Instructor’s Manual: Chapter 9

Online Retail and Services

**Learning Objectives**

After reading this chapter, your students should be able to:

* Understand the environment in which the online retail sector operates today.
* Explain how to analyze the economic viability of an online firm.
* Identify the challenges faced by the different types of online retailers.
* Describe the major features of the online service sector.
* Discuss the trends taking place in the online financial services industry.
* Describe the major trends in the online travel services industry today.
* Identify current trends in the online career services industry.
* Understand the business models of on-demand service companies.

# Key Terms

account aggregation, p. 627

assets, p. 606

balance sheet, p. 606

bricks-and-clicks, p. 615

catalog merchants, p. 617

channel conflict, p. 618

corporate online-booking solutions (COBS), p. 632

current assets, p. 606

current liabilities, p. 606

demand-pull model, p. 618

economic viability, p. 603

financial portals, p. 626

gross margin, p. 605

liabilities, p. 606

long-term debt, p. 606

manufacturer-direct, p. 618

net margin, p. 605

omni-channel, p. 598

operating margin, p. 605

supply-push model, p. 618

transaction brokering, p. 621

virtual merchants, p. 606

working capital, p. 606

# Brief Chapter Outline

*Blue Nile Sparkles for Your Cleopatra*

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Online Retailing

9.2 Analyzing the Viability of Online Firms

Strategic Analysis

Financial Analysis

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*E-commerce in Action: Amazon*

Omni-channel Merchants: Bricks-and-Clicks

Catalog Merchants

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Common Themes in Online Retailing

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# Teaching Suggestions

This chapter is the first in the series of “applied e-commerce” chapters in Part 4. This part, entitled “E-commerce in Action,” focuses on understanding the realistic operating environment for e-commerce in four different sectors: (1) retail and services, (2) online content, (3) social networks, auctions, and portals, and (4) B2B e-commerce. A sector-by-sector approach helps students to understand the complexity of e-commerce.

The opening case, Blue Nile Sparkles for Your Cleopatra, describes Blue Nile, a truly exciting online retail site that specializes in diamonds. Who would buy a diamond on the Web? How could you trust the quality? How could you buy a diamond without seeing it? Blue Nile has some answers; it is the largest online diamond merchant. Other questions for class discussion on this case might include the following:

* Why is selling (or buying) diamonds over the Internet difficult?
* How has Blue Nile built its supply chain to keep costs low?
* How has Blue Nile reduced consumer anxiety over online diamond purchases?
* What are some of Blue Nile’s potential vulnerabilities?
* Would you buy a $5,000 engagement ring at Blue Nile?

One point that students should take away from this chapter is that although the original vision of e-commerce did not work out for most e-tailers, the online retail marketplace is nevertheless one of the fastest growing channels in retail commerce. Today, fast (or slow) followers replace first movers to exploit the extraordinary innovations developed during the early years of e-commerce. This means that established retailers with powerful national brands and international scope of operations increasingly dominate the online retail landscape.

## Key Points

The Retail Sector.Chapter 9 begins with the retail sector. Section 9.1 summarizes

e-commerce in the retail sector and attempts to provide students with some perspective on the variety and size of retail enterprises in the U.S. economy. The baseline is an $19.25 trillion economy; the retail sector is huge (personal consumption of goods and services accounts for about 69% of the United States’ gross domestic product [GDP]). It is very helpful to just walk through Figure 9.1 to explain the variety found in the retail sector, along with Figure 9.2 to illustrate the comparative sizes of each segment.

Online Retailing.Section 9.1 continues with a contrast of the predictions advanced during the early years of e-commerce with the reality of e-commerce today. You may wish to construct a table with two columns: one with predictions and one column with reality. Briefly, analysts and others during the early years of e-commerce predicted the following:

* Price transparency and brutal price competition
* Low entry costs
* Lower operational costs for online firms
* Lower customer acquisition costs
* First-mover advantages; disintermediation
* Channel disruption and conflict

As it turned out, these predictions were mostly wrong. Despite the erroneous forecasts by consultants, professionals, journalists, industry market researchers, and Wall Street analysts, online retail is a robust and viable business. Price competition has increased, but price dispersion has not disappeared. Customers appear to be willing to pay extra for trusted brands, and there are many opportunities for branding on the Web. Social and local commerce and the mobile platform are creating even more new opportunities.

