
e-Tailing: A Virtual Bussiness

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Introduction: Retailing focuses on the final transaction, with the business and the customer (B2C). This is in contrast with business to business transactions (B2B) which still remains the largest sector for transactions (about 80% of all transactions). Emerging sectors, are consumer to business (C2B, Example: Priceline) and consumer to consumer (C2C, Example: EBay) transactions. These sectors are able to take advantage of the hypertext nature of this medium to evolve into a potentially major sector within the retail industry. Previous to the web, these sectors played an insignificant role in retailing. Thus we will consider B2C, C2C and C2B as being retailing transactions, as they are all transactions facilitated by a business, and involving the final consumer.

Pros and Cons of e-tailing: e-tailing can be considered another form of non-store retailing. Its closest "cousin", in terms of other forms of non-store retailing, is catalog retailing. Catalog retailing accounts for about 10% of all retail transactions. It is therefore instructive to compare e-tailing to catalog retailing to gain some insight into its potential impact. Catalog retailing, which evolved over a century ago, grew rapidly in its early stages (similar to e-tailing) and it was assumed to become a very important part of the overall retailing environment. It allowed people to shop from home, when they wanted, at their own convenience. While this proved enticing for some consumers and some types of products, there appeared to be a limit to its overall impact (rapid growth to 10% of retail transactions, limited growth thereafter). Will the same happen to e-tailing?

e-tailing has certain advantages over catalog retailing:

- Customers have a much wider choice at their fingertips (many e-tail sites etc.) Thus the web creates a global bazaar style marketplace that brings together many consumers and many retailers.
- With web search capabilities (which need further development) it is easier to find the types of goods a customer is searching for, catalogs are received passively, at the behest of the retailer.
- Customers can execute transactions via the same medium the information is provided, so there is no disconnect between the desire to purchase and the ability to purchase. (Payment schemes are still

evolving and therefore this advantage is likely to become more apparent in the future.)

- e-tailers can use price discrimination more efficiently than catalog retailers (which may use coupons to lower certain "fixed" prices). e-tailers can use previous transactions to identify the likelihood of products being purchased at certain price points.
- e-tailers can change the product placement (user display) based on previous transactions, to increase the visibility of goods that the user is more likely to purchase based on their close relationship with previous purchases. Thus placement can be designed based on the context of the previous purchases.

E-tailing has certain disadvantages over catalog shopping:

- Not all customers have access to the web, as they do to the postal system. This is a temporary issue as the evolution of the web continues.
- Ease of use is a problem, as the web design is still complex, or at least somewhat chaotic. E-tail stores are not standardized in design in the way catalogs and retail stores have become. Therefore different user behaviors (navigation schemes) need to be learned for each e-tail store. This is a temporary issue as the evolution of the web continues.
- Trust, security and privacy concerns prevail. Consumers are concerned with the use of the data they provide during transactions.
- Graphic presentation is not as compelling for the web as it can be for catalogs. This is a temporary issue as the evolution of the web continues.

E-tailing includes some advantages to the consumer that no other form of retailing can provide. The hypertext nature of the medium allows for more flexible forms of transactions (growth of C2B and C2C illustrate this point). It allows for ease of comparison across broad product categories with the evolution of shopping bots and allows for more flexible pricing mechanisms (dynamic pricing). These evolutions can create less friction in marketplaces, and therefore increase the use of

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the web as a retail environment. This will benefit marketers who provide products with real (perceived) value, and consumers in general. This will penalize marketers who have thrived in marketplaces that had "information" barriers to entry, where lack of information for customers restricted their choices and led to inefficient pricing and localized monopolies.

E-tailing Growth: Issues and Its Consequences:

Logistics, Distribution and Customer Service Issues:

E-tailing can facilitate the transaction, but unless the transaction involves a digital product (software, music etc.) the delivery of the product needs to be considered. Many e-tailers have focused on significant marketing efforts to attract customers in order to execute transactions, but have not focused on the less glamorous, but equally important, aspect of keeping the customers, by facilitating flawless delivery. Not only is it important to follow through and make sure delivery is facilitated, but companies can use the web to enhance delivery via customer service by allowing customers to track the status of the transaction. So it is not simply a case of allowing for delivery, but enhancing the delivery experience with the web.

Once this relationship is formed (via the transaction), the e-tailer can follow up with a permission marketing program to keep the customer engaged. It is so important, in this era of high growth and increasing productivity, to be careful with scaling customer service. Customer service should be considered a profit center, since it impacts the long-term relationship of the customer with the e-tailer (rather than the short-term transaction). The process of product deliver is the first point of customer service. Customer service should be proactive to follow up to ensure delivery, satisfaction with the product, and offer a medium for the customer to dialog with the e-tailer.

