CPSC156a: The Internet Co-Evolution of Technology and Society

Lecture 7: September 25, 2003
B2C E-Commerce

Acknowledgments: K. Chang, H. Chiang, and V. Ramachandran
Electronic commerce is a set of technologies, applications, and business processes that link business, consumers, and communities

- For buying, selling, and delivering products and services
- For integrating and optimizing processes within and between participant entities
Terminology (2)

• **B2C Commerce**: Interactions relating to the purchase and sale of goods and services between a business and consumer—retail transactions.

• “Novelty” is that retail transaction is done on the Internet, rather than in a “brick and mortar” store location.
  - All the customer needs is a browser!

• Technical evolution of B2C from “brick and mortar” model not new.
A Different Approach to Location Retailing

• In 1886, a jeweler unhappy with a shipment of watches refuses to accept them.
• A local telegraphy operator buys the unwanted shipment.
• He uses the telegraph to sell all the watches to fellow operators and railroad employees.
• Becomes so successful that he quits his job and started his own enterprise, specializing in catalog sales.
• Name: Richard Sears of Sears Roebuck
B2C Revenue Models

• Sell goods and services and take a cut (just like B&M retailers). (e.g., Amazon, E*Trade, Dell)
• Advertising
  - Ads only (original Yahoo)
  - Ads in combination with other sources
• Transaction fees
• Sell digital content through subscription. (e.g., WSJ online, Economist Intelligence Wire)
First-Generation B2C

- **Main Attraction:** Lower Retail Prices
- “B2C Pure Plays” could eliminate intermediaries, storefront costs, some distribution costs, etc.
- **Archetype:** www.amazon.com

Source: Benchmark Capital Group; The Economist
Amazon.com

- Full Name: Amazon.com, Inc.
- Employees: 7,500
- Stock Price:
  - $49.61 (at close Sept. 24, 2003)
  - 52-wk Range: $15.29 to $50.92
- 2002 Sales $3.93 B
  Sales growth: 26%
- Internet’s largest retailer. Best known for books, CDs, DVDs, and Videos.
Main Lines of Business

• **Retail**
  - Broad product range, from textbooks to household tools

• **Shopping Mall**
  - Individuals and companies pay Amazon.com to offer their products on its site.

• “Overseeing” other websites
  - Has invested in some of them
  - Broad range of offerings, from prescription drugs to wedding planning

• 2001 Sales mainly in “core businesses”
  - 54% Books, music, video
  - 71% North America
Amazon.com History

- Founded: 1994
- Website launched: July, 1995
- 1997
  - IPO: 3 million shares, $54.0 million
  - Moves to “cement the Amazon.com brand.”
  - Becomes the sole book retailer on America Online’s public website and on Netscape’s commercial channel.
History (continued)

• 1998: Expansion
  - Launched online CD and video stores.
  - Began selling toys and electronics.
  - Bought online booksellers in the UK and Germany.
  - Bought Internet Movie Database.
  - Expanded online services, buying Junglee (comparison shopping) and PlanetAll (address book, calendar, reminders).
  - Attracted so much attention that its market capitalization equaled the combined values of profitable bricks-and-mortar rivals Barnes & Noble and Borders Group, even though their combined sales were far greater than Amazon’s.
History (continued)

• 1999: More Expansion
  - Raised $1.25 billion in a bond offering.
  - Spending spree with deals to buy all or part of several dot-coms
    • Some have since been sold (HomeGrocer.com), and others have gone out of business or bankrupt (Pets.com, living.com).
    • It also bought the catalog businesses of Back to Basics and Tool Crib of the North.
  - Began conducting online auctions and partnered with Sotheby’s.
  - Added distribution facilities, including one each in England and Germany.
History (continued)

• 2000: Yet More Expansion
  - Placed a link to drugstore.com on its homepage; drugstore.com paid more than $100 million for that access.
  - 10-year deal with toysrus.com to set up a co-branded toy and video game store.
  - Added foreign-language sites for France and Japan.
2001: End of the Beginning

- Investors demand profits!
- Amazon announces plans to restructure and layoff of 15% of its workforce.
- Takes a $150 million charge.
- Announces a deal with Borders to provide inventory, fulfillment, content, and customer service for borders.com

Percent Growth From Same Quarter Previous Year
Source: SEC Filings

% Growth

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<tr>
<th>Year</th>
<th>1Q99</th>
<th>2Q99</th>
<th>3Q99</th>
<th>4Q99</th>
<th>1Q00</th>
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<td>250</td>
<td>260</td>
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</table>

Source: SEC Filings
2002: Growth Renewal

• Sales growth is accelerating again.
• New segments (e.g., apparel & accessories)
• International markets (e.g., Europe marketplace, Japan, Canada)
• New services (e.g., wedding registry)
• Strengthening partnerships (including services for other retailers, e.g., Target)
Amazon Makes a Profit!