Analyzing the Viability of Online Firms. Section 9.2 describes how to perform a strategic and financial analysis. We are interested in characterizing the viability of online firms over an intermediate horizon of a three-year period. To do this, we look at a firm’s strategic situation and its operating results over the previous three years. In the strategic analysis, we look at both industry level and firm level factors. The financial analyses are based on a firm’s most recent annual reports on Form 10-K, filed with the Securities and Exchange Commission, with updates in the text to the most recent quarter, if available. The most recent results can be obtained at SEC.gov. Look for Form 10-Q filings for the latest quarter. Consider taking some extra time to walk students through Section 9.2 so they understand the factors to examine when considering the viability of e-commerce firms.

Generally, we look at a firm’s net margins over time to understand how well the firm is performing, and whether the firm is scaling. We would like to see net margins improve over time (positively) as firms achieve size and scales of economy in their operations. Firms that fail this test are in serious difficulty even if revenues are growing rapidly. On the balance sheet, we look first at whether the firm’s current assets exceed current liabilities and by how much. Obviously, if a firm cannot pay current liabilities, it is a candidate for bankruptcy. Second, we look at the long-term debt and growth. In some cases, long-term debt can become a significant liability for a firm as interest payments consume operating profits. You may wish to augment the case analyses by having students update the operating results to the current quarter, or by asking students to develop any of a number of financial ratios based on the data presented.

E-commerce in Action: E-tailing Business Models. In Section 9.3, we examine four different types of e-commerce retail business models. The challenge is to have students understand how each of these different types of business models offers different opportunities as well as risks. One way to teach this section is to assign a team to each of the four types of business model, have the team choose a company that uses that business model, and perform a strategic and financial analysis of the company, similar to the Amazon E-commerce in Action case in this section.

Common Themes in Online Retailing. Section 9.3 concludes with a summary of the common themes that emerge from looking at the different types of e-tailing business models. In general, established retailers with substantial existing infrastructure have the advantage here. However, they also face problems of integrating their online and offline operations, coordinating channels and avoiding channel conflict, and achieving profitable online operations without subsidies from the offline operations. Obviously, Amazon and a few others offer exceptions to the overall trend. Another important trend, as noted above, is the growth of social, local, and mobile commerce.

The Insight on Technology case, Big Data and Predictive Marketing, discusses uses by retailers of big data in their marketing efforts. Questions for class discussion might include the following:

* How does big data enable predictive marketing?
* Are there any drawbacks to the increasing use of predictive marketing?
* Have you experienced predictive marketing in your own shopping? If so, what was the experience like. Were suggestions accurate and helpful?

*The Service Sector: Offline and Online.* Section 9.4 provides an overview of the service sector. We live in a service economy. Understanding the prospects for e-commerce in the service sector requires that students understand some of the dynamics that operate in various service industries. The challenge here is to quickly introduce students to the unique features of each service industry, and then to show them how, given the industry dynamics, e-commerce is likely to work out.

Some transaction brokering service industries (such as stock brokerage, travel services, and job listing services) are uniquely suited to e-commerce because they create value from exchanging information—something the Web is good at. Services that have a “hands on” component (including banking that requires physical signatures, ATMs, and other in-person services) are not as well suited to pure online solutions. However, these hands-on services can benefit from online sites as an adjunct to their physical brick-and-mortar presence. This suggests that big banks with brand names and existing franchises can successfully migrate some of their consumer relationships to the Web. Service industries in general are information intense and personalized, making them good candidates for e-commerce.

