

CS155a: E-Commerce

Lecture 9: October 4, 2001

Introduction to B2C E-Commerce

Acknowledgement: H. Chiang

Definitions of E-Commerce

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

What is B2C?

- 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.
- Technical evolution of B2C from “brick and mortar” model not new.

A Different Approach to Location Retailing

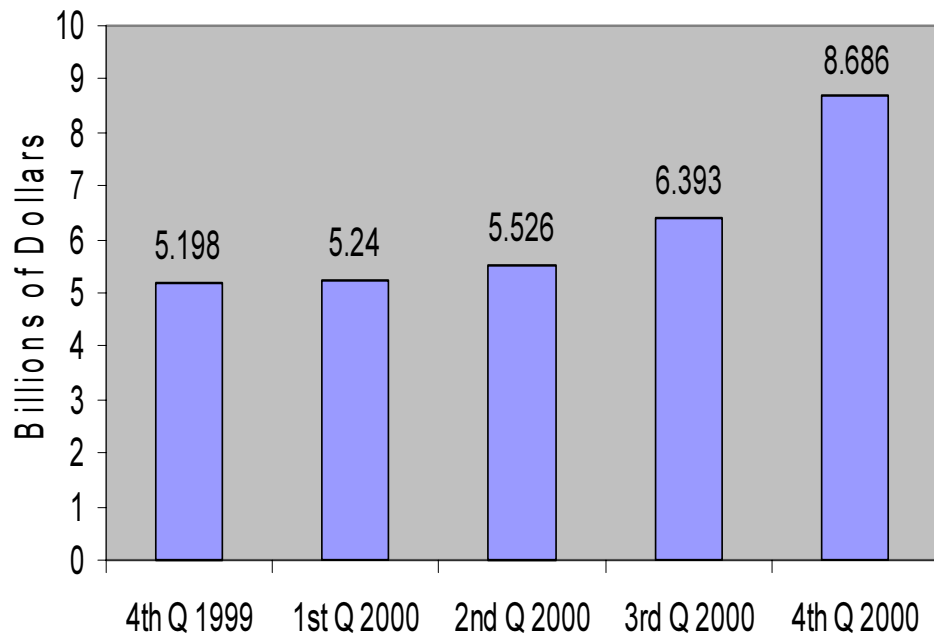
- In 1886, a jeweler unhappy with a shipment of watches refuses to accept them.
- A local telegraphy operator buys the unwanted shipment.
- Uses the telegraph to sell all the watches to fellow operators and railroad employees.
- Becomes so successful that he quits his job and started his own enterprise,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

Revenue Models

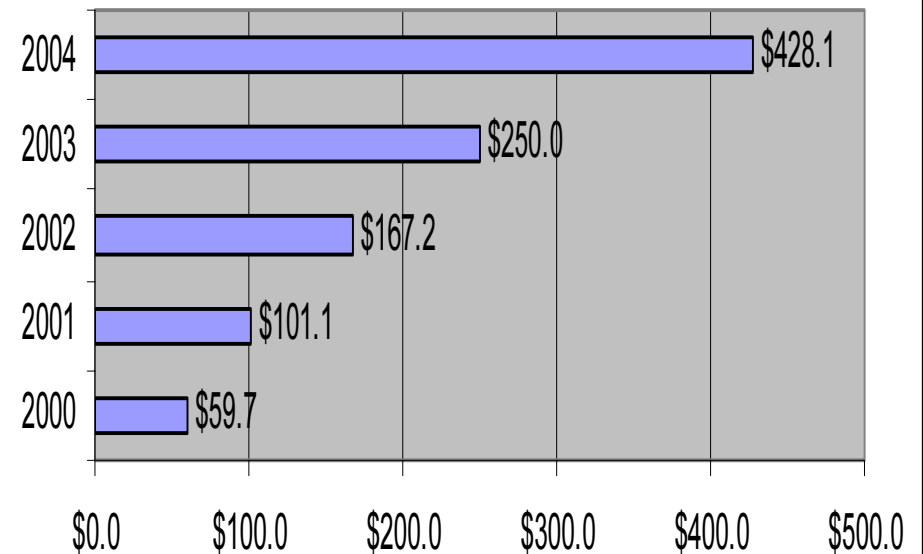
- Sell goods and services and take a cut (just like B&M retailers).
(*e.g.*, Amazon, E*Trade, Dell)
- Advertising
 - Ads only (original Yahoo)
 - Ads in combination with other sources
- Transaction fees
- Sell digital content through subscription. (*e.g.*, WSJ online, Economist Intelligence Wire)

