Chapter 9

Online Retail and Services
Learning Objectives

- Understand the environment where 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

Blue Nile Sparkles For Your Cleopatra

Class Discussion

- Why is selling (or buying) diamonds over the Internet so 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 vulnerabilities facing Blue Nile?
- Would you buy a $5,000 engagement ring at Blue Nile?
Major Trends in Online Retail, 2007-2008

See also Table 9.1, Page 551.

- Social shopping – users pass on their opinions and recommendations to others in several online viral networks
- Online retail increasingly profitable
- Buying online becomes normal, mainstream experience (80% of Internet users in US are now online shoppers))
- Selection of goods online increases, including customized goods
- Average annual amount of purchases increases
- Specialty retail sites show most rapid growth as customized retail goods are developed
- Increased emphasis on improved shopping experience, e.g., easy navigation, online inventory updates
- Increased use of interactive multimedia marketing, e.g., Web 2.0 features like blogs, user-generated content, and video, and zoom, pan
- Retail intermediaries strengthen in many areas, e.g., groceries, automobiles, appliance, and furniture dealers
- Retailers increasingly efficient at integrating multiple channels, from “bricks-and-clicks” to “click and drive” and in-store Web kiosk ordering
- Personalized goods, especially in apparel, become financially successful.
- Online shopping becomes more multi-seasonal
- Most online shopping occurs at work, evenings at home
The Retail Sector

- Most important theme in online retailing is effort to integrate online and offline operations
- U.S. retail market accounts for over $8.7 trillion of total GDP (2/3rds of all economic activity)
- Retail industry can be divided into segments, each of which offers opportunities for online retail
- Biggest opportunities for online retail sales: Those segments that sell small ticket items (specialty stores, general merchandisers, mail-order catalogs, groceries)
- Mail order/telephone order (MOTO) sector most similar to online retail sector

Composition of the U.S. Retail Industry

Figure 9.1, Page 553

<table>
<thead>
<tr>
<th>Figure 9.1</th>
<th>COMPOSITION OF THE U.S. RETAIL INDUSTRY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Services and Drinking</td>
<td>10%</td>
</tr>
<tr>
<td>General Merchandise</td>
<td>13%</td>
</tr>
<tr>
<td>Clothing</td>
<td>5%</td>
</tr>
<tr>
<td>Gasoline and Fuel</td>
<td>10%</td>
</tr>
<tr>
<td>Grocery and Beverage</td>
<td>13%</td>
</tr>
<tr>
<td>Specialty Stores</td>
<td>7%</td>
</tr>
<tr>
<td>Online Retail</td>
<td>3%</td>
</tr>
<tr>
<td>MOTO</td>
<td>4%</td>
</tr>
<tr>
<td>Consumer Durables</td>
<td>35%</td>
</tr>
</tbody>
</table>

SOURCE: Based on data from U.S. Census Bureau, 2007.
Online Retailing: The Vision

- Greatly reduced search costs on the Internet would encourage consumers to abandon traditional marketplaces in order to find lower prices for goods.
- Market entry costs would be much lower than those for physical storefronts, and online merchants would be more efficient than offline competitors.
- Traditional offline physical store merchants would be forced out of business.
- Some industries would become disintermediated as manufacturers built direct relationships with consumers.
- Ultimately, few of the above assumptions proved to be correct, and the structure of retail marketplace in the U.S. has not been revolutionized.
- This is because consumers consider brand name, trust, reliability, and delivery time as important as price.

