 6 percent (see discounted brokers at ziprealty.com).
Real Estate Mortgages

Large numbers of companies compete in the residential mortgage market. Several online companies are active in this area (e.g., see lendingtree.com and eloan.com). Many sites offer loan calculators (e.g., eloan.com and quickenloans.com). Mortgage brokers can pass loan applications over the Internet and receive bids from lenders that want to issue mortgages. Priceline.com (priceline.com/newfinance) offers its “name your own price” model for obtaining residential loans. In another case, a Singaporean company aggregates loan seekers and then places the package for bid on the Internet. Large numbers of independent brokers are active on the Internet, sending unsolicited e-mails to millions of people in the United States, promising low rates for refinancing and new home loans (an activity that some recipients see as spamming).

REFERENCE FOR ONLINE FILE W3.10


Online File W3.11 Investment Information

An almost unlimited amount of investment-related information is available online, mostly free of charge (usually in exchange for a registration or for customers only). Here are some examples:

- Current financial news is available at CNN Financial (money.cnn.com). This portal also has large amounts of company information, all free. Similar information is available at Hoover’s (hoovers.com) and Bloomberg (bloomberg.com).
- Municipal bond prices are available at bloomberg.com.
- Many tools are available to help investors in the bond market. For example, “how-to invest manuals,” free research reports, and charts and tables of foreign currencies all are available at bloomberg.com.
- A good source of overall market information, with many links to other financial sites, is investorguide.com.
- Free “guru” (expert) advice is available from thestreet.com.
- Stock screening tools are available at screen.yahoo.com/stocks.html.
- Articles from the Journal of the American Association of Individual Investors can be read at aaii.org.
- Schwab Trader encourages consumers to practice trading strategies, using its StreetSmart Pro (schwabtrader.com).
- The latest on funding and pricing of IPOs is available at premium.hoovers.com/global/ipoc/index.xhtml.
- People can learn about investing at learninvesting.com, which covers everything from financial ratios to stock analyses.
- Chart lovers will enjoy big charts at marketwatch.com. Charts also are available on many other sites.
- Mutual fund evaluation tools and other interesting investment information are available from Morningstar (morningstar.com).
- Earnings estimates and much more are available at thomsonreuters.com.
- Almost anything that anyone would need to know about finance and stocks can be found at finance.yahoo.com.

(continued)
A comprehensive site that tries to educate, amuse, and enrich is The Motley Fool (fool.com). A portal for individual investors, the site has gained considerable popularity. It acts as a community and is managed by two brothers who also author books and write a nationally syndicated newspaper column.

Most of these services are free. Many other services relating to global investing, portfolio tracking, and investor education also are available. For example, a number of free Web sites allow investors to scan mutual-fund offerings to find a suitable investment sector, country to invest in, and risk profile. For instance, Morningstar (morningstar.com) not only rates mutual funds, but also provides a search engine to help users narrow their search. An investor can use the “Fund selector” option and go to “Morningstar category.” If the investor wants to invest in, say, Southeast Asia, the investor can find funds operating not only in the United States, but also in Hong Kong, Singapore, or Malaysia. Once the investor has picked a market, it can be segmented further by the size of the fund, by return on investment during the last 5 or 10 years, and by other criteria. The investor also can consider the fund’s risk level and even the fund manager’s tenure. The site has news and chat rooms for each fund. It also lets investors look at the top-10 holdings of most funds. Other evaluation sites similar to Morningstar, such as lipperweb.com, also rank funds by volatility. Investors can get their fund details and charts showing past performance against a relevant index for each fund.

Related Financial Markets
In addition to stocks, online trading is expanding to include commodities, financial derivatives, and more. Futures exchanges around the world are moving to electronic trading. For example, the Chicago Board of Trade, the world’s largest futures exchange, is offering full-range electronic trading. Of special interest is mortgage banking online (see mortgagebankers.org).