E-Commerce Retail Sales

Estimated Quarterly U.S. Retail E-Commerce Sales 4th Quarter 1999 - 4th Quarter 2000



Worldwide B2C E-commerce Revenues 2000-2004 (in billions)

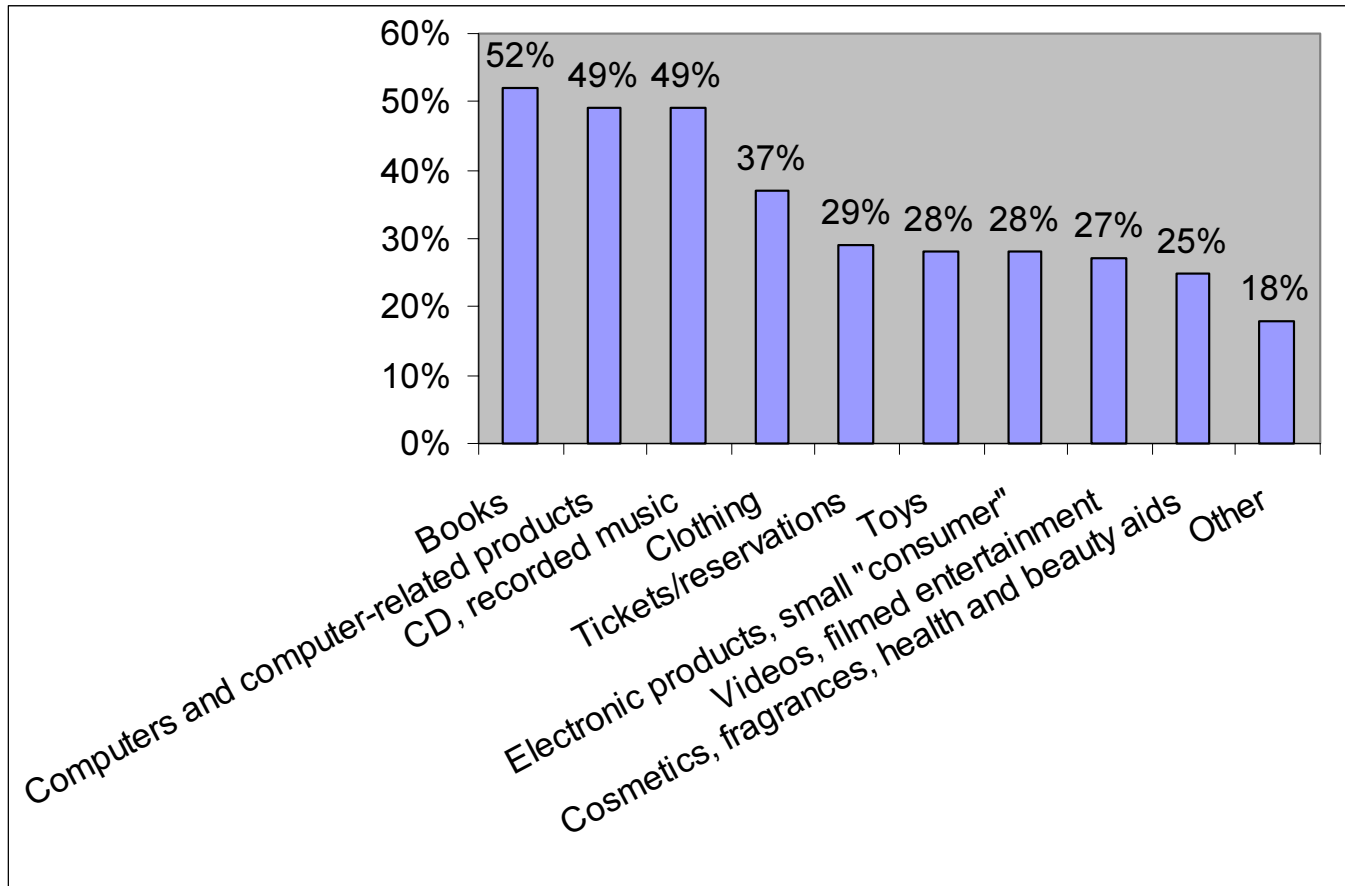


Source: eMarketer

Estimated Quarterly U.S. Retail Sales: Total and E-commerce

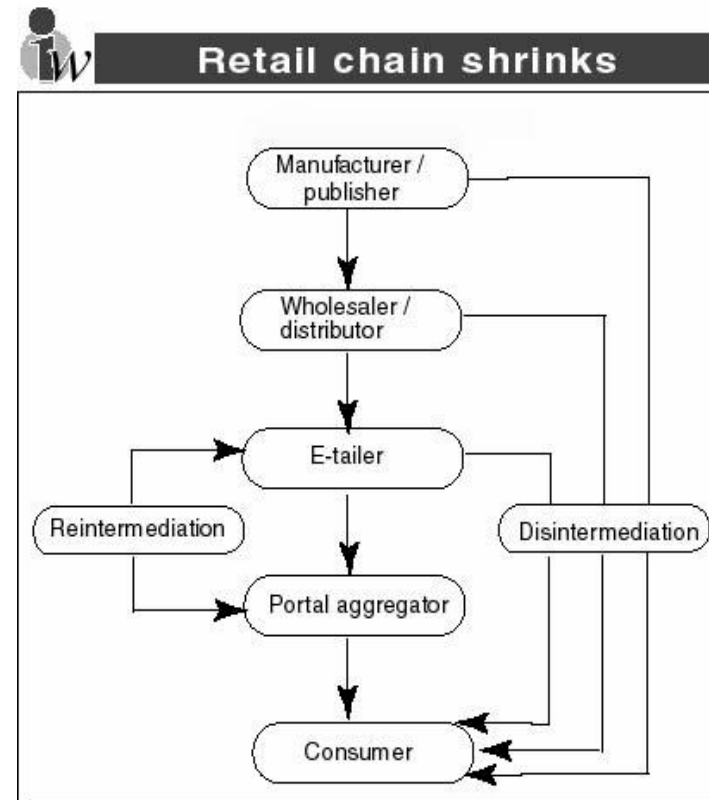
Data in millions of dollars. Not adjusted for seasonal, holiday, and trading-day differences.					
Period	Retail Sales		E-commerce as a Percent of Total Sales	Quarter to Quarter Percent Change	
	Total	E-commerce		Total Sales	E-commerce Sales
4Q 1999	821,351	5,198	0.63	8035	NA
1Q 2000	747,934	5,240	0.70	-8.9	0.8
2Q 2000	815,677	5,526	0.68	9.1	5.5
3Q 2000	812,158	6,393	0.79	-0.4	15.7
4Q 2000	856,234	8,686	1.01	5.4	35.9
Source: Commerce Dept.					

Top Ten U.S. Purchase Categories



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: 9,000
- Stock Price:
 - \$6.76 (at close October 3, 2001)
 - 52 Wk Range: \$5.51 to \$40.87
- 2000 Sales \$2,762 M
1-Year Sales Growth: 68.4%
