LESSON 6:
CONSUMER ORIENTED E COMMERCE

Topic:
- Introduction
- Difference between Traditional Retailing and E-Retailing
- Benefits and disadvantages associated with E-Retailing
- Various models of E-Retailing
- Summary
- Exercise

Objectives
After this lecture the students will be able to:
- Describe the difference between Traditional Retailing and E-Retailing
- Describe the benefits and disadvantages associated with E-retailing

In this lecture we will discuss how the customer and business organizations are benefited through E-Commerce, how he can purchase the things and how any business organization can sell the goods online.

Introduction
E-retailing essentially consists of the sale of goods and services. Sometimes we refer to this as the sale of tangible and intangible goods, as shown in Figure 6.1. We can divide tangible goods into two categories: physical goods and digital goods. Examples of physical goods would be a book, a television set, a video recorder, a washing machine, etc. Examples of digital goods are software and music, which may be downloaded from the internet. The sale of intangible goods is sometimes called e-servicing. Examples of services that may be sold are information such as the most recent stock prices, the most recent foreign exchange rate, or education. Entertainment such as games that would be played on the internet are also examples of e-services. So are the sales of services such as telecommunication services or banking services. The sale of tangible and intangible goods are all referred to as customer oriented e-commerce or e-retailing, if they are sold directly to the consumer who is the end user. Here we discuss the sale of tangible goods.

Let's see the difference between Traditional Retailing And E-Retailing

Traditional Retailing
Before we begin a discussion of e-retailing, it would be useful to look at some aspects of traditional retailing. This helps to identify some essential characteristics of retailing.

Traditional retailing essentially involves selling to a final customer through a physical outlet or through direct physical communication. This normally involves a fairly extensive chain starting from a manufacturer to a wholesaler and then to the retailer who through a physical outlet has direct contact with the final customer.

Examples of physical outlets that retailers currently use are:
- malls
- generalized stores (e.g. department store)
- specialized stores
- franchise stores

It is useful to reflect that even in traditional retailing we have moved away from just using a static physical outlet within which a customer can have direct contact with the retailer. Thus, more recent forms of traditional retailing include
- direct mailing
- telemarketing
- door-to-door sales
- vending machines

Direct mailing to a customer normally involves sending a brochure or catalog to a customer. The customer browses through this catalog and then carries out mail ordering. In some respects, this notion of browsing through a catalog is a forerunner of e-retailing. Direct mailing, telemarketing, door-to-door sales, or the use of vending machines includes other forms that have actually moved away from a physical fixed outlet and in a way are an intermediate form of the movement away from traditional physical retailing outlet to the virtual retailing we see on the internet.

E-Retailing
The internet has allowed a new kind of specialization to emerge. Instead of specializing just in a special product line, they allow specialization in particular classes of customers and sellers. Thus, we see lastminute.com, which allows last minute purchases of travel tickets, gift, and entertainment to be matched against last minute sellers of the same items. Here, we see specialization not in a product line but in a class of purchasers and a class of sellers. This kind of specialization would not have been possible before we had the internet.

In addition to these specialized stores, we also get generalized e-stores where a store sells several product lines under a single
management. Examples of these generalized stores include JC penny and Walmart.

We also have the electronic counterpart of malls or e-malls. E-mails essentially provide a web-hosting service for your individual store much in the way that mall provide a hosting service in the sense of a physical location for your store.

**Examples of these e-malls are Yahoo!Store, GEOShops, and CNET Stores:**

In the future we may see the equivalent of franchise stores developing. One new class of business that is developing very quickly on the internet is the e-broker. The e-broker does not sell directly to a customer but brings the customer in touch with a particular supplier, so that a given set of criteria specified by the customer is satisfied. For example, the customer may want to buy goods at the cheapest price and so the e-broker would then do a search to find the supplier that would provide the cheapest goods. Or, a customer may want to find a particular kind of goods and the e-broker sets about determining which supplier would provide those goods. This area of e-broking is likely to grow very greatly in the near future.

In summary, we can, therefore, map traditional forms to e-retailing as follows:

- Specialized stores ® specialized e-stores
- Generalized stores ® Generalized e-stores
- Malls ® E-mails
- Franchise stores ® ?
- New form of business: e-broker

**Benefits of E-Retailing**

**To the customer**

Customers enjoy a number of benefits from e-retailing. The first of these is convenience. It is convenient for the customer as he does not have to move from shop to shop physically in order to examine goods. He is able to sit in front of a terminal and search the net and examine the information on goods. The second aspect of convenience he gets is in terms of time.