The Online Retail Sector Today

- Online retailing segment, although smallest segment of retail industry (3%), is growing at exceptionally fast rate (25% per year).
- Although Internet user growth has declined, the average annual spending per user has increased, from $675 in 2003 to $1,123 in 2007.
- Primary beneficiaries of growing consumer support: Established offline retailers with an online presence (e.g., Staples, Wal-Mart, Office Depot, Best Buy, Sears) as well as first mover dot-com firms (e.g., Amazon & Newegg).
Online Retail and B2C E-commerce is Alive and Well

Figure 9.2, Page 556

SOURCES: Based on data from eMarketer, Inc. 2007a; U.S. Department of Commerce, 2007; Forrester Research, 2006; authors’ estimates.
Analyzing the Viability of Online Firms: Strategic Analysis

- Economic viability: Ability of firms to survive as profitable business firms during 1-3 years
- Use two business analysis approaches to answer the question of economic viability: strategic and financial analyses
- Strategic analysis of economic viability of a firm focuses on both industry as a whole and the firm itself
- Key industry strategic factors:
  - **Barriers to entry** – Can new entrants be barred from entering industry through high capital costs?
  - **Power of suppliers** – Can suppliers dictate high prices to the industry or can vendors bargain effectively for lower prices? Have firms achieved enough scale to bargain for lower prices from suppliers?
  - **Power of customers** – Can customers choose from many competing suppliers and thus challenge high prices and high margins?
  - **Existence of substitute products** – Can functionality of product or service be obtained from alternative channels or competing products in different industries?
  - **Industry value chain** – Is chain of production and distribution in industry changing in ways that benefit or harm the firm?
  - **Nature of intra-industry competition** – Is basis of competition within industry based on differentiated products and services, price, scope of offerings, or focus of offerings? How is nature of competition changing?

Analyzing the Viability of Online Firms: Strategic Analysis (cont’d)

- Strategic factors that pertain to firm include:
  - **Firm value chain** – Has the firm adopted business processes and methods of operation that allow it to achieve the most efficient operations in its industry?
  - **Core competencies** – Does the firm have unique competencies and skills that can’t be easily duplicated by other firms?
  - **Synergies** – Does the firm have access to competencies and assets of related firms either owned outright or through strategic partnerships and alliances?
  - **Technology** – Has the firm developed proprietary technologies that allow it to scale with demand? Has the firm developed the operational technologies (CRM, fulfillment, SCM, inventory control) to survive?
  - **Social and legal challenges** – Has the firm put in place policies to address consumer trust issues (privacy and security of personal info)? Is the firm the subject of lawsuits challenging its business model?
Analyzing the Viability of Online Firms: Financial Analysis

- Strategic analysis helps us understand the competitive situation of the firm
- Financial analysis helps us understand how a firm is performing
- Includes two main parts:
  - Statement of Operations: Tells us how much income or loss a firm is achieving based on current sales and costs
  - Balance sheet: Provides a financial snapshot of a company’s assets and liabilities

Factors in assessing Statements of Operations

- Revenues: growing and at what rate?
- Cost of sales (product costs + related costs): compared to revenues; the lower the cost of sales, the higher the gross profit
- Gross margin (gross profit divided by net sales revenues): increasing or decreasing?
- Operating expenses (cost of marketing, technology, admin overhead, and intangibles like stock compensation & amortization): What are they; increasing or decreasing?
- Operating margin: Indication of company’s ability to turn sales into pre-tax profit after operating expenses are deducted
- Net margin (net income or loss divided by net sales or revenue): Tells us percentage of gross sales revenue after all expenses are deducted: increasing or decreasing?
Analyzing the Viability of Online Firms: Financial Analysis (cont’d)

- Factors in assessing a Balance Sheet:
  - Current assets – cash, securities, accounts receivable, inventory, other investments able to converted to cash within 1 year
  - Current liabilities – debts due within 1 year
  - Long-term debt – debts not due until after 1 year or more
  - Working capital – (current assets – current liabilities) – provides short-term financial health

E-tailing Business Models

- Four main types of online retail business models:
  - Virtual merchant
  - Bricks-and-clicks
  - Catalog merchant
  - Manufacturer direct
Virtual Merchants

- Single channel Web firms that generate almost all revenues from online sales
- Example: Amazon, Buy.com, Newegg, Drugstore.com
- Face extraordinary strategic challenges
  - Must build business and brand name from scratch quickly in an entirely new channel
  - Confronts many virtual merchant competitions
- No costs in building and maintaining physical stores, but large costs in building and maintaining a Web site, order fulfillment infrastructure, and developing brand name
- High customer acquisition costs and steep learning curve
- Gross margins (retail price of goods – cost of goods) are low
- Hence, must achieve highly effective operations to preserve a profit