Online File W3.11 (continued)

- View current account balances and history at any time. Consumers can easily check the status of their checking, savings, credit card, and money market accounts. Also, historical data can be viewed.
- Obtain credit card statements. Users can view and print their account statements.
- Pay bills. The cost of paying bills electronically may be less than the postage involved in sending out a large number of payments each month.
- Download account transactions. Account transactions can easily be imported into money management software such as Quicken or Money.
- Transfer money between accounts. No more waiting in lines or filling out deposit slips. Money can be transferred between a consumer’s own accounts and in some cases, users can transfer monies between their own accounts and those belonging to others when the accounts are at the same institution.
- Balance accounts. For people who forget to record ATM withdrawals, online banking may help them get organized. Users can download transactions and import them into their check registers.
- Send e-mail to the bank. Got a problem with an account? Users can send a quick note to their online bank representative.
- Expand the meaning of “banker’s hours.” Consumers can manage their money and bills on their own schedules.
- Handle finances when traveling. Consumers can access accounts when they are on the road and even arrange for bill payments to be made in their absence.
- Use additional services. Customers of some banks receive free phone banking with their online banking service, all for free or for a $5 to $7 monthly fee. Some banks throw in free checking, ATM withdrawals, and bill paying (for at least 1 year). Several banks, such as Bank of America, waive regular checking charges if consumers sign up for online banking.
An extensive survey conducted by the Consumer Direct Cooperative in 2000 (Cude and Morganosky 2000) pointed to the following groups of potential online grocery shoppers: Shopping avoiders are willing to shop online because they dislike going to the grocery store; necessity users would do so because they are limited in their ability to shop (e.g., disabled and elderly people, shoppers without cars). New technologists, those who are young and comfortable with technology, represent another group of online grocery shoppers. Extremely busy, time-starved consumers may be willing to shop online in order to free up time in their schedules. Finally, some consumers gain a sense of self-worth from online shopping and being on the leading edge of what may be a new trend.

Online grocery customers are generally repeat customers who order week after week in a tight ongoing relationship with the grocer. The user interaction with the Web site is much more substantial than with other B2C Web sites, and user feedback is more prevalent. Shopping for groceries online is a very sophisticated purchase compared to most EC shopping transactions. For example, online grocery retailers have had to learn how to handle “out of stocks” and order errors effectively, because studies suggest that online grocery shoppers tend to be pickier than those going to supermarkets. Experience suggests that online customers need to be asked upfront whether they want substitutes for goods ordered that are out of stock, and some retailers, such as SimonDelivers, offer a notes function, which allows the online customer to leave messages for the picker of their order (McTaggart 2006).

Around the world, many e-grocers are targeting the busy consumer with the promise of rapid home delivery of groceries. For example, Parknshop (parknshop.com), the largest supermarket chain in Hong Kong, offers a “personal shopping list” that helps customers easily order repetitive items on each visit. (The Web site also uses advertising as an additional source of revenue to make the business model a bit more solid.) The Tesco chain in the United Kingdom (tesco.com) is another successful e-grocer.

So far, online sales are usually not as profitable as sales in physical grocery stores due to very slim margins in the grocery industry, the delivery costs associated with rapid home delivery, and the relatively low volume of online sales. However, this additional channel allows grocers to increase their sales volume and serve customers who are unable to visit their physical stores. In addition, they can increase their brand recognition by maintaining an Internet presence. Furthermore, a move online can be a defensive strategy to avoid pure play e-grocers from stealing some of their market share. However, these retailers can benefit in two important ways. First, for retailers offering a broad range of merchandise, such as Wal-Mart and Amazon.com, the move into selling groceries online can be a way of attracting customers back to their Web sites more often (consumers typically buy groceries much more frequently than they do books, electronics, and the like). Second, the online experience can provide e-grocers with a much more intimate real-time knowledge of customer preferences, wants, and needs and their online shopping behaviors. E-Grocers such as SimonDelivers are now sometimes used by major manufacturers to launch new products before wide-scale release and to test pilot products (McTaggart 2006).

Despite the promise that on-demand delivery seems to hold, virtual e-grocers have had a checkered history. For example, StreamLine.com and ShopLink.com folded in 2000. HomeGrocer.com and Kozmo.com folded in 2001 (see Chapter 10). As of 2006, there are three major e-grocers: peapod.com, freshdirect.com, and simondelivers.com. Their success has been attributed to excellent logistics, a commitment to delivering a good experience for customers, and differentiation (e.g., FreshDirect now specializes in sourcing organic foods, offering prepared meals, and emphasizing the freshness of its products).