*Online Financial Services.* The service sector is dominated by financial services. This is an e-commerce success story that has changed the way millions of Americans obtain financial services. Section 9.5 begins with a brief overview of online financial consumer behavior and then examines online banking and brokerage, mortgages and lending, insurance and real estate in a bit more depth. Online banking is a tremendous success. In contrast, the impact of e-commerce on mortgages and lending, insurance, and real estate (the other major financial service industries) has been somewhat different. In general, these Internet sites have attracted millions of shoppers but not as many buyers. Most online visitors are shopping for prices and terms or other information (such as pictures of houses for sale), and then purchasing offline, although this is beginning to change. Nevertheless, the presence of alternative online suppliers has dropped prices for insurance and loans and created a more competitive environment.

*Online Travel Services.*Online travel services, covered in Section 9.6, are one of the most popular uses of the Internet by online shoppers. Figure 9.5 depicts the current size and future growth in this market. The industry dynamics are also highly volatile with suppliers (airlines, rental companies, hotels) seeking to eliminate intermediaries such as travel agents and global distributors. E-commerce would seem to tilt the competition toward suppliers who can build direct relationships with customers on the Internet. Yet, online intermediaries (like Travelocity and Expedia) have done an excellent job in aggregating online audiences.

The *Insight on Society* case, *Phony Reviews*,looksat some of the issues surrounding the increased reliance consumers are placing on social media, such as user-generated reviews, in making decisions about travel services. Ask students if they have ever written a review, or used reviews to make decisions about travel services. Do they trust all the reviews they read, and if not, what factors do they use to distinguish those which they do trust from those which they do not? Other questions for class discussion might include the following:

* Should there be repercussions to individuals and/or businesses for posting false reviews of products or services?
* Is it possible for phony reviews to be recognized and moderated?
* Do you rely more on certain types of reviews or comments on websites and blogs over others?

*Online Career Services.*Section 9.7 covers online career services. Ask your students if they have ever posted a resumè on Monster or another online job site, or looked for a job on such a site, or just shopped these sites to look at pay rates. Chances are good that at least half your class will raise their hands. Table 9.6 describes some popular online recruitment sites. One point to discuss with your students is that although online recruitment sites have grown in size and visits, there are many competing ways to find a job, many of which are more successful than online postings. Most jobs are local, and personal networks, along with newspaper classifieds and phone calls, remain the most common way people find jobs. Students need to understand that online job sites have their limitations. In bad times, there are few jobs offered and millions of job seekers.

On-demand Service Companies. Section 9.8 focuses on the emergence of on-demand service companies such as Uber and Airbnb, and makes the point that these companies are big business and involve collection of fees from both buyers and sellers, rather than a free sharing of resources. Table 9.7 lists some additional examples. The Insight on Business case, Food on Demand: Instacart and Grubhub, examines two of the most prominent start-ups in the on-demand food services marketplace. Questions for class discussion include the following:

* What features or practices have made Instacart successful?
* What challenges do grocery and meal delivery services face?
* Have you used any grocery or meal delivery services? If so, what was your experience?

In Section 9.9,we offer students information and tips about how the concepts they’ve learned in this chapter can help them prepare for an interview for an associate with an e-commerce initiatives team.

The chapter-ending case study on OpenTable in Section 9.10 provides an example of “services-based” e-commerce, where an entrepreneurial firm took a unique idea and evolved it over several years into a successful business model. OpenTable also illustrates the opportunities in many industries for re-thinking business processes. The restaurant industry for the most part has not taken advantage of the Internet (in part because cooking food is their business, not building web applications). OpenTable is an interesting case of a third-party provider offering a win-win service to restaurants and consumers, helping the industry, rather than destroying it.

# Case Study Questions

1. *What characteristics of the restaurant market made it difficult for a reservation system to work?*

The market is highly fragmented, with large regional differences. Many, if not most, of the thousands of small restaurants are not computer experienced, and will not have the spare resources to participate.