- Internet's largest retailer. Best known for books, CDs, DVDs, and Videos.

The logo for Amazon.com, featuring the text "amazon.com." in a black, lowercase, sans-serif font. A curved orange arrow is positioned below the text, starting under the 'a' and ending under the 'z', pointing to the right.

Brand Strength

Source: U.S. Bancorp Piper Jaffray (July 24, 2000)

	Company	Mind Share	Company	Company Online Purchaser Share
1	Amazon.com	24.1%	Amazon.com	18.7%
2	eBay.com	16.1%	eBay.com	15.8%
3	Yahoo.com	4.9%	BarnesandNoble.com	6.0%
4	priceline.com	2.7%	BMG.com	3.9%
5	buy.com	1.9%	CDNow.com	3.3%
6	BarnesandNoble.com	1.8%	ColumbiaHouse.com	3.1%
7	CDNow.com	1.3%	JCPenney.com	3.0%
8	AOL.com	1.1%	priceline.com	2.7%
9	Egghead.com	1.0%	buy.com	2.6%
10	Iwon.com	0.9%	Yahoo.com	2.3%
	JCPenney.com	0.9%	1800flowers.com	2.3%

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
- 2000 Sales
 - 71% books, CDs, DVDs, Videos
 - 78% US

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 Jungle (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.