One of the most interesting stories of e-grocers that failed is that of Webvan.com, a company that raised many expectations and was founded in 1999 with a goal of delivering anything (particularly groceries), anytime and anywhere, in an efficient manner. Webvan designed and started to build sophisticated automated warehouses—each the size of seven football fields and equipped with more than 4 miles of conveyor belts (see Steinert-Threlkeld 2000). In 2001, Webvan purchased Homegrocer.com, a smaller rival, but was unable to merge the two companies properly. Furthermore, the company was unable to secure more funds due to the accumulating failures of dot-com companies, which led to a loss of investor (continued)
confidence. Declining demands due to economic conditions contributed to staggering losses. Finally, Webvan folded in 2001. Overall, it lost more than $1 billion, the largest of any dot-com failure. A similar company, Groceryworks.com, was purchased by Safeway, a successful click-and-mortar grocer. The results have been quite different from those of Webvan, as detailed in Case W3.13.1.

Third-Party Service Providers in the Online Grocery Industry

One of the reasons for the uncertain results for some forays into online grocery was the costs and risks involved in building the appropriate infrastructure, both physical and technical. Third-party service providers and some alliance arrangements are changing the landscape in this regard.

CASE W3.13.1

GROCERY SHOPPING IN THE PALM OF YOUR HAND

Safeway Stores, a grocery chain with $14 billion in sales per year, has implemented its Easi-Order services using a Palm handheld device (PDA) to allow customers to point and click their grocery lists and send them to Safeway via phone. The program is part of the company’s “Collect & Go” service. Valued customers are given handheld devices that are loaded with an application that contains a list of thousands of grocery items, including descriptions and prices. The PDA that customers are given is a fully functional unit that can be used for contacts, note taking, e-mail, to-do lists, calendaring and scheduling, and so on.

Customers can review the items and make their grocery lists offline when time permits. (The estimated time savings is 60 to 90 minutes each week.) When the customer is ready to place the order, the device is plugged into a standard phone socket, and it dials up the Collect & Go server. The shopping list is downloaded to the server, and next week’s suggested list along with suggestions and promotions are uploaded to the device. The complete transaction takes about 60 to 90 seconds. The data collected by Safeway allow the company to offer outstanding customer service on a very personal basis to each individual customer by evaluating the individual customer’s purchases and buying habits.

The order is picked and packed by the store and set aside for the customer to pick up at their specified, convenient time. Items that customers prefer to select for themselves are easily added to the order at the time of collection by scanning the bar code of the additional items with the same handheld device. Collection is done at dedicated check-out counters. Some Safeway stores are implementing Easi-Pay terminals, which allow customers to avoid checkout lines altogether. In certain areas, delivery to customers’ homes also is available. To make delivery possible, Safeway purchased Groceryworks.com, which developed an innovative order-fulfillment model for the e-grocery industry. Safeway and IBM collaborated on the Easi-Order project to develop the Java-based server. Safeway was able to contact customers in its loyalty-card database, and the customer orders are downloaded to the same database. Easi-Order takes advantage of the Internet by making it possible for customers to download their orders directly to the Collect & Go intranet.

In the future, Safeway’s plan is to have screen phones, digital TV, and speech-processing devices to assist grocery shoppers in making their shopping experiences as easy as verbally telling the program what they want. Safeway and other supermarkets are experimenting with such tools.


Questions

1. What are the benefits of Safeway’s Easi-Order and Collect & Go programs for customers?
2. Why is this considered to be an EC application?
3. What is the role of mobile devices?
4. Compare order fulfillment done at stores versus that for home delivery.
MyWebGrocer.com (mywebgrocer.com) is a provider of technical and online shopping solutions in the supermarket industry. It provides the complete software, hardware, and technical expertise for organizations wishing to sell groceries online. MyWebGrocer typically services existing supermarkets, providing the EC infrastructure they need for a move into online grocery selling together with e-marketing expertise. This has meant that existing grocery chains can leverage their brand, their store locations, and industry knowledge without investing in building technical expertise as well. Customers of MyWebGrocer often see about 10 percent of their sales coming online, meaning that their online investment becomes a profitable additional business channel (McTaggart 2006).

Buy4Now.com (buy4now.com) is an Irish company offering similar expertise. It relies on an in-store picking model, where supermarkets are helped to leverage their existing infrastructure in moving online with relatively small investments. For example, Buy4Now.com teamed with Roche Bros in Boston to help Roche reclaim clientele lost to Peapod. The in-store picking model allows customers to place their orders up to 3 hours before a delivery slot starts (Peapod requires an order by 10:00 A.M. for same-day delivery). Not only do customers get this extra convenience, but through the Roche online solution provided by Buy4Now, customers can access 16,000 products online, compared to 9,000 at Peapod (Buy4now.com 2006).

