

Chapter 3

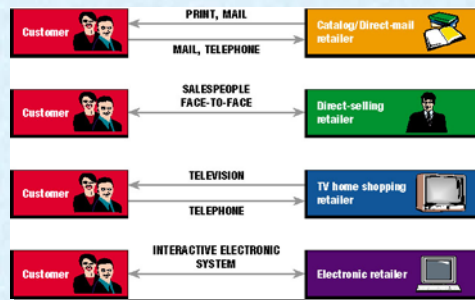
Electronic and Nonstore Retailing

Irwin/McGraw-Hill
Lewin/Weitz: Retailing Management, 4/e

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Types of Nonstore Retailers

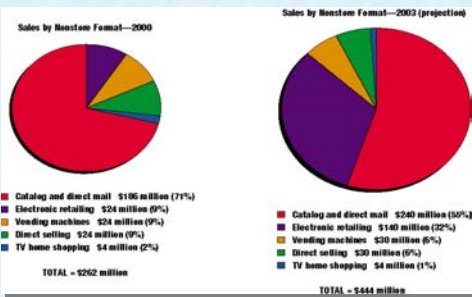


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Sales by Nonstore Format



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What's the Big Deal About Shopping on the Internet?

- \$2.5 Trillion total US Retail Sales
- \$186 Billion Catalog and Direct Sales
- \$ 4 Billion TV Home Shopping
- \$ 24 Billion Internet Retailing

Interactive Home Shopping Forecasted Sales by 2005 up to \$500 Billion

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On the Other Hand



- Younger people are growing up with computers view them as an appliance
- 45% of U.S. households have Internet access now and more have access at work
- Women use the Internet almost as much as men now. **Why is this important?**
- 30% of people buying cars go to the Internet for **info** before seeing a dealer

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What Can You Buy Now on the Internet?

- Not much and it isn't easy
- **"Successful"** Internet retailers
 - Dell, Gateway Computers
 - Amazon.Com
 - Travel Services
 - Gifts - 1-800-FLOWERS
 - Niche Products - Mustard.com



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Impediments to Shopping On-Line

- Technological concerns are becoming less important
 - Access to Internet
 - Bandwidth
 - Privacy, Security concerns

Are the benefits of shopping on-line greater than the benefits of going to a store?

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Factors Affecting the Diffusion of an Innovation

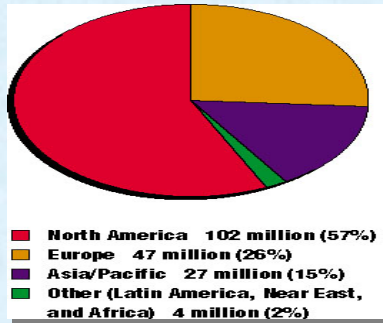
- **Ease** with which the innovation can be tried out
 - On-line access
- Perceived **risks** of adoption
 - Security, Privacy
- Perceived **benefits** compared to present alternatives (going to store or buying from catalogs)

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Internet Users Across the Globe



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Don't Be Mislead by Present Internet Offering

- Present Internet Applications Do Not Reflect Potential Benefits that Will be Offered to Consumers
 - Unique Characteristics of Internet Not Exploited -- Electronic Catalogs, Magazines
 - Little Personalization and Interactivity

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Potential Customer Benefits Offered by Electronic Retailing

- Vast number of alternatives
- Information tailored to individual consumers
- to help them make easier and better purchase decisions
 - Super sales associate
 - Side by side comparisons
 - Full motion video

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Merchandise Sold Successfully Over the Internet

- **“Look and See” attributes vs. “Touch and Feel” attributes (?)**
- Degree to which information can be used to predict satisfaction prior to purchase
- Might not need to “Touch and Feel”
 - “Touch and Feel” not useful - Gifts
 - Superior presentation of “Touch and Feel”
 - Branding

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PPT 3-21 Who Has the Capabilities to Be A Successful Electronic Retailer?