1. *How did OpenTable change its marketing strategy to succeed?*

Originally, OpenTable sought to market itself targeting national chains and by paying online restaurant reviewers for links to the OpenTable website. This was too expensive and was focused solely on the $1 per reservation revenue. In its second strategy, OpenTable focused on just four geographic areas, each of them large and home to expensive large restaurants. It offered not just to send diners to restaurants but also to provide a customer relationship management system so restaurants could know and serve their customers better.

1. *Why would restaurants find the SaaS model very attractive?*

Because restaurants do not typically have a trained IT staff, the SaaS model is ideal. All that is required is the purchase of PCs, and training on how to use the system, which is provided by OpenTable.

1. *What challenges does OpenTable face?*

OpenTable faces concerns about its pricing model, where competitors like Reserve and Yelp are undercutting it on subscription fees. The company has also invested heavily in international expansion without increased profits to show for it.

# End-of-Chapter Questions

1. Why were so many entrepreneurs drawn to start businesses in the online retail sector initially?

Many entrepreneurs were drawn to start businesses in the online retail sector initially because it was one of the largest market opportunities in the U.S. economy. Many believed that the Internet would revolutionize the retail industry because:

* Search costs and transaction costs would both be dramatically reduced.
* Market entry costs would be comparatively low.
* Traditional offline physical stores would be forced out of business by falling prices on the Internet.
* Many industries would be disintermediated, destroying the middleman and the associated markups, establishing the Web as the single dominant marketing channel.

1. What frequently makes the difference between profitable and unprofitable online businesses today?

Today, the difference between profitable and unprofitable online businesses is, for the most part, dependent upon a strong brand name. Multi-channel firms with a strong brand name have leveraged their supportive infrastructures and financial resources to exploit the new marketing channel.

1. Which segment of the offline retail business is most like online retailing? Why?

Of the different retail segments, the one that is the most like online retailing is MOTO, mail order/telephone order. It is similar because MOTO retailers and pure online retailers do not have physical stores; they both use a catalog to display products and are both very dependent on credit card technologies, without which neither would be possible on a national scale. They both must also have very effective order fulfillment systems and procedures.

1. Describe the technological retailing revolution that preceded the growth of e-commerce. What were some of the innovations that made later online retailing possible?

The technological revolution that preceded the growth of e-commerce was the mail order/telephone business. Without physical stores, MOTO retailers distribute millions of printed catalogs and operate large telephone call centers to accept orders. They have developed highly efficient order fulfillment centers that can ship orders within 24 hours. The innovations that occurred in the 1970s and 1980s that made this the fastest growing retail segment during this time were improvements in the national toll-free call system and the growth of the credit card industry. The efficiencies that were developed in order fulfillment and credit card technologies were the necessary precursors to online retailing.

1. Name two assumptions e-commerce analysts made early on about consumers and their buying behavior that turned out to be false.

Two assumptions that e-commerce analysts made early on about consumers and their buying behavior that turned out to be false were that they would be rational and cost-driven. Instead, consumers are attracted to stable, well-known retail brands and have demonstrated that other factors such as reliability, trust, fulfillment, and customer service are equally important. This does not mean consumers are non-rational, but simply that they are willing to pay extra for branded goods and services.

6. Explain the distinction between disintermediation and hypermediation as it relates to online retailing.

Disintermediation in online retailing occurs when manufacturers or their distributors build a direct relationship with the consumer, and the traditional retail intermediaries or middlemen are eliminated. Hypermediation, on the other hand, occurs when virtual firms outsource all their warehousing and order fulfillment functions, creating a number of new intermediaries who are necessary for these firms to function.

7. Compare and contrast virtual merchants and bricks-and-clicks firms. What other type of online retailer is most like the virtual merchant?