REFERENCES FOR ONLINE FILE W3.13


With improvements in Internet technologies, the possibility exists for widespread distribution of digital content from businesses to consumers and from consumers to consumers. The rise in importance of Napster and similar Web sites that allow individuals to find and share music files, movies, and even photos and private documents coincided with the near universality of computer availability on college campuses and the widespread adoption of MP3 as a music file compression standard. MP3 files are much smaller than earlier file alternatives and allow individuals to download a standard song in far less time. The Napster network does not require the use of a standard Web browser such as Internet Explorer. Nor does the user's client machine actually download the MP3 files from Napster's servers. Rather, Napster only shares “libraries,” or lists of songs, and then enables a peer-to-peer file-sharing environment (see Chapter 8) in which the individual users literally download the music from each others' machines (called peers). The growth of the “Napster community”—with over 60 million registered users by the end of 2002 and as many as 1.3 million using the service at the same time—was nothing short of phenomenal (Borland 2002). It is said to have grown faster than any other community in history.

Because of the potential challenge to their revenue sources, the Recording Industry Association of America (RIAA) and five major record labels engaged in a legal battle with Napster, suing it for copyright infringement (see Chapter 12). Napster argued that its file sharing never actually published music that could be “pirated” or copied illegally in violation of internationally recognized copyright and licensing laws. However, the court ruled that as a manager of file exchanges, Napster must observe copyright. Thus, free file sharing is no longer allowed; Napster was forced to charge customers for use of its file-sharing service. The users of the free services were not happy with the charge and abandoned the service, driving Napster into bankruptcy.

Napster's assets have been acquired by Roxio Inc., which revived Napster as a for-fee service. In 2004, Napster introduced its for-fee file sharing, making agreements with several universities for deep discounts to students. (For additional information, see napster.com.)

More recently, Napster has launched a new advertisement-supported free music download service in a bid to legally offer music fans the services they desire. In addition, it is broadening the range of services available, which now include the ability to legally listen on-demand to a massive catalog of music from major and independent labels. A music subscription service offers unlimited access to CD-quality music and additional discovery, community, and programming features in an advertising-free environment, and Napster To Go subscribers enjoy unlimited transfer of music to a compatible MP3 player.

Despite these initiatives, Napster is struggling financially, and its future is by no means certain. Napster may be challenged by a new venture, SpiralFrog, launched September 17, 2007, which has signed both the Universal Group and EMI to its advertisement-supported music download service. In addition, EMI has agreed to allow the publication of its lyrics online.

However, given the difficulty large branded players such as Napster are experiencing to make these services profitable, the future of this type of initiative is uncertain (Marketingshift.com 2006). Furthermore, it would appear that such services will need to address concerns about copyright infringements if they are to survive and prosper long term.
The following are prominent categories of online entertainment.

- **Web browsing.** This category includes Web sites that require more than the usual user input as part of the process of using the Web site. It is likely that in the future the Web itself will transform into an environment where the user can move through the Web in a virtual reality world. Wikipedia and various blog sites are examples where users can add their own content and views to Web sites.

- **Internet gaming.** This includes all forms of gaming, including arcade gaming, lotteries, casino gaming, promotional incentives, and so on. This is already a substantial market and is growing rapidly. Burns (2006a) reports that the online game market generated $1.1 billion in revenues in 2005 and that this is expected to grow to $4.4 billion by 2010.

- **Fantasy sports games.** According to eMarketer Daily, the number of unique visitors to fantasy sports sites exceeds 7.4 million a month (reported by RealSEO.com 2004). The major sites are sportsline.com and espn.com.

- **Single and multiplayer games.** These include online games in which multiple users log on to a Web site to participate in a game as well as games that require downloading from the Web site and installation on a PC. Examples of such sites include battle.net, games.msn.com, chess.net, and casesladder.com. MMOGs (massively multiplayer online games) in which large numbers of people interact to play a role-playing game where they assume the role of a fictional character via a virtual world worldwide have witnessed dramatic growth. Some of the commercially available games have millions of subscribers, with estimates that such games generate about $350 billion in revenues per year (Burns 2006b).