Catalog retailers have typically been more successful in the early stages of e-tailing as they have similar needs in terms of distribution. In fact many e-tailers have begun to outsource their delivery systems to catalog retailers such as FingerHut, in order to capitalize on their expertise. Christmas 1999 highlighted the delivery problems of e-tailers. Since that time, more attention has been paid to this aspect of the entire transaction.

Payment Issues: Credit card transactions are becoming the preferred mode of payment for the web at this point. Credit card providers take a percentage of the transaction, and this is higher for the web, than for a traditional retail store. They can rationalize this as the web is perceived as higher risk, as the e-tailer does not capture the signature of the purchaser.

Other developing payment media include:

- **Smart Cards:** Much discussion has taken place with regards to the development of "smart cards" in order to facilitate transactions. Smart cards would allow for smaller transactions and provide some anonymity (ensuring privacy) to the purchase if that is what the consumer is looking for. Smart Cards are a more accepted form of payment in Europe, but due to the penetration of credit cards in the US, Smart Cards have had limited impact. American Express is developing a potential player with "Blue" which includes a chip that will allow for storage of digital data (transaction history and monetary values). The use of Smart Cards will also require a "reader" be placed on a consumer's machine for accessing the web (whether a PC or a mobile device). This additional need to the infrastructure of the web will require a significant benefit to be had from the consumer, the e-tailers and the payment providers for adoption to occur.
- **PayPal:** is an option that can facilitate person 2 person transactions, such as those that occur on Ebay (note, ebay now owns paypal). This option allows sites and individuals that do not accept credit cards to process transactions. For PayPal to work, both parties need to have accounts, but it is a secure online payment service, since credit cards numbers are not transmitted across the internet.

VeriSign which recently purchased Cybercash also offers multiple payment solutions.

For markets to grow to their full potential, a medium of exchange needs to standardize, to reduce the friction in markets. This was the case as we moved from a trading environment based on a barter system (which relied on both parties having something interesting to exchange) to a trading environment based on a monetary exchange. With respect to the web, we need to develop a medium that becomes a standard to increase the participation rates of e-tailers and consumers. Since credit cards have the lead, they may become the standard. They do not facilitate microtransactions, which clearly would open up new markets that will be exclusive to the web. This is an area where we not only need to develop a medium to facilitate exchange, but also determine the likely goods (web content, music etc.) that will become viable for the exchange.

Privacy vs. Personalization Issues: There is a conflict between the need for privacy on the part of the consumer, and the need to be able to personalize the offering on the part of the e-tailer (which in turn should provide a better experience for the consumer). Finding the correct balance is problematic. E-tailing scenarios that can address this are likely to be able to make a significant impact. This also ties in with new payment systems that are developed,

as the payment (transaction) is the area where the data is exchanged. Who should ultimately own that data (after the transaction) and what rules are established in terms of the use of that data, will be important.

It is an interesting question to pose, who owns your identity? While the reasonable answer is yourself, that would imply you have complete knowledge of the use of your identity, which has access to the information, who is selling it (and are you getting paid for that transaction). Companies are positioning themselves as intermediaries that focus on certifying e-tailers and their use of the data that is gathered from transactions.

Most current personalization solutions focus on personalization based on the user experience with the individual web-site. E-tailers need to develop schemes that allow them to develop a personalization scheme that takes advantage of a wider scope of user behavior. Systems need to be developed that allows for personalization across multiple web-sites (the entire web) and the connection between the e-tailer and its physical presence (assuming the customer visits both).

Other risks associated with e-tailing include the risk of the security of the transaction and the integrity of the business with which the customer transacts. In terms of security, there have been many highly publicized cases of crackers bringing sites down. Thus the customer can become concerned with the security of the transaction data provided. Since the e-tailing environment does not provide the same assurance as the physical world in terms of the integrity of the business, e-tailers with an unknown brand name need to make extra efforts to make sure the customer has confidence in the outcome of the transaction and with whom they are transacting.

Design Issues: Design overall has been an issue as web designers fall short of understanding the medium and its capabilities. The companies have understood the importance of design, throughout the transaction, and went so far as patenting its "one-click" transaction rule. (While the notion of patenting a one-click scenario may seem petty, at least it demonstrates their focus on transaction design ---but many are not impressed!) It is particularly important to focus on the flow of the transaction process, as the customer is not able to view the entire process without experiencing the process (of the transaction). Thus if the flow of the transaction creates a possible disconnect between the customer's needs to complete the transaction, the customer will abort. (Customers do, at high rates ---some statistics suggest that approximately 20 - 30% of transactions are aborted!) A common problem with transaction flow design is the surprise shipping costs that e-tailers often do not calculate until the transaction is about to be finalized. Shopping cart technology is used to facilitate the

transaction process.