Virtual merchants are single-channel firms that generate almost all their revenue from online sales. Bricks-and-clicks firms, on the other hand, have a network of physical stores as their primary retail channel, but have also introduced online offerings. They are often multi-channel firms with catalog or other retail channels already established. Virtual merchants do not have to bear the costs associated with building and maintaining physical stores, but they face large costs in building and maintaining websites and in building a brand name presence. Bricks-and-clicks firms have the high costs of maintaining physical buildings and large sales staffs, but they have an already established brand name, a national customer base, warehouses, large scale, an already trained staff, and consequently, much lower customer acquisition costs. Virtual merchants, like all retail firms, face very low margins (the difference between the retail price for goods and the cost of the goods to the retailer); therefore, they must achieve highly efficient operations to make a profit. Bricks-and-clicks firms are already used to operating in these thin margins and have already invested in the purchasing and inventory control systems that enable them to control costs. Bricks-and-clicks firms must figure out how to leverage their strengths and assets to the Web. They face the costs of building and maintaining a creditable website, hiring new skilled staff, and building rapid response order entry and fulfillment systems, but so do virtual merchants.

MOTO (with an online presence) is the retailing group most like virtual merchants because they typically did not have a physical store presence. For MOTO firms, making the transition from catalog marketing to online marketing is comparatively easy because they have well-developed fulfillment and delivery processes.

*8. What is the difference between a supply-push and a demand-pull sales model? Why do most manufacturer-direct firms have difficulty switching from the former to the latter*?

A supply-push sales model refers to a business model in which products are manufactured prior to orders for them being received, based upon calculations of what the estimated demand for the product will be. Demand-pull, on the other hand, refers to a business model in which products are not manufactured until orders are received.

Manufacturers attempting to successfully pursue a demand-pull sales model must have the supporting supply chain management capabilities, an efficient order center, and the manufacturing capabilities to support it. Many manufacturer-direct firms have difficulty switching to the demand-pull model because they lack these necessary ingredients. They have difficulty in using either sales model when they develop an online strategy of selling directly to consumers because they face channel conflict with the physical retailers of their products. The risk is that the traditional retailers of the manufacturer’s goods will become disadvantaged from a price standpoint as they must compete directly with the manufacturer. They may also be disadvantaged in their ability to maintain inventory that is as current as the manufacturer. The result can be that these traditional marketing channels are cannibalized by the manufacturer’s efforts to establish a direct relationship with its customers. Unless manufacturers can be assured that the elimination of this marketing channel will not negatively impact sales and revenue, they must proceed with caution in pursuing the manufacturer-direct business model, or they must take the necessary steps to assure the continued existence of their retailing business partners.

9. What are five strategic issues specifically related to a firm’s capabilities? How are they different from industry-related strategic issues?

The five strategic issues that are specifically related to a firm’s capabilities are an evaluation of the firm’s value chain, its core competencies, its available synergies, and the social and legal challenges. In analyzing the economic viability of a firm, one must understand whether the firm has adopted business systems that will enable it to operate at peak efficiency and whether there are looming technological changes that might force it to change its processes or methods; this is the firm’s value chain. It is also necessary to assess whether the firm has any unique skills that cannot be easily duplicated by its competitors and whether technological changes might invalidate these core competencies. Furthermore, one must examine whether there are competencies or assets available to the firm from related establishments that it owns or with which it has established strategic partnerships. Finally, the social and legal horizon must be considered to determine if the firm may be vulnerable to legal challenges or if it has taken into account consumer trust and privacy issues that could cause it to lose business or cause public relations problems.

These strategic issues are different from those used to assess the industry as a whole because they focus on the particular issues and capabilities of an individual firm. The industry strategic factors concentrate on the competitive forces within the industry such as:

* The facility with which competitors can enter the market.
* The existence of substitute products.
* The basis of the competition within the industry.
* The power of the suppliers and customers in the industry.
* The structure and possible changes in the industry production and distribution chains.

10. Which is a better measure of a firm’s financial health: revenues, gross margin, or net margin? Why?

The best measure of a firm’s financial health is net margin, which sums up in one number how successful a company has been at making a profit on each dollar of sales. A negative net margin means that a company is losing money on each sale.