• In the Last quarter of 2002, Amazon reports a net Income of $2.6 M!
• But it hasn’t made a quarterly profit since.
Amazon.com, Inc.
Stock Quotes (AMZN)
Source: Quicken.com (12/18/2002)

Period: Dec-17-1997 - Dec-17-2002

[S] = Stock Split
Amazon.com, Inc. Financials

![Graph showing Amazon.com, Inc. financials from 1994 to 2002. The graph displays revenue and net income trends over the years. Revenue shows a steady increase, while net income fluctuates with some periods of loss.]
# Financials and Employees

(“Long March to Profitability”)

Source: Hoovers and SEC Filings

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($mil.)</th>
<th>Net Income ($mil.)</th>
<th>Employees</th>
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<td>2002</td>
<td>3,932.9</td>
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<td>2000</td>
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<td>1,639.8</td>
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<td>1998</td>
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<tr>
<td>1994</td>
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<td>-0.1</td>
<td></td>
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Barnes & Noble.com

- Employees: 990
- Closing Stock price Sept 23 2003: 2.56
- 52-week High: 3.00
- 52-week Low: .43
- 2002 Revenue $422.83 M
- Revenue Growth: 4.5 %
- 2002 Net Income: $-15.66 M
B&N.com

• Retailer of books, music, DVD/video and online courses.
• 14.4 Million Customers in more than 230 countries since opening website in 1997.
• Currently 9\textsuperscript{th} most trafficked internet shopping site.
Infant History

• Website Launched by Barnes and Noble Inc (they own the physical stores) in 1997.
• IPO of B&N.com completed in May, 1999
• Initially sold for $18.00 a share, for a total of $486 M (after commission and expenses)
• At the time was largest internet IPO.
Current Structure

- Barnes & Noble inc owns 38% economic interest in B&N.com, 48% voting interest
- Bertlesman A.G. (a media company) owns 37% economic, 48% voting interest in B&N.com
- B&N.com gains from its association with the brand of B&N inc, as well as its company infrastructure, like distribution facilities.
Stock Trends

BARNESANDNOBLE.COM INC
as of 23-Sep-2003

Copyright 2003 Yahoo! Inc.
http://finance.yahoo.com/
## Revenue and Profits

<table>
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<th>Year</th>
<th>Revenue ($mil)</th>
<th>Net Income ($ mil)</th>
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<tr>
<td>2001</td>
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<tr>
<td>1998</td>
<td>61</td>
<td>-83</td>
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</table>
Graphic of Revenue and Income

![Graph of Revenue and Income](image-url)
Many Failed B2C Pure Plays

eToys.com, pets.com, webvan.com,…


“Here’s a radical thought: The future of the online grocer market belongs to grocery stores. They know the business, they can mix (sales) channels, and they can take their time.”

W. Andrews (Gartner), 7/9/01, commenting on the webvan.com bankruptcy.
“Multi-Channel” Retail (B2C w/ B&M)

• Exploit multiple marketing and distribution channels simultaneously
  - B&M (“bricks and mortar”) stores: Customers browse on the web before going to the store.
  - Catalog sales, telephone, tv advertising,…

• In 2002, multi-channel retailers (i.e., B&Ms or traditional catalog companies that also sell online) made up 69% (estimate) of B2C e-commerce. Mostly high-margin sales, e.g., computers, travel, and automotive.

• Multi-channel retailers are more profitable, on average, than web-based and store-based retailers.

  (source: Boston Consulting Group)
Advantages of Multi-Channel Retail

• Leverage existing brands.
• Biggest B&M retailers have huge clout. (Walmart’s annual sales are $245B, much more than all e-tailers’ combined.)
• Profits from existing channels can subsidize e-tail start-up. No need to quit when VCs lose interest.
• Use established distribution and fulfillment infrastructure (e.g., LL Bean, Land’s End, ...).
• Cross-marketing and cross-datamining.
Revenue Models for Online Ads

• “Number of Impressions”
  (How many times does the user cause the advertiser’s content to be displayed?)

• “Click Through”
  (How many times does the user click on the ad to go to the advertiser’s site?)

• “Pay-per-sale”
  (How many times does the user click through and then buy something?)
Inherent Difficulty with Online Ads

• Downward Spiral
  - Banner ads easy to ignore
  - Average click through has fallen to less than 1 in 200
  - Leads to creation of more obnoxious ads, e.g., “pop-ups”

• Entertaining?
  - Getting the “right” ads requires time, effort, and money.
  - Internet market not large enough to justify it.
  - 5 of the world’s top 10 advertisers each spent less than $1 million on online ads in 2001.
Inherent Difficulty (continued)

• Accountability: Advertisers can tell immediately whether their ads “work.”

• High Expectations: “Well-targeted” ads cost up to 100 times as much as generic ads. But how precisely can one target?

Discussion Point: Does the interactive way that people use it make the Internet inherently unsuitable as an advertising channel?