	Catalog Retailers	Store-Based Retailers	Vendors
Assortments	Limited	Excellent	Poor
Fulfillment	Excellent	Good	Poor
Customer Information	Excellent	Good	Poor
Unique Merchandise	Good	Good	Excellent
Reputation	Some Excellent	Some Excellent	Some Excellent

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PPT 3-23 Issues

- Need for Search Engines - Fred
 - Who Owns the Search Engine - Consumer, Manufacturer, Virtual Community Manager, Retailer/Dealer
- Method for Efficient Delivery to Homes for Lower Priced Merchandise
- Strategies for Reducing Price Competition for Branded Merchandise

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PPT 3-24 Store-based Retailers Vs Electronic Retail Entrepreneurs

- Knowledge of Retailing
 - Assortment Planning
 - Distribution Systems
- Reputation
- Customer Database
- Convenient Location for Picking Up, Returning Merchandise, Warranty Service and Installation
- Vendor Relationships

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Store-Based Retailers Must Go Beyond Putting a Toe in Water

- Overly Concerned About Cannibalization
- Strengthen Brand Name to Attract Hits
- Provide Personalization Benefits in Website
- Develop Private Label Merchandise
- Build Customer Database and Distribution System
- Focus on Exploiting Synergies
 - Delivery and Returns, Installation, Service
 - Offer Complementary Assortments Not Economically Stocked in Stores

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Winners and Losers

- Catalog Retailers Are Well Positioned
- Most Vendors Will Not Be Able to Effectively Sell Directly to Consumers
- Store-Based Retailers Have Strong Potential But Need to Exploit the Unique Benefits of Internet -- Personalization

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Advantages of Retailers vs. Manufacturers

- Distribute Merchandise Directly to Customers
- Provide Assortments
- Collect and Use Information about Customers

Widespread Disintermediation Unlikely

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Summary

- Present Electronic Retailing Does Not Reflect the Future Potential -- Electronic Retailing Will Attract a Significant Segment --Much More than Catalogs
- Penetration of Electronic Retailing Will Be A Function of the Degree To Which Retailers Take Advantage of the Unique Properties of the Internet -Personalization and Interactivity
- Search Agents Are Critical to Provide Consumer Benefits
- Store-Based Retailers Are Well Positioned to Exploit This Opportunity But Might Not

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Virtual Communities

- John Hagel III and Arthur G. Armstrong, *Net Gain: Expanding Markets Through Virtual Communities*. Boston: Harvard Business School Press, 1998
- Definition: Virtual community is a network of members sharing common interests that interact with each other electronically.

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Virtual Communities

- Virtual community is a network of members sharing common interests that interact with each other electronically.
- Examples:
 - IVillage – Women. **Workable?**
 - Garden.Com - Gardeners
 - Ibelieve.com

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Key To On-Line Success

“Commercial success in the on-line area will belong to those who organize virtual communities to meet multiple social and commercial needs. By creating strong virtual communities, businesses will be able to build membership audiences and use these audiences to bring in revenues in the form of advertising, transaction fees, and membership fees.” Pg 5.

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Garden.Com - Solving a Customer's Gardening Problems

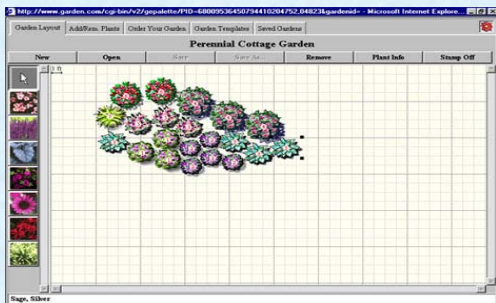


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Garden.Com - Solving a Customer's Gardening Problems



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The Knot -- Solving Your Wedding Problems



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Value Proposition to Members

- Full range of resources available to **solve problem or satisfy from one source**.
- Integrate content and communication => maximizing value of the available resources
- Generation and dissemination of member generated information -- increases quality, breadth and depth of information.

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Value Proposition for Members

- Meaningful personal relationships -- Opportunity to interaction with other people with common interests draws people to community.
- Fantasy and entertainment
- Access to competing vendors and publishers

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Sources of Revenue

- Subscription fees – fixed monthly charge
- Usage fee – charge based on usage
- Membership fees
- Content delivery fees – charge to download information
- Service fee – notification fee
- Advertising
- Transaction commissions
- Sales of membership list or access to members

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Who Is Best Suited to Organize a Virtual Community?

- Concerned Consumers
- Content Providers - Vertical Publications
- Suppliers
- Retailers
 - Offering Competing Products
 - Unbiased, Good Reputation
 - Know How to Run a Business Selling to Consumers
 - Primary Revenue Source

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