E-commerce in Action: Amazon.com

- Vision: Earth’s biggest selection, most customer-centric
- Offer 3 things to customers: lowest prices, best selection, and convenience
- Business Model: Amazon Retail and Amazon Services (merchant and developer services)
- Amazon Retail sells goods Amazon bought and then re-sells to consumers just like a traditional retailer
- Merchant services called Amazon Marketplace lets individuals and small businesses sell their products
- Another type of merchant services called Merchants@ serves larger branded businesses
- Amazon collects fixed fee, sales commission (10-20%), per-unit activity fee, or some combination of these
- Developer Services: offers Web services that provide developers with direct access to Amazon’s technology platform, allowing them to build their own applications based on that platform
E-commerce in Action: Amazon.com

- Financial Analysis: Greatly improved, but not yet consistently profitable; still heavy long-term debt (see next figure)
  - Increased revenues from $600 million in 1998 to $10.7 billion in 2006
  - Revenues has grown 65% in the past two years
- Strategic Analysis: Business strategy: Maximize revenue, cut costs
- Strategic Analysis: Competition: Online (eBay), offline, and both general merchandisers, e.g., Wal-Mart, Sears, JCPenny; also competes with catalog merchants, e.g., L.L.Bean, Lands' End
- Strategic Analysis: Technology: Largest, most sophisticated collection of online retailing technologies available (transaction-processing systems handling millions of items, status inquiries, gift-wrapping requests, multiple shipment methods)
- Strategic Analysis: Social, Legal: Antitrust, sales tax, patent lawsuits; ToysRUs lawsuit
- Future Prospects: Long-term profitability still uncertain

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**TABLE 9-4**

AMAZON'S CONSOLIDATED STATEMENTS OF OPERATIONS AND SUMMARY BALANCE SHEET DATA 2004-2006

<table>
<thead>
<tr>
<th>CONSOLIDATED STATEMENTS OF OPERATIONS (in thousands)</th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$13,711,000</td>
<td>$8,490,000</td>
<td>$6,921,124</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>6,255,000</td>
<td>6,431,000</td>
<td>5,219,127</td>
</tr>
<tr>
<td>Gross profit</td>
<td>2,456,000</td>
<td>2,059,000</td>
<td>1,701,977</td>
</tr>
<tr>
<td>Gross margin</td>
<td>23%</td>
<td>24%</td>
<td>23%</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>1,966,000</td>
<td>1,420,000</td>
<td>1,104,000</td>
</tr>
<tr>
<td>Income from operations</td>
<td>389,000</td>
<td>432,000</td>
<td>440,425</td>
</tr>
<tr>
<td>Operating margin</td>
<td>3.6%</td>
<td>4.1%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Net income (loss)</td>
<td>790,000</td>
<td>539,000</td>
<td>588,451</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>377,000</td>
<td>478,000</td>
<td>355,670</td>
</tr>
<tr>
<td>Income before income taxes and expenses</td>
<td>383,000</td>
<td>495,000</td>
<td>367,257</td>
</tr>
<tr>
<td>Net income (loss)</td>
<td>790,000</td>
<td>539,000</td>
<td>588,451</td>
</tr>
</tbody>
</table>

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SUMMARY BALANCE SHEET DATA (in thousands)

<table>
<thead>
<tr>
<th>AS OF DECEMBER 31</th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash, cash equivalents, and marketable securities</td>
<td>$2,018,000</td>
<td>$2,000,000</td>
<td>$1,779,199</td>
</tr>
<tr>
<td>Total current assets</td>
<td>2,373,000</td>
<td>2,429,000</td>
<td>2,028,265</td>
</tr>
<tr>
<td>Total assets</td>
<td>4,383,000</td>
<td>5,490,000</td>
<td>3,248,558</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>2,532,000</td>
<td>3,889,000</td>
<td>1,602,400</td>
</tr>
<tr>
<td>Total long-term liabilities</td>
<td>1,841,000</td>
<td>1,571,000</td>
<td>1,855,319</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>4,373,000</td>
<td>5,460,000</td>
<td>3,457,719</td>
</tr>
</tbody>
</table>