- **Adult entertainment.** Adult entertainment has exploded onto the Internet. This is one industry that seems certain to find a lucrative home on the Internet. Indeed, adult entertainment has been called the Net’s most profitable business model (see Chapter 7).

- **Card games.** These are very popular and some involve gambling. For a discussion, see Chapter 7.

- **Social networking sites.** A range of social networking sites have arisen where like-minded people can share information and viewpoints, publicize events and activities, and generally form a community online. One of the largest of these, MySpace.com, was described in Chapter 1 and is featured in Chapter 8.

- **Participatory Web sites.** Participatory Web sites include clubs, user groups, and “infotainment” sites (i.e., a site that provides information on all aspects of a topic and provides mechanisms for the user to interact with other people interested in the topic; for example, a Web site about sports).

- **Reading.** E-books are now published on the Web (see Chapter 7). Web versions of print media, including magazines and newspapers, are now available.

- **Live events.** Sports fans can listen to and/or watch live sporting events on the Internet, sometimes free of charge.

A range of entertainment activities are also available on a number of mobile Internet-enabled devices. For example, in Australia subscribers to the three mobile networks can watch cricket on their mobile phones in real time.

**Entertainment-Related Services**

The Internet also enables a number of services that support offline entertainment activities:

- **Event ticketing.** The click-and-mortar giant TicketMaster (ticketmaster.com) is the most popular place for getting tickets to many types of offline entertainment. However, tickets also can be obtained from the vendors directly. An example of ticketing in Asia is cityline.com.hk, which offers tickets to events and movie theaters. Tickets also are being sold via cell phone (see Chapter 9).

- **Restaurants.** Many restaurants allow online reservations. They are computerizing their reservation systems using software from companies such as OpenTable (opentable.com), one of the leaders in this area. More than 5,000 restaurants have adopted OpenTable online reservation and guest management software. Once a restaurant adopts the software, it becomes part of the OpenTable network, enabling customers to either make a reservation directly with the restaurant online or via the OpenTable.com Web site (OpenTable.com 2006). Some restaurants offer deliveries as well. Examples are pizza places and Chinese restaurants. This kind of service is frequently accomplished via cell phones, telephones, or the Internet (e.g., geoexpat.com).

(continued)
Information retrieval. Many portals offer entertainment-related information for retrieval by users. The Internet has quickly become the largest source of information on many topics.

Retrieval of audio and video entertainment. Users can download audio, music, video, and movies from Internet servers for non–real-time playback. In 2003, Apple introduced the iPod and iTunes, a service that allows songs to be sold online (100 million were sold the first year). In July 2004, Duke University gave all of its incoming freshmen free iPods. The university arranged a Web site, modeled on iTunes, that allows the downloading of lectures, music, audio, books, and so on. Other companies offer similar services.

REFERENCES FOR ONLINE FILE W3.15


ResellerRatings (resellerratings.com) started life as a one-stop shopping resource for consumers of computer products and electronics, offering site visitors the option of comparing prices of many products across different online vendors. However, its mission was slightly different. ResellerRatings believed that online merchants needed to be accountable to their customers and that customers needed not only to be able to find great products and good prices, but also to be sure of the reputability of the merchants they were buying from. ResellerRatings also recognized a role of helping merchants to offer better service and experience for their customers by providing them with feedback from customers on their perceptions of the businesses’ performance.

For merchants, ResellerRatings offers a free subscription service that includes a point-of-sale exit survey for customers. This survey enables a retailer to elicit feedback from customers on a variety of dimensions, including their perceptions of the range of products and services, the ease of finding goods and placing an order, and their satisfaction with the shopping experience. For a modest premium subscription, the merchant can benefit from additional services, such as receiving e-mail alerts whenever a customer posts a review on the company and placing advertisements on the ResellerRatings Web site.

Customers are encouraged to post reviews of a company, both positive and negative, and to voice their opinion about their experience with a particular retailer. Retailers are given an option to respond to customer concerns, to confirm that a particular transaction and invoice number are legitimate, and to help resolve the customer’s concerns. ResellerRatings ensures that the comments posted are legitimate (legitimate customers commenting on genuine transactions and posted once only). Retailers cannot opt out of this system (they cannot request to be removed). ResellerRatings then computes a table of both the best and the worst retailers, based on verified customer feedback and responses to the survey. When using the site for price comparisons, customers can also check that the store with the most attractive deal for the item of interest is also a reputable dealer.