Normally, the traditional shop has an opening time and a closing time and the customer can only visit the shop within these periods. On the net, the customer can choose at any time to visit a site to examine the goods that are available and actually carry out his purchasing at one’s own convenient time. The third type of convenience that the customer gets is that he has access to a search engine, which will actually locate the products that he describes’ and also the site where they may be available, or perhaps even locate the sites where they may be available at the best price.

The second type of benefit to customers is better information. The Internet and the World Wide web are essentially communication media that allow retailers to put on quite extensive information related to their products, which is available to the customers. Furthermore, since the customer can look at several sites, he will be able to obtain different pieces of information from each site to build a far better picture for himself about the products that he is interested in. In some sites, there are customer reviews of different products as well as reviews by the business itself. An example of this can be found on Amazon.com. This allows-the customer to finesse his requirements before actually making the purchase. It also gives different sources of information.

The third type of benefit that the customer gets is competitive pricing. This is due to two factors.

- The first is lowered costs to the retailer because he does not have to maintain a physical showroom, he does not have to hire several shop assistants, and these savings can be passed on to customers in the form of reduced prices.
- Secondly, competitive pricing pressure that arises from the fact that the customer is now able to look at prices at several sites. Therefore, the pressure is always there on the retailer to maintain a competitive price for his products.

**To the Business**

There are a number of benefits of e-retailing to the business itself.

- The first of these is global reach. The retailer now is no longer restricted to customers who are able to reach the store physically. They can be from anywhere around the globe. The retailer must, of course, deliver the goods of a purchase to the customer. We see later that has an impact on the types of goods that are most easily handled through e-retailing.
- The second benefit is better customer service. The use of email and the use of electronic interchange of messages between the customer and the retailer allows better communication between the customer and the retailer. These allow one to easily inquiries and deal with complaints. These also allow a much more rapid response time than was possible in the days of faxes and postal mail.
- The third benefit is the lowered capital cost to the retailer. The retailer does not have to maintain showrooms, he can
probably have lower inventories. Thus, while Amazon.com lists over a few million titles, it keeps an inventory of a few thousand best selling titles only. Therefore, the retailer has lower warehousing costs. He does not have to have many shop assistants who are physically answering questions and showing the customer goods.

- The fourth benefit to the retailer is **mass customization**. Based on requests by the customers, the retailer is now able to carry out mass customization with reduced time to market for the customized products.

- The next advantage is **targeted marketing**. The retailer is now able to pick on a specific targeted group of customers and direct marketing towards these customers. The retailer is also able to provide **more value-added services** in the way of better information, add-on services to basic services, or add-on options to products that he is selling.

- The last advantage to the retailer consists of **different new forms of specialized stores that he is now able to utilize**.

As we have mentioned previously, now he does not have to specialize his store based just on a product line but could choose to specialize his store based on a specialized targeted group of customers. It also creates new opportunities for niche marketing. A summary of the benefits to the e-retailer are

- global reach
- better customer service
- low capital cost
- mass customization
- targeted marketing
- more value-added services
- new forms of specialized stores and niche marketing

### Key Success Factors For Traditional Retailing

There are a number of key success factors which have been identified for traditional retailing. Two of these are the **size and the number of outlets**. The larger the retailer, the greater the buying muscle and therefore the lower the price for procurement. The number of outlets also allows the retailer to spread the purchase costs over a larger inventory.

In addition, the number of outlets provides for better visibility. The retailer is now visible to the customer at many geographical locations rather than just one. Location is, of course, an extremely important success factor in traditional retailing. The retailer may choose to be sited in the central business district, in a regional area, in a shopping complex, or in a street of shops. This may relate to the category of customers and the costs associated with the site.

Other factors that are very important in traditional retailing are **store atmosphere and store layout**. Store atmosphere evokes a particular look and feel about the retailer and is therefore important to the positioning in the market. Store layout is important in creating an atmosphere but is also important in ensuring that one groups different sets of products together, so that the purchase of one product will frequently lead to the purchase of another, thus allowing for cross selling. **Price** is important and here it is not necessarily the cheapest price, but the price which is consonant with what the customer expects to pay for the goods.

The variety of goods in the case of a large store, particularly of a department store, is also important because a customer would come in looking for one set of goods and then choose to purchase others. Profit margins are important in traditional retailing, and last but not least is the level of turnover.