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Multi-channel Merchants: Bricks and Clicks

- Companies that have network of physical stores as primary retail channel, but also have online offerings
  - Examples: Wal-Mart, J.C. Penney, Sears
  - Face high costs of physical buildings and large sales staffs
  - Advantages: brand name, national customer base, warehouses, large-scale, trained staff
  - Low customer acquisition costs
  - Challenges: coordinating prices across channels and handling returns of Web purchases at retail outlets, leveraging their strengths and assets to the Web, building a credible Web site, hiring new skilled staff, building rapid response order entry and fulfillment systems

Catalog Merchants

- Established companies that have national offline catalog operation as largest retail channel, but also have online capabilities
  - Examples: Lands’ End, L.L. Bean, Eddie Bauer, Victoria’s Secret, Lillian Vernon
  - Face very high costs for printing and mailing millions of catalogs each year with 30-second half-life after customer received them
  - Highest margins in retail sector due to very efficient operations with centralized fulfillment and call centers, extraordinary service, excellent partnership with package delivery firms (FedEx and UPS)
Manufacturer-Direct

- Single or multi-channel manufacturers who sell directly online to consumers without intervention of retailers
- Example: Dell, HP, Gateway, IBM, Apple
- Face channel conflict challenges when physical retailers of products must compete on price and currency of inventory directly against the manufacturer
- Advantages: established national brand name, existing large customer base, lower cost structure than catalog merchants since they are manufacturer of goods and don’t pay profit to anyone else, therefore, have higher margins

Common Themes in Online Retailing

- Online retail fastest growing channel, has fastest growing consumer base, growing penetration rate across many categories of goods
- Reasons for early difficulties in achieving profit are lower prices below cost of goods and operations, failed to develop efficient business processes, spent too much on customer acquisition and marketing
- Since 2002, many online retail firms have begun to raise prices
- Disintermediation has not occurred, and most manufacturers use Web primarily as an informational resource, driving consumers to buy at traditional retail stores
- Most significant online growth has been that of offline giants (Wal-Mart, JCPenny, L.L.Bean) who are focusing on extending brand to online channel
- Second area of rapid growth: specialty merchants, e.g., BlueNile, BestBuy.com, Gap.com, OfficeDepot.com
Insight on Technology: Using the Web to Shop ‘Till You Drop
Class Discussion

- What do shopping bots and comparison sites offer consumers?
- Why are shopping bots more successful with hard goods than soft goods?
- What is the strategy of Shopping.com?
- How can shopping bots compare luxury goods?
- How will adding content to comparison sites help consumers?

The Service Sector: Offline and Online

- Service sector: Largest and most rapidly expanding part of economies of advanced industrial nations
- In the United States, services employs about 76% of labor force; accounts for $7.1 trillion (57%) of GDP in 2007
What are Services?

- Service occupations: “Concerned with performing tasks” in and around households, business firms, and institutions
- Service industries: “Domestic establishments providing services to consumers, businesses, governments, and other organizations”
- Major service industry groups:
  - FIRE (Finance, insurance, real estate)
  - Travel
  - Professional services, e.g., legal and accounting
  - Business services, e.g., consulting, advertising, marketing
  - Health services
  - Educational services

Categorizing Service Industries

- Within service industry groups, can be further categorized into:
  - Transaction brokers – ones who act as intermediary to facilitate a transaction, e.g., stockbrokers, employment agencies
  - Hands-on service provider – ones who interact directly and personally with the “client”, e.g., lawyers, physicians, accountants
- Services industry features:
  - Knowledge- and information-intense, which makes them uniquely suited to e-commerce applications
  - Amount of personalization (legal, medical, accounting services) and customization (financial services) required differs depending on type of service
Online Financial Services

- Online financial services (finance, insurance, real estate) sector example of e-commerce success story, but success is somewhat different from what had been predicted
- Brokerage industry looks better than banking, insurance, and real estate ones in terms of online services growth
- Multi-channel established financial services firms are showing fastest growth and strongest prospects