So, how does ResellerRatings make money? What is its business model? How does it sustain itself? Who benefits? The point-of-sale exit survey contains about 40 questions, 6 of which are used to compute its published rating of retailers. The remaining questions are analyzed and sold as market research data to other companies. Essentially, these companies pay for analyzed data so that they can better understand the needs and wishes of online shoppers. In the case of ResellerRatings, customers benefit through increased trust and confidence in a prospective merchant and by having an opportunity to express their concerns about poor service. Merchants benefit by having access to reviews and the opportunity to redress customer concerns. ResellerRatings benefits through its careful analysis of data, which is then sold to interested parties.

Questions

1. Discuss your concerns about the trustworthiness of an online retailer. Would using a site such as ResellerRatings.com increase your confidence in shopping online?
2. Discuss the business model of ResellerRatings.com. Compare it to the business model of other ratings sites, such as Bizrate.com.
3. Visit resellerratings.com and search for an item. How was it to compare the various offerings?

Reference for Online File W3.16

### Representative Shopping Software Agents and Comparison Sites

<table>
<thead>
<tr>
<th>Agent Classification</th>
<th>Product (URL)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Learning agents</td>
<td>Empirical (vignette.com)</td>
<td>Surveys user’s reading interests and uses machine learning to find Web pages using neural-network-based collaborative filtering technology.</td>
</tr>
<tr>
<td></td>
<td>Blinkx (blinkx.com)</td>
<td>Searches intelligently and constantly for video and audio clips of the user’s choice.</td>
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<tr>
<td></td>
<td>MySimon (mysimon.com)</td>
<td>Using VLA (virtual learning agent) technology, shops for the best price from merchants in hundreds of product categories with a real-time interface.</td>
</tr>
<tr>
<td></td>
<td>CompareNet (comparenet.com)</td>
<td>Interactive buyer’s guide that educates shoppers and allows them to make direct comparisons between brands and products.</td>
</tr>
<tr>
<td></td>
<td>Kelkoo (kelkoo.co.uk)</td>
<td>Price comparison on UK Web sites.</td>
</tr>
<tr>
<td></td>
<td>Cnetshopper (shopper.cnet.com)</td>
<td>Makes price comparisons.</td>
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<tr>
<td>AI/Logic-supported approaches</td>
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<tr>
<td>Computer-related shopping guide</td>
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<tr>
<td></td>
<td>Netbuyer (shopping.zdnet.co.uk/shopping)</td>
<td>Supplies sales and marketing solutions to technology companies, by delivering information about computer and communications industry trends, product developments, and buyer activity.</td>
</tr>
<tr>
<td>Car-related shopping guides</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Auto-by-Tel (autobytel.com)</td>
<td>A low-cost, no-haggle car-buying system used by leading search engines and online programs such as Excite, NetCenter, Lycos, and AT&amp;T WorldNet Services.</td>
</tr>
<tr>
<td></td>
<td>Trilegiant Corp. (trilegiant.com)</td>
<td>The Web’s premier savings site for great deals on autos. (Also offers travel, shopping, dining, and other services.)</td>
</tr>
<tr>
<td></td>
<td>CarPoint (autos.msn.com)</td>
<td>A one-stop shopping place for searching and purchasing automobiles.</td>
</tr>
<tr>
<td>Find lowest prices</td>
<td></td>
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<tr>
<td>Aggregator portal</td>
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<tr>
<td>Personalized information</td>
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<td>Real-time agents</td>
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<tr>
<td>Comparison shopping agents</td>
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<td></td>
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<tr>
<td></td>
<td>PriceScan (pricescan.com)</td>
<td>Searches for lowest price for a given product.</td>
</tr>
<tr>
<td></td>
<td>PriceGrabber (pricegrabber.com)</td>
<td>Looks for the best deals.</td>
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<tr>
<td></td>
<td>Pricing Central (pricingcentral.com)</td>
<td>Aggregates information from other shopping agents and search engines. Comparison shopping is done in real time (latest pricing information).</td>
</tr>
<tr>
<td></td>
<td>Newsbot (newsbot.msnbc.msn.com)</td>
<td>Automatic personalization of business and industry news.</td>
</tr>
<tr>
<td></td>
<td>Kanndu (sprint.com/mobileshoppoer)</td>
<td>Allows users to surf over to a single mobile Internet portal and click around to multiple e-shopping sites to make purchases with only a few keystrokes.</td>
</tr>
<tr>
<td></td>
<td>Shopping.com (shopping.com)</td>
<td>Compares prices; saving the consumer time and money by giving key information as the consumer is shopping online.</td>
</tr>
<tr>
<td>Comparison shopping agents</td>
<td>BizRate (bizrate.com)</td>
<td>Rates merchants based on real consumer feedback, per product. Comparison of similar products.</td>
</tr>
</tbody>
</table>
Online File W3.18 What Lessons Can Be Learned from These EC Failures?