11. What are some of the difficulties in providing services in an online environment? What factors differentiate the services sector from the retail sector, for example?

Some of the difficulties involved in providing services online are that many are hands-on type industries such as the legal, medical, and accounting professions. These professionals need to interact directly with their clients to provide their service, but the Internet can be used to assist these services by providing consumers with information, knowledge, and communication. The factors that differentiate the services sector from the retail sector are that instead of an actual physical product that has value, the value for services is based mainly on the collecting, storing, and exchanging of information.

12. Compare and contrast the two major types of online services industries. What two major features differentiate services from other industries?

The two major types of service industries are transaction brokering and hands-on services. Transaction brokers act as intermediaries to facilitate a transaction. For example, stockbrokers facilitate a stock transfer between a buyer and a seller; online mortgage companies refer customers to the actual issuing mortgage company. In contrast, the hands-on services use the Internet by and large to impart information and to communicate with their customers.

The two major features that differentiate the service industry from other industries are that they are for the most part knowledge and information intense, and that just about all services entail some amount of personalization and customization. Except for the providers of physical services such as cleaning and gardening, service industries generally process a lot of information and employ a highly skilled, educated workforce. Many services, such as the legal, medical, and accounting services, require extensive personalization. Others, such as financial services, benefit from customization by allowing clients to choose from a menu of options that are of interest to them.

13. What is the biggest deterrent to growth of the online insurance industry nationally?

The biggest deterrent to online insurance industry growth is that insurance products are complex with many different types of coverage in each insurance group (e.g., non-automotive property and casualty, workers’ compensation, marine, accident, liability, fire, homeowners, commercial, etc.). Furthermore, writing a policy can be very information intense, requiring a personal inspection of property or considerable actuarial experience and data. Complicating this situation is the fact that there is no federal regulation of the industry. Instead, each state has its own set of regulations overseen by the 50 different state insurance commissions. Websites must obtain licenses to enter the insurance business in every state where they intend to provide quotes or sell insurance.

14. Define channel conflict and explain how it applies to the retail industry.

Manufacturer-direct firms (also sometimes referred to as DTC (direct-to-consumer firms are either single or multi-channel manufacturers that sell directly online to consumers without the intervention of retailers. Multi-channel manufacturer-direct firms sometimes face channel conflict challenges. Channel conflictoccurs when retailers of products must compete on price and currency of inventory directly against the manufacturer, who does not face the cost of maintaining inventory, physical stores, or sales staffs.

15. What is the most common use of real estate websites? What do most consumers do when they go to them?

The most common use of real estate websites is conducting research, which influences offline decisions. Users visit real estate sites to view the properties that are available for purchase and to research appraisal reports, neighborhood sales histories, school district data, crime reports, as well as social and historical information on neighborhoods. They can also link to mortgage lenders, credit reporting agencies, house inspectors, or surveyors, and use other features such as loan mortgage calculators.

16. How have travel services suppliers benefited from consumer use of travel websites?

Travel services suppliers have benefited from consumer use of travel websites because the Internet is becoming the most common channel used by consumers to research travel options, search for prices, and book reservations for airline tickets, rental cars, hotel rooms, cruises, and tours. For the suppliers: the owners of the hotels, rental cars, and airlines, this means that millions of consumers are aggregated into a singular focused customer pool that can be efficiently reached with advertising and promotions. Furthermore, the suppliers of travel services often have excess capacity that they are always looking to fill, and this aggregation of customers makes it easy for them to do so.

17. Name and describe five traditional recruitment tools companies have used to identify and attract employees. What are the disadvantages of such tools compared to online career sites?