Financial Service Industry Trends

- Financial services industry provides four generic kinds of services:
  - Storage of and access to funds → banking, lending
  - Protection of assets → insurance
  - Means to grow assets → investment and brokerage firms
  - Movement of funds → banks, credit card firms
- Two important global trends
  - Industry consolidation (Financial Reform Act of 1998 amended Glass-Steagall Act and allows banks, brokerages, and insurance firms to merge)
  - Movement toward integrated financial services (financial supermarket model)
Online Financial Consumer Behavior

- Consumers attracted to online financial sites because of desire to save time and access information rather than save money
- Most online consumers use financial services firms for mundane financial management
- Greatest deterrents to increased usage of online financial services are fears about security and confidentiality; people are more comfortable to shop online than to conduct financial transactions online
Online Consumers Financial Activities

<table>
<thead>
<tr>
<th>Bank</th>
<th>Amount of Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Checked bank accounts</td>
<td>65%</td>
</tr>
<tr>
<td>Moved/Withdraw bank funds</td>
<td>43%</td>
</tr>
<tr>
<td>Applied for a credit card</td>
<td>25%</td>
</tr>
<tr>
<td>Traded stock</td>
<td>9%</td>
</tr>
<tr>
<td>Applied for a mortgage</td>
<td>6%</td>
</tr>
</tbody>
</table>

Online Banking

- Online banking pioneered by NetBank and WingSpan
- Established brand name national banks have taken substantial lead in market share
- Over 80 million people use online banking, and around 40 million households
- Movement toward online banking is global
Leading Online Banks (Nov 2007) (in Billions)

<table>
<thead>
<tr>
<th>Bank</th>
<th>Amount of Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>ING Direct (online only)</td>
<td>$47.0</td>
</tr>
<tr>
<td>Citibank Direct (online unit of traditional bank)</td>
<td>$9.0</td>
</tr>
<tr>
<td>Emigrant Direct (online unit of traditional bank)</td>
<td>$6.0</td>
</tr>
<tr>
<td>HSBC Direct (online unit of traditional bank)</td>
<td>$4.8</td>
</tr>
</tbody>
</table>

The Growth of Online Banking, 2000–2010

SOURCE: Based on data from eMarketer, Inc., 2007b.
Online Brokerage

- Early online brokerage leaders, such as E*Trade and Ameritrade have been displaced at top by established firms (Fidelity and Charles Schwab)
- About 6 million U.S. households trade online, to be increased to 12 million by 2011
- 9% of US adult Internet users traded stocks within the past 12 months of 2006

Multi-channel vs. Pure Online Financial Service Firms

- Online consumers have made it known that they prefer multi-channel firms with physical presence
- Multi-channel firms have lower customer acquisition, conversion, and retention costs
- However, users of pure online firms utilize them more intensively
Financial Portals and Account Aggregators

- Financial portals: Provide comparison shopping services, independent financial advice and financial planning
  - Examples: Yahoo! Finance, Quicken.com, MSN Money, AOL’s Money and Finance channel
  - Do not offer financial services themselves, but act as steering mechanisms to online providers, generating revenues from advertising, referral fees, and subscription fees
- Account aggregation: Process of pulling together all of a customer’s financial (and even non-financial) data at a single personalized Web site
  - Yodlee, a leading provider of account aggregation technology; used by Merrill Lynch, Citigroup, Chase, others
  - Raises issues about privacy and control of personal data, security, etc.