Painful as failures are, at least they can point out some valuable lessons. The following lessons can be drawn from the B2C dot-com failures in Insights and Additions W3.18.1 and other cases.

Insights and Additions W3.18.1 B2C Dot-Com Failures—Retailing

During 2000–2001, more than 600 dot-coms folded in the United States, and more than 1,000 folded worldwide. Here are some examples. While our understanding of the factors contributing to EC success has improved dramatically, there are still important lessons that can be learned from expensive failures.

Kozmo.com.
Kozmo.com initiated a creative idea for on-demand deliveries of movie rentals (and related items) to customer’s doors. The first problem was how to return the movies. Drop boxes for the returns were vandalized, volume was insufficient, competitors entered the market, and even an alliance with Starbucks (to host the drop boxes) and a large porn selection did not help. In addition, the company was sued for refusal to deliver to low-income neighborhoods that had high crime rates. The company failed in 2001 after “burning” $250 million. (See Chapter 11 for the full story.)

The lessons from Kozmo are that attending to the supply chain, in this case delivery and return of the goods, is essential. So, too, is understanding the business environment and the potential impact of sociotechnical issues on the viability of the proposed business model. Ensuring adequate cash flows while the company achieves viability is also an important issue with new ventures.

Furniture.com.
Selling furniture on the Internet may sound like a great idea. Furniture.com even paid $2.5 million for its domain name. Delivering the furniture was the problem. A number of manufacturers were not able to meet the delivery dates for the most popular items. In addition, many pieces of furniture cannot be delivered by UPS because of their size and weight. The cost of special deliveries was $200 to $300 per shipment, resulting in a loss. The company folded in 2001 after “burning” $75 million. For details, see Wang et al. (2006).

The failure of Furniture.com points to the important lesson of delivery. Typically, online shoppers demand easy delivery options, and any business model needs to figure the cost and viability of arranging delivery. This might suggest that large, heavy items and the like may be difficult to sell directly online unless a cost-effective delivery method is found.

eRegister.com.
Registering online for classes via an intermediary may sound interesting to investors, but not to customers. If a person wants to register to take a class at the YMCA or Weight Watchers, why not do it directly? The business model simply did not work, and the company folded in 2001.

The failure of eRegister.com demonstrates the importance of market research to establish the viability of a business idea before huge amounts of money are invested. This is particularly true in EC, where businesses often are venturing into totally unexplored territory.

Go.com.
Go.com was a Disney portal site that was formed to manage Disney’s Web sites and generate revenue from advertising. The business model did not work. To cover the salaries of its 400 employees, it was necessary for Go.com to sell 2 billion paid ad impressions per year. The company was able to sell only 1.6 million impressions. After losing $790 million in write-offs and $50 million in expenses, the site closed in February 2000. No amount of Disney magic helped.

Again, market research to establish viability of the concept is essential. Some sober assessments of sales forecasts might have saved Disney some financial pain in this case.

(continued)
Pets.com.
Pets.com, a Web site devoted to selling pet food, pet toys, and pet supplies, operated in a very competitive market. This market competition forced Pets.com to advertise extensively and to sell goods below cost. The cost of acquiring customers mounted to $240 per new customer. Yet, being one of the early dot-com companies, it was able to buy a rival, Petstore.com, in 2000. After spending $147 million in less than 2 years, Pets.com had a lot of brand recognition but not a real brand. After collapsing, its assets were sold to Petsmart.com (petsmart.com), a click-and-mortar pet supplies retailer. At the same time, click-and-mortar Petco.com purchased Petopia.com, another B2C failure in the pet area.

Selling goods below price is a risky strategy and requires careful modeling to demonstrate the viability of this notion beyond the very short term. On top of this, Pets.com also had to raise brand awareness, placing it at a disadvantage to already established brands such as Petsmart. The viability of the business model on which this dot-com idea was based seems to have been flawed.