The five traditional recruitment tools that companies have used to identify and attract employees are: classified and print advertising, career expos, on-campus recruiting, private employment agencies, and internal referral programs. The disadvantages of these tools considering the new online sites are: First, print advertising usually includes a per-word charge that limits the amount of detail employers will provide about a job opening and the amount of time an ad will run. Second, career expos do not allow for a pre-screening process to weed out unsuitable candidates, and they are limited by the amount of time a recruiter can spend with each candidate. Third, staffing firms charge high fees and they have a limited, usually local, pool of candidates. Fourth, on-campus recruiting firms are also limited in the amount of time that can be spent per candidate as well as in how many candidates can be seen each visit, necessitating multiple visits to some campuses. Fifth, internal referral programs can sometimes encourage employees to propose unqualified candidates so that they will qualify for the rewards and incentives offered.

18. In addition to matching job applicants with available positions, what larger function do online job sites fill? Explain how such sites can affect salaries and going rates.

In addition to matching job applicants with available positions, online sites also serve the larger function of automating this information-intense business process, reducing search times and costs for all parties. These sites can also affect salaries and going rates by establishing market prices and terms. Online recruitment sites identify salary levels for both employers and job hunters and lay out the skill sets required to achieve those salary levels. They serve as online national marketplaces to establish the terms of trade in the labor market, thus their existence should lead to a rationalization of wages, greater labor mobility, and higher efficiency in recruitment and operations as employers are able to fill positions more quickly.

*19. Describe the business model of on-demand service companies.*

On-demand service companies provide a platform that enables the on-demand delivery of numerous services, by connecting providers (“sellers”) who wish to exploit their “spare resources, such as cars, rooms with beds, and the ability to perform various services via their personal labor, with consumers (“buyers”), who would like to utilize those resources and services. On-demand service companies collect a fee from both sellers and buyers for using their platforms.

*20. Why are on-demand service companies viewed as being disruptive and controversial?*

On-demand service companies can significantly lower the cost of various services like urban transportation and lodging, by creating an online platform that uses an online reputation system to establish a trusted relationship between sellers and consumers, enabling owners of underutilized resources to sell access to those resources to consumers who prefer not to, or are unable to, buy those resources themselves. As such they can be very disruptive to existing firms and business models. However, they can also be controversial, for a variety of reasons. For instance, with Airbnb, property renters do not have the regulatory or tax burdens that hotel owners have; the same goes for Uber drivers compared to traditionally licensed taxicab drivers. It is possible that the success of Airbnb could greatly reduce the demand for regulated hotels. The possibility of negative outcomes from transactions on these sharing economy sites (e.g., a driver robs or harms a passenger, or an apartment is destroyed by renters), is leading both firms to require liability insurance, or to offer such insurance for free. It is unlikely that sharing economy firms will escape regulation altogether.

# Projects

1. *Access the EDGAR archives at SEC.gov, where you can review 10-K filings for all public companies. Search for the 10-K report for the most recent completed fiscal year for two online retail companies of your choice (preferably ones operating in the same industry, such as Staples Inc. and Office Depot Inc., Amazon and Walmart, etc.). Prepare a presentation that compares the financial stability and prospects of the two businesses, focusing specifically on the performance of their respective e-commerce operations.*

Students who choose to investigate Staples and Office Depot will find their most recent Form 10-Ks (annual report) and 10-Qs (quarterly report) in the EDGAR archives. Because neither Staples nor Office Depot reports Internet sales from their retail sales results, students will need to supplement the information they can extract from the SEC filings with further research on the Internet sales channel performance of these two companies. This is done by searching industry websites and other information available online.

1. Find an example not mentioned in the text of each of the four types of online retailing business models. Prepare a short report describing each firm and why it is an example of the particular business model.