Online Mortgage and Lending Services

- Early entrants envisioned market in which mortgage value chain would be simplified and loan closing process speeded up, with resulting cost savings passed on to consumer
- However, many of early-entry, pure online firms failed (e.g., Mortgage.com) due to difficulties of developing brand and simplifying mortgage generation process
- Today, four basic types of online mortgage vendor:
  - Established online banks, brokerages, and lending organizations
  - Pure online mortgage bankers
  - Mortgage brokers
Online Insurance Services

- Online term life insurance: one of few product groups in which Internet actually lowered search costs, increased price comparison, and resulted in lower prices to consumers
- However, in other insurance product lines, Web has offered insurance companies new opportunities for product and service differentiation and price discrimination
- Online insurance industry affected by fact that industry is regulated at state as opposed to federal level; also impacted by channel conflict
- Leading players include InsWeb, Progressive and Insure.com

Online Real Estate Services

- Early visions (that the historically local, complex, and agent-driven real estate industry would be transformed into a disintermediated marketplace where buyers and sellers would transact directly) has not been realized
- Major impact is influencing of purchases offline
- Despite revolution in available information, there has not been a revolution in the industry value chain
Online Travel Services

- Arguably, single most successful B2C e-commerce segment; attracts single largest audience, and largest slice of B2C revenues
- Internet becoming most common channel used to research travel and book reservations
- 2007: $94 billion in revenue, expected to grow to $146 billion by 2010
- Popular because they offer consumers more convenience (one stop; offers content, commerce, community, customer service) than traditional travel agents
- For suppliers, offers a singular, focused customer pool that can be efficiently reached

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### TABLE 9.11 MAJOR ONLINE TRAVEL SITES

<table>
<thead>
<tr>
<th>NAME</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LEISURE/UNMANAGED BUSINESS TRAVEL</strong></td>
<td></td>
</tr>
<tr>
<td>Expedia</td>
<td>Largest online travel service; leisure focus.</td>
</tr>
<tr>
<td>Travelocity</td>
<td>Second-largest online travel service; leisure focus. Owned by Sabre Holdings.</td>
</tr>
<tr>
<td>Orbitz</td>
<td>Began as supplier-owned reservation system; now owned by Cendant.</td>
</tr>
<tr>
<td>Priceline</td>
<td>“Name your price” model; leisure focus.</td>
</tr>
<tr>
<td>CheapTickets</td>
<td>Discount airline tickets, hotel reservations, and auto rentals. Owned by Cendant.</td>
</tr>
<tr>
<td>Hotels.com</td>
<td>Largest hotel reservation network; leisure and corporate focus. Owned by Expedia.</td>
</tr>
<tr>
<td>Hotwire</td>
<td>Seeks out discount fares based on airline excess inventory. Owned by Expedia.</td>
</tr>
<tr>
<td><strong>MANAGED BUSINESS TRAVEL</strong></td>
<td></td>
</tr>
<tr>
<td>GetThere.com</td>
<td>Corporate online booking solution (COBS). Owned by Sabre Holdings.</td>
</tr>
<tr>
<td>Expedia Corporate travel</td>
<td>Online travel products and services for corporate customers in the United States and Europe. Special focus on small- and mid-sized businesses</td>
</tr>
<tr>
<td>Travelocity Business</td>
<td>Full-service corporate travel agency</td>
</tr>
</tbody>
</table>
Travel as an Ideal Internet Product/Service

- Information-intensive product requiring significant consumer research
- Electronic product in the sense that travel arrangements (planning, researching, comparison shopping, reserving and payment) can be accomplished for the most part online
- Does not require inventory (no physical assets)
- Suppliers are always looking for customers to fill excess capacity
- Do not require an expensive multi-channel physical presence as required by financial services

Online Travel Services Revenues

Figure 9.5, Page 596

SOURCE: Based on data from eMarketer, Inc., 2007f.
Online Travel Services Components

- Airline reservations the largest single component ($42.6 billion in 2007; $64 billion in 2010)
- Hotel reservations ($24.1 billion in 2002, $45.9 billion in 2010)
- Car reservations ($3.2 billion in 2005, $5.8 billion in 2010)
- Cruise/tour reservations: fairly slow growth since not as well suited for online environment
- Major segments:
  - Leisure
  - Business travel – expected to be a major growth area as corporations seek better control of corporate travel expenses