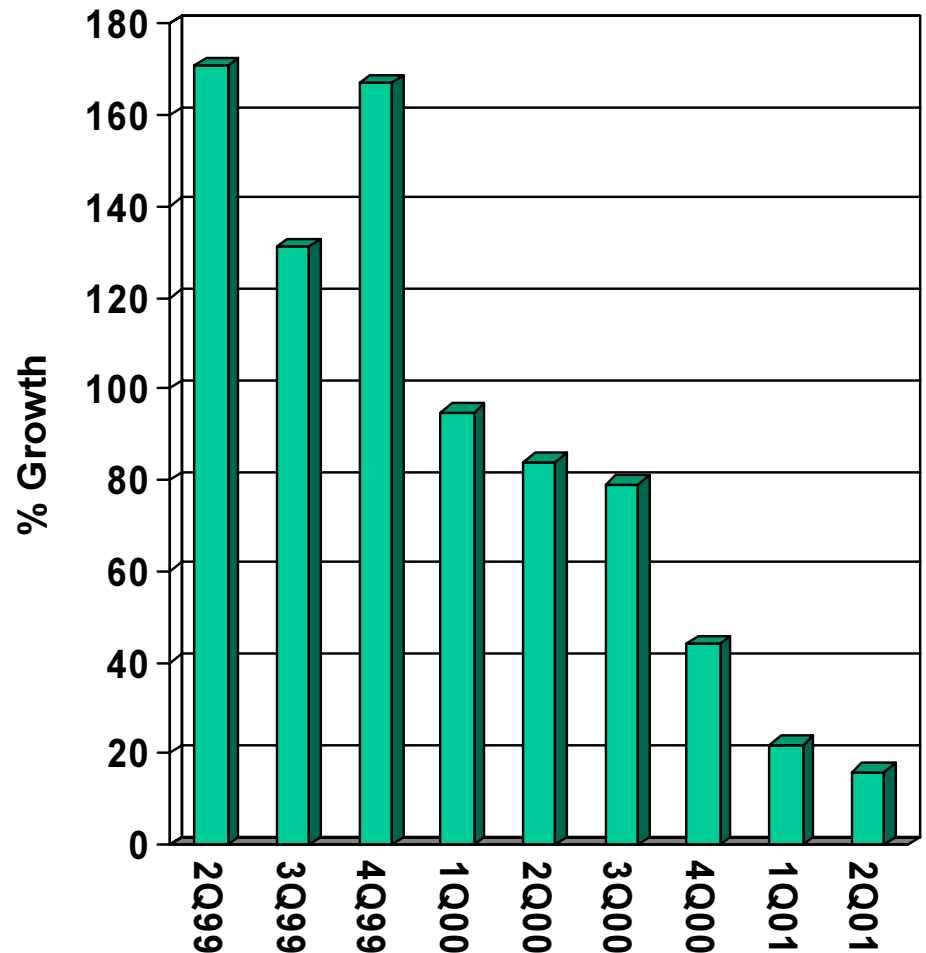
History (continued)

- 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



Amazon.com, Inc. Stock Quotes (**AMZN**)

Source: Quicken.com (10/3/2001)