Design is also important in terms of trying to sell goods that require experience. Since the web cannot facilitate experience for non-digital goods, other means need to be developed to encourage the transaction (liberal return policies and risk-free return facilities).

Ease of Access: The web, as a medium, is still difficult to access:

1. The last-mile issue has slowed down the adoption of broadband technologies. This has limited the ability to design the right e-tailing environment to encourage transactions.
2. Once access also extends beyond the PC, and mobile commerce (m-commerce) becomes popular, e-tailing access may again increase dramatically, with capabilities for contextual transactions developing an entire new role for e-tailing.

Global and Legal Issues: E-tailing exists as a global bazaar. Rules for commerce, and its legal framework, have evolved within geographically limited borders (nation, state and local laws and tax systems). For e-tailing to grow, a legal framework needs to evolve that makes sense for a global marketplace. (This is a similar issue that faces emerging economies the world over, until a legal business framework is established, companies are not encouraged to do business.) This is perhaps the most challenging aspect to overcome in order to help growth develop. Currently there is a moratorium on taxes (sales taxes) for e-tail transactions with businesses that have no physical presence. Clearly this biases against traditional retailers and those that are adopting the web, and is potentially a major source of revenue loss for states and countries which would have received those revenues.

Other issues, aside from taxes, that need to be addressed, are the legal positions with respect to use of data and rules for conducting business. While there are imbalances between these rules, around the world, it will limit the potential for a truly global marketplace, that the web, as a medium potentially develops. The WTO is working on developing standards for these areas. Legal standards, across states and countries, are as important as business and technology standards in terms of allowing markets to evolve.

Pure-Play vs. Legacy Business: Having discussed e-tailing, its advantages and disadvantages, and issues that need to be resolved, we should also look at the type of business best positioned to become the major players in e-tailing. Much talk has focused on the differences between the pure-play businesses and legacy businesses.

Legacy businesses are those businesses that had a significant market presence prior to the web, and are

looking to the web to extend their business. For these businesses, the web is a disruptive technology. Legacy businesses need to understand how to leverage the opportunities the web provides, rather than treat it as a threat. The web provides potential channel conflicts, and cannibalizations of existing businesses, but if the legacy business does not proactively cannibalize, or make hard choices about existing channels, other businesses will do so, and market share will be lost (to pure-plays who do not have existing channels to be concerned with, or to other legacy businesses who understand the need to change). Thus with legacy businesses current channels will be disintermediated, and while channels may appear to be shorter, other intermediaries (infomediaries), such as industry meta-markets (also known as industry portals) may become part of the channel.

Legacy businesses are liable to suffer from their own cultural inertia, thus believing business as usual is the best way forward (since it is still working)! This is a short-sighted approach, and new initiatives and ideas, typically developed through those closer to the customer, need to have a means to be shared with the business management.

Legacy businesses already have a distribution methodology in place, and while this can be seen as an advantage as they understand logistics, the type of logistics for e-tailing is different. For traditional retailing the customer fulfills order placement and delivery, in the retail store. For the web, the e-tailer has to fulfill the order and then distribute it to each customer. This has opened the market for delivery services such as UPS to really extend its business, and develop new business opportunities. It has also allowed catalog retailers an opportunity to partner with legacy businesses to fulfill this side of the business.

Legacy businesses have a known brand and an existing customer-base. They should be able to use this as they extend to the web. They are also able to use their physical presence combined with their web presence. A retailer

can establish web-style kiosks in the retail space, and the web-site retail transaction should be able to interact with the local store for returns etc. This type of coordination, where the channels work together, has proven very difficult to develop (threats of channel conflict by the local retail managers slows it down) but is necessary to take full advantage of the legacy business, over the pure-play business.

Pure-play businesses are those businesses that have evolved as a result of the web, and did not exist before the web. These businesses were the early leaders in e-tailing, and did not suffer the many disadvantages of the legacy businesses (inertia, channel conflict etc.) But they did not have a brand, nor customers, so they spent fortunes on marketing to develop a brand name quickly. Many were rewarded by their efforts with high valuations by the markets. These high valuations further enabled them to spend significantly on acquiring customers to establish first mover advantage and potential lock-in. Downturns in the markets have seen many of these early movers suffer, and many were not able to acquire second-round funding from the venture capital community.

Pure-plays are now looking to invest in significant traditional infrastructure and/or in traditional businesses. These moves underscore the importance of the relationship between the virtual and physical presence. Legacy businesses and pure-plays will evolve into a "centrist" style business that can leverage the advantages of both styles.

Conclusion: The above articles conclude that e-tailing is the better way of doing the business. From the customer perception it is convenient and comfortable way to purchase the various item sitting at one place at any time. The only issue with the e-tail business is security and trust. It is that part of business which is purely depends on the business or organization to satisfy the customer about the security of personnel as well as financial data.