To summarize; the key success factors for traditional retailing are

- size
- number of outlets
- visibility
- location
- store atmosphere
- store layout
- price
- variety of goods
- profit margins
- turnover

### For E-retailing

In this section, we explore how these success factors of traditional retailing translate to e retailing. The first one considered is **size**. The important point to realize here is that no matter how large the company is your e-store presentation is still limited to the size of the computer screen, which may be, say, 15 in. It is not necessary to look at the number of outlets in cyberspace because you probably need only one web set up. However, this web site is linked to other similar web sites and portals. Therefore, it is not the number of outlets that is important but the number of links from other important sites to your web site which is far more important. When one thinks of visibility, it is all the more important in cyberspace. It is not enough to create a web site; you have to let the world know the existence of your 'web site and that people can purchase from you're-store. When looking at visibility, important point to realize here is that most people find information on the Internet through the use of search engines. Therefore, it is very important to register the web or e-store with the most common or the most widely used search engines, such LS-Lycos, Alta Vista, and Yahoo. It is also important to link your web site with other well-known web sites that have similar interests, or major portals such as Yahoo, which link back to your e-store. This can greatly increase the visibility of the web site.

When considering location, we note that the geographic boundaries no longer exist. A local e-store and a foreign e-store are both just “one click” away.

**Store atmosphere** is particularly important on the web. The "look and feel" of web site should match with the company's image as well as the market position. Look it seeks to address.

Thus, if you are selling very up-market clothes such as Gucci and Armani, your web site for these stores should have a sophisticated look and feel. On the other hand, if you are selling other kinds of goods, you could choose to have a slightly jazzier image on your web site. The front page or the
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position itself at the very particular product line. It may also choose to position itself in a line, essentially you have a store that decides to pick one particular specialization along product lines and specialization by function specialized e-store and here you can distinguish between two The first class of model what we mention in e-retailing was the Specialized E-Stores

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There are several models for e-retailing and these include Models of E-Retailing

• Specialized e-store
• Generalized e-store
• E-mail
• Direct selling by the manufacturer
• Supplementary distribution channel
• E-broker
• E-services

Specialized E-Stores

The first class of model what we mention in e-retailing was the specialized e-store and here you can distinguish between two different kinds of specialization. The more traditional specialization along product lines and specialization by function (which we discuss later). When you have specialization by product line, essentially you have a store that decides to pick one particular product line, say books, flow-ers, CD s, clothes, and sells only this particular product line. It may also choose to position itself in a particular part of the product line, e.g. clothes; it could choose to position itself at the very expensive end of the market selling brand names _ Gucci and Armani. Alternatively it could do more mass marketing by selling non - brand names at a much lower price, or it could go into discount selling. So, you can have a specialization by product line, and then you could have specialization -positioning within that product line to cater for a particular part of the marker. In contrast to this, a new kind of specialization is emerging on the internet, as mentioned. earlier, namely specialization by function. A good example of this is lastminute.com In lastminute.com they sell gifts, travel tickets, and other items for last minute shoppers who want to purchase these items at a very short notice. Generally, when one purchases an item at a very short notice (e.g. travel), he often pays a premium, which is an extra amount for the convenience of booking the travel at the last minute. Now, this means that the air ticket is likely to cost much more than if he had purchased it some time before traveling and made use of different discounts or promotions. The producers of the web site lastminute.com realized that there are groups of customers who make these purchases at the last minute and feel some degree of angst at having to pay the premium for doing this shopping at the last minute.

On the other hand, you will find that you may have sellers, e.g. airline companies, that have empty seats at the last minute which they are unable to fill. So, what lastminute.com does is bring together travelers who want to book at the last minute and an airline which has got spare capacity at the last minute, and allow the former to buy from the latter at the last minute. In this situation, the purchaser may get his airline ticket at a reduced price. So, there is a win-win situation for both the purchaser and the seller. This is a unique kind of specialization. It is very difficult to do this unless one utilizes the internet to carry out this kind of specialization.

Generalized E-Stores

The next category of e-retailing models that we intend to look at is generalized e-stores. Generalized e-stores sell a large number of product lines rather than con-fining themselves to just one or a very few product lines.