Projected Growth of Online Travel Market Segments

Figure 9.6, Page 597

<table>
<thead>
<tr>
<th>Year</th>
<th>Air (in billions)</th>
<th>Hotel (in billions)</th>
<th>Car (in billions)</th>
<th>Cruise/tour (in billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>15.0</td>
<td>7.0</td>
<td>0.8</td>
<td>0.3</td>
</tr>
<tr>
<td>2002</td>
<td>21.0</td>
<td>7.0</td>
<td>1.5</td>
<td>0.4</td>
</tr>
<tr>
<td>2003</td>
<td>28.9</td>
<td>12.6</td>
<td>2.0</td>
<td>0.6</td>
</tr>
<tr>
<td>2004</td>
<td>32.8</td>
<td>16.4</td>
<td>2.3</td>
<td>0.9</td>
</tr>
<tr>
<td>2005</td>
<td>38.5</td>
<td>20.5</td>
<td>2.7</td>
<td>1.1</td>
</tr>
<tr>
<td>2006</td>
<td>42.6</td>
<td>24.1</td>
<td>3.2</td>
<td>1.4</td>
</tr>
<tr>
<td>2007</td>
<td>47.1</td>
<td>28.3</td>
<td>3.7</td>
<td>1.8</td>
</tr>
<tr>
<td>2008</td>
<td>52.1</td>
<td>33.2</td>
<td>4.3</td>
<td>2.3</td>
</tr>
<tr>
<td>2009</td>
<td>57.6</td>
<td>39.1</td>
<td>5.0</td>
<td>2.9</td>
</tr>
<tr>
<td>2010</td>
<td>83.7</td>
<td>45.9</td>
<td>5.8</td>
<td>3.7</td>
</tr>
</tbody>
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SOURCES: Based on data from eMarketer, Inc. 2007f, 2005c; authors’ estimates.
Online Travel Industry Dynamics

- Competition among online providers is intense
- Industry is going through a period of consolidation as stronger, offline established firms purchase weaker and relatively inexpensive online firms
- Suppliers (the large national airlines, hotel chains, auto rental companies, etc.) are attempting to eliminate the intermediaries such as the global distribution systems and travel agencies, using Web as means.

The Travel Services Value Chain

*Figure 9.7, Page 602*
E-commerce in Action: Expedia.com

- Online travel services company that provides access to information about and sales of travel arrangements
- Originally started by Microsoft, subsequently purchased by InterActiveCorp, then spun-off into separate public company in 2005
- One of top players in online travel services, generating revenues of $2.2 billion in 2006
Online Career Services

- Next to travel services, one of Internet’s most successful online services.
- Dominated by CareerBuilder, Monster (owned by Monster Worldwide), and Yahoo HotJobs
- Online recruiting provides more efficient and cost-effective method of linking employers and potential employees, while reducing total time-to-hire
- Enables job hunters to more easily build, update, and distribute resumes while gathering information about prospective employers and conducting job searches
- Ideally suited for Web due to information-intense nature of process

Why are Job Sites So Popular?

- Saves time and money for both job hunters and employers
- For employers: Expand geographic reach of search, lower cost, and result in faster hiring decisions
- For job seekers: Make resumes more widely available, and provides a variety of related job-hunting services
- One of most important functions: Ability to establish market prices and terms (online national marketplace)
Recruitment Market Segments

- Three major segments
  - General job recruitment: Largest segment and primary focus; placing wide range of individuals at all skill and salary levels
  - Executive search: focuses on placing executives with annual salaries of $100,000 or more, thus producing highest revenue potential
  - Specialized job placement services: often run by professional societies, e.g., Society of Plastics Engineers site and Policeemployment.com

Online Recruitment Industry Dynamics

- Major trends:
  - Consolidation: CareerBuilder, Monster, and HotJobs together dominate the market
  - Diversification of product line: niche sites focusing on specific occupations
  - Localization: Local boards compete with local newspapers, Craigslist (source of local job listings)
  - Job search engines (Indeed.com, SimplyJobs, JobCentral) “scrape” listings from thousands of online job sites, specialty recruiting services, sites of individual employers, to provide free, searchable index of job listings in one spot
  - Social networking: LinkedIn; Facebook apps are used by members to establish business contacts and networks, while employers use the sites to find potential job candidates that may not be actively job hunting.