Students may find, for example:

* Bricks-and-clicks: Macy’s is a successful department store with stores around the country.
* Virtual merchant: Bluefly is an online outlet store with no physical outlets. It provides brands found in upscale department stores at discounts by buying from resellers (rather than the designers) on the wholesale prices. It passes the savings on to the customer. However, it must buy what is available at a deep discount, so not all sizes of a particular item will always be in stock. Bluefly.com is a NASDAQ public company (ticker symbol BFLY).
* Catalog merchant: Fingerhut was already a successful catalog business and has now leveraged that success to an online presence. It offers a broad range of products in a variety of categories.
* Manufacturer direct: Fortin Ironworks has always been a manufacturer direct merchant of ornamental ironworks. This metal fabrication company based in Columbus, Ohio and founded in 1946, employs skilled craftsmen, artisans, estimators, salesmen, and installers. It sells ornamental iron products such as driveway gates, walkway gates, fence, rail, curtain rods, production components, and also several lines of outdoor and indoor furniture with accessories. It also carries a line of sporting equipment including complete basketball units, soccer goals, and lacrosse goals. Most products can now be purchased online including fencing, gates, planters, and accessories such as pot rings, brackets, trellises, lamps, and tables.

1. Drawing on material in the chapter and your own research, prepare a short paper describing your views on the major social and legal issues facing online retailers.

Some issues students might discuss in their research paper include:

* What will organizations have to do to protect their intellectual property rights?
* What measures will have to be taken regarding privacy issues? How will they address consumer concern over the lack of control they feel they have over personally identifiable information?
* Are online retailers going to be prepared to answer inquiries from customers regarding the content of their specific files? Will management-level positions be needed for procedures like the deletion and updating of consumer information? If there are mistakes in those files, could it result in legal trouble for companies?
* How will they address consumer privacy concerns, convincing consumers that purchasing goods online is a confidential transaction between the consumer and the merchant?
* What will online retailers have to do to be prepared for any changes in the tax law?

1. Choose a services industry not discussed in the chapter (such as legal services, medical services, accounting services, or another of your choosing). Prepare a three- to five-page report discussing recent trends affecting online provision of these services.

Students may find, for example, legal service firms that provide legal self-help, forms, and occasionally advice; two such sites are RocketLawyer.com and Nolo.com. Nolo’s mission is to make the legal system work for everyone—not just lawyers. Nolo tries to help people handle their own everyday legal matters or learn enough about them to make working with a lawyer a more satisfying experience. It offers “plain-English” books, software, and forms. Nolo’s value proposition is, of course, convenience and 24-hour access to legal help.

1. *Together with a teammate, investigate the use of mobile apps in the online retail or financial services industries. Prepare a short joint presentation on your findings.*

Students will likely discover that in the highly competitive financial services industries in which the value proposition for customers is convenience, banks and financial institutions have some of the most advanced apps. Smartphones have increased the demand for mobile financial services. Analysts and industry experts believe this is so because mobile apps are a natural fit for the financial services industries, which are high-demand and high-value and must be conducted in real-time. Students might also include in their papers a discussion of the security issues involved with the use of mobile apps in the financial services industries, how wireless safeguards will be integrated with security processes, technologies that are already in place, and what new security threats exist. Students might discuss the limitations facing developers due to the relatively limited screen size of smartphones, how strong authentication and encryption will play a part, and whether security concerns might put a damper on the market for mobile financial services.

Fidelity Investments offers a variety of mobile services and apps that lets users access their accounts whenever and wherever they want. Fidelity offers a tablet app for the iPad, smartphone apps for the iPhone and Android, and mobile browsing via a mobile website. The apps allow users to track their portfolio, pay bills, trade, review details of their Fidelity brokerage accounts, deposit checks remotely, get news and research, and more.

**Companion Website, Learning Tracks, and Video Cases**

You can also direct your students to the Companion Website for the book, located at [www.e-commerce2018.com](http://www.e-commerce2018.com). There they will find a collection of additional projects and exercises for each chapter; links to various technology tutorials; information on how to build a business plan and revenue models; information on careers in e-commerce, and more. Learning Tracks that provide additional coverage of various topics and a collection of video cases that integrate short videos, supporting case study material, and case study questions are also available for download from the book’s Online Instructor Resource Center at [www.pearsonhighered.com/irc](http://www.pearsonhighered.com/irc). Video Cases for this chapter include:

* Video Case 9.1 Walmart Takes on Amazon
* Video Case 9.2 Etsy: A Marketplace and a Community