E-mails

The next e-retailing model we consider is the e-mail. In an e-mail, cyberspace is rented out to cyber e-stores that wish to sell their goods. This store could be a specialized or generalized e-store. So, several product lines can be present. in a single e-mail. However, unlike the generalized e-store which is under a single unified management, in an e-mail, each store is under its own management. E-mail management is responsible only for creating the cyber sites that can be rented and can support services and marketing of the mall. It, thus, provides a web hosting service. Several e-mails also provide software tools, which can be utilized by a prospective e-store to create and maintain it _ e-store. The advantage for an e-store is that it is grouped together with other stores in a well-known e-mail site and, therefore, is likely to pick up visitors to the mall.

Direct Selling by the Manufacturer

A number of manufacturers with well-known brand name products have chosen to use the internet to carry out direct selling via the internet. One of the best known here is Ford, which utilizes the internet to achieve direct selling but uses its dealer network to facilitate distribution and delivery. The other well-known examples
are Cisco systems and Dell computers. Note that this approach permits mass customization to meet customer preferences. This direct selling by the manufacturer has an important disintermediation effect leading to reduced costs to the end customer and increased profitability to the manufacturer.

A note of caution is important here. By and large, this approach can be used by manufacturers of well-known brands of products because the customer already knows the product.

Secondly, the manufacturer must have a thorough understanding of customer preferences, otherwise he has to rely on the customer knowledge of a retailer.

Brokers or Intermediaries
This class of e-retailers is essentially an extension of the notion of a broker from the physical to the cyber world. A broker is an intermediary who

- may take an order from a customer and pass it on to a supplier
- may put a customer with specific requirements in touch with a supplier who can meet those requirements
- may provide a service to a customer, such as a comparison between goods, with respect to particular criteria such as price, quality, etc.

Thus, brokers provide comparison shopping, order taking and fulfillment, and services to a customer. That is the reason why they are sometimes referred to as electronic intermediaries.

There are several different models for electronic brokers and these include:

- Brokers that provide a registration service with directory, search facilities, e-payment facilities, and security-related facilities. Any business can register with such an e-broker (e.g. anewshop.com).
- Brokers that meet a certain requirement such as a fixed price (e.g. Priceline.com).
- Brokers that provide comparison shopping between products (e.g. mySimon.com or bestbooksbuy.com). The last model i.e. E-services is discussed in the next lecture.

Features of E-Retailing
Now that we have reviewed different models for e-retailing and examined several e-retailing web sites, we are in a position to distill some of the most important features, and these include

1. The provision of an on-line catalog, which allows one to browse through different categories of goods. Thus, it is dynamic and linked with order process.
2. The provision of a search engine, which is a very important feature that does not exist in traditional retailing.
3. The provision of a shopping cart, which allows convenient goods selection. An ability to provide an automatic price update.
4. Personalization of store layouts, promotions, deals, and marketing.
5. The ability to distribute digital goods directly. Thus, these goods can be downloaded instantly.

6. An on-line customer salesperson, “who” can help customers to navigate through the site.
7. An order status checking facility, which is a useful feature before submission.
8. The use of Forums (collaborative purchasing circles) to create a customer community and thus increase “stickiness.”

The future of E-Retailing
When one examines e-retailing, one can distinguish between two trends, namely Technologies that help you see and experience the product better, e.g. virtual reality, Java 3D, etc. Technologies that help you not to see at all but use an intelligent agent (or mobile agent) that does all the shopping tasks for you.

Summary:
E-retailing essentially consists of the sale of goods and services. Sometimes we refer to this as the sale of tangible and intangible goods.

The benefits of e-retailing to the customer include

- convenience
- better information
- competitive price
- customization
- shopping anyWhere, anytime

A summary of the benefits to the e-retailer are

- global reach
- better customer service
- low capital cost
- mass customization
- targeted marketing
- more value-added services
- new forms of specialized stores and niche marketing

The key success factors for traditional retailing are

- size
- number of outlets
- visibility
- location
- store atmosphere
- store layout
- price
- variety of goods
- profit margins
- turnover

There are several models for e-retailing and these include

- Specialized e-store
- Generalized e-store
- E-mall
- Direct selling by the manufacturer
- Supplementary distribution channel
- E-broker
- E-services
Exercise:
1. How do you differentiate between traditional and E-retailing?
2. What are the benefits of E-retailing for a customer?
3. Discuss various success factors for traditional retailing.
4. What is the difference between an electronic distributor and e-broker?
5. Is Internet Commerce always global? When does it become regional?
6. Which business model was more successful: generalized e-brokers or specialized e-stores?

Notes