Sources: Compiled from Kaplan (2002) and Hwang and Stewart (2006).

Don’t Ignore Profitability
One fundamental lesson is that each marginal sale should lead to a marginal profit. It has been said that in business, “If it doesn’t make cents, it doesn’t make sense.” The trouble with most virtual e-tailers is that they lose money on every sale as they try to grow to a profitable size and scale.

Many pure-play e-tailers were initially funded by venture capital firms that provided enough financing to get the e-tailers started and growing. However, in many cases the funding ran out before the e-tailer achieved sufficient size and maturity to break even and become self-sufficient. In some cases, the underlying cost and revenue models were not sound—the firms would never be profitable without major changes in their funding sources, revenue model and pricing, and controlled costs. Long-run success requires financial viability. Many firms were also damaged by insufficient attention to cash flows. Thus, revenue growth, cash flows, and sustainable profitability are all vital ingredients in EC success.

Manage New Risk Exposure
The Internet creates new connectivity with customers and offers the opportunity to expand markets. However, it also has the potential to expose a retailer to more sources of risk. Local companies have to contend only with local customers and local regulations, whereas national firms have more constituents with which to interact. Global firms have to contend with numerous cultural, financial, and other perspectives: Will they offend potential customers because of a lack of awareness of other cultures? Global Internet firms also have to manage their exposure to risk from the mosaic of international legal structures, laws, and regulations. For example, they can be sued in other countries for their business practices. (For additional details, see Chapter 12.)

Watch the Cost of Branding
Branding has always been considered a key to retail success. Consumers are thought to be more willing to search out products with strong brand recognition, as well as pay a bit more for them. In the relatively early days of e-tailing, it was sometimes argued that brand recognition was the key to success, with the argument that Internet sites such as Amazon.com are putting established brands (e.g., traditional brick-and-mortar booksellers) at risk by creating quick brand recognition. However, this has not necessarily been the case. For one thing, in e-tailing the drive to establish brand recognition quickly often leads to excessive spending. For example, one upstart e-tailer, Epidemic.com, spent over 25 percent of its venture capital funding on one 30-second television advertisement during the Super Bowl! The company folded a few months later (Carton and Locke 2001). In other cases, e-tailers offered extravagant promotions
and loss-leading offers to drive traffic to their sites and then lost money on every sale. The lesson from success stories is that most customers, especially long-term loyal customers, come to a Web site from known and trusted business names, affiliate links, search engines, or personal recommendations—not from Super Bowl ads. Those organizations achieving online success as e-tailers often do so because they have a well-articulated and integrated strategy, visionary leadership, effective supply chains, and information systems and technology platforms that support efficient processes and provide real-time access to relevant, accurate data (irrespective of whether the data are gathered from an online transaction or a traditional in-store transaction) (Epstein 2004; Huang et al. 2005).

**Do Not Start with Insufficient Funds**
It may seem obvious that a venture will not succeed if it lacks enough funds at the start, but many people are so excited about their business idea that they decide to try anyway. An example of this is the failure of Garden.com. Garden.com was a Web site that provided rich, dynamic gardening content (how to plant bulbs, tips on gardening, an “ask the expert” feature, etc.) and a powerful landscape design tool, which allowed a visitor to lay out an entire garden and then purchase all the necessary materials with one click. The business idea sounded good. However, the site failed due to the company’s inability to raise sufficient venture capital necessary to cover losses until enough business volume was reached.

**The Web Site Must Be Effective**
Today’s savvy Internet shoppers expect Web sites to offer superior technical performance—fast page loads, quick database searches, streamlined graphics, and so forth. Web sites that delay or frustrate consumers will not experience a high sales volume because of a high percentage of abandoned purchases.

**Keep It Interesting**
Web sites without dynamic content will bore returning visitors. Static design is a turnoff. Today, most e-tailers offer valuable tips and information for consumers, who often come back just for that content and may purchase something in the process. Although there have been many e-tailing failures (mostly pure-play e-tailers, but some click-and-mortar companies or EC initiatives, too), success stories abound. Many are described throughout this book. In general, although pure-play online retailing is risky and its future is not clear, online retailing is growing very rapidly as a complementary distribution channel to physical stores and mail-order catalogs. In other words, the click-and-mortar model appears to be winning.

**REFERENCES FOR ONLINE FILE W3.18**