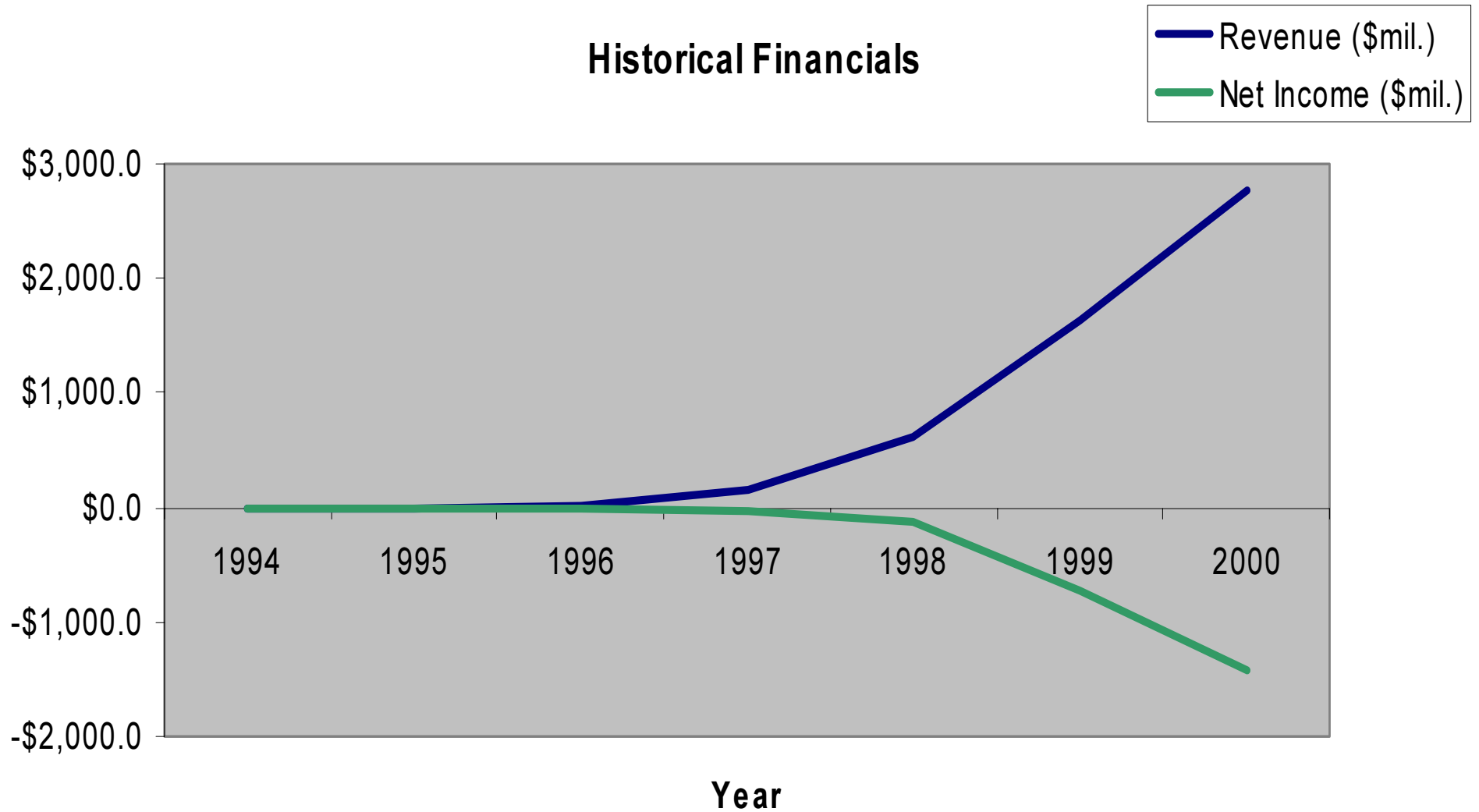


Period : Oct-3-1996 - Oct-3-2001

[S] = Stock Split

Amazon.com, Inc. Financials

Historical Financials



Financials and Employees ("Long March to Profitability")

Source: Hoovers and SEC Filings

Year	Revenue (\$mil.)	Net Income (\$mil.)	Net Profit Margin	Employees
2001 (1Q-2Q only)	1,367.9	-402.5		
2000	2,762.0	-1,411.3		9000
1999	1,639.8	-720.0		7600
1998	610.0	-124.5		2100
1997	147.8	-27.6		614
1996	15.7	-5.8		151
1995	0.5	-0.3		33
1994	0.0	-0.1		

Reminder: Homework For October 9, 2001

- Second written homework assignment is due in class Tuesday.
- Covers readings and lectures through 10/4/2001.
- Available online at <http://www.cs.yale.edu/~vijayr/cs155/hw2.pdf>