

MODUL PERKULIAHAN ELEARNING

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**Aplikasi-aplikasi mCommerce dalam bidang periklanan, keuangan dan bidang lainnya**

Dosen

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Sumber penulisan modul:

Kenneth C. Laudon and Carol Guercio Traver. 2014. e-Commerce Business Technology Society. 10th Edition. New Jersey: Pearson. Halaman 560-623.

**E-commerce Retail: The Vision**

In the early years of e-commerce, literally thousands of entrepreneurial Web-based retailers were drawn to the marketplace for retail goods, simply because it was one of the largest market opportunities in the U.S. economy. Many entrepreneurs initially believed it was easy to enter the retail market. Early writers predicted that the retail industry would be revolutionized, literally “blown to bits”—as prophesized by two consultants in a famous Harvard Business School book (Evans and Wurster, 2000). The basis of this revolution would be fourfold. **First**, because the Internet greatly reduced both search costs and transaction costs, consumers would use the Web to find the lowest-cost products. Several results would follow. Consumers would increasingly drift to the Web for shopping and purchasing, and only low-cost, high-service, quality online retail merchants would survive. Economists assumed that the Web consumer was rational and cost-driven—not driven by perceived value or brand, both of which are nonrational factors.

**Second**, it was assumed that the entry costs to the online retail market were much less than those needed to establish physical storefronts, and that online merchants were inherently more efficient at marketing and order fulfillment than offline stores. The costs of establishing a powerful Web site were thought to be minuscule compared to the costs of warehouses, fulfillment centers, and physical stores. There would be no difficu

lty building sophisticated order entry, shopping cart, and fulfillment systems because this technology was well known, and the cost of technology was falling by 50% each year. Even the cost of acquiring consumers was thought to be much lower on the Web because of search engines that could almost instantly connect customers to online vendors.

**Third**, as prices fell, traditional offline physical store merchants would be forced out of business. New entrepreneurial companies—such as Amazon—would replace the traditional stores. It was thought that if online merchants grew very quickly, they would have first-mover advantages and lock out the older traditional firms that were too slow to enter the online market.

**Fourth**, in some industries—such as electronics, apparel, and digital content—the market would be disintermediated as manufacturers or their distributors entered to build a direct relationship with the consumer, destroying the retail intermediaries or middlemen. In this scenario, traditional retail channels—such as physical stores, sales clerks, and sales forces—would be replaced by a single dominant channel: the Web

Many predicted, on the other hand, a kind of hypermediation based on the concept of a virtual firm in which online retailers would gain advantage over established offlinemerchants by building an online brand name that attracted millions of customers, and outsourcing the expensive warehousing and order fulfillment functions—the original concept of Amazon and Drugstore.com.

As it turned out, few of these assumptions and visions were correct, and the structure of the retail marketplace in the United States, with some notable exceptions, has not been blown to bits, disintermediated, or revolutionized in the traditional meaning of the word “revolution.” With several notable exceptions, online retail has often not been successful as an independent platform on which to build a successful “pure-play” Web-only business. As it turns out, the consumer is not primarily price-driven when shopping on the Internet but instead considers brand name, trust, reliability, delivery time, convenience, ease of use, and above all “the experience,” as at least as important as price (Brynjolfsson, Dick, and Smith, 2004).

However, the Internet has created an entirely new venue for multi-channel firms that have a strong offline brand, and in some cases, the Internet has supported the development of pure-play online-only merchants, both general merchandisers as well as specialty retailers. As predicted, online retail has indeed become the fastest growing and most dynamic retail channel in the sense of channel innovation. The Web has created a new marketplace for millions of consumers to conveniently shop. The Internet and Web have continued to provide new opportunities for entirely new firms using new business models and new online products—such as Blue Nile, as previously described. The new online channel can conflict with a merchant’s other channels, such as direct sales forces, physical stores, and mail order, but this multi-channel conflict can be managed and turned into a strength.

**Virtual Merchants**

Virtual merchants are single-channel Web firms that generate almost all their revenue from online sales. Virtual merchants face extraordinary strategic challenges. They must build a business and brand name from scratch, quickly, in an entirely new channel and confront many virtual merchant competitors (especially in smaller niche areas). Because these firms are totally online stores, they do not have to bear the costs associated with building and maintaining physical stores, but they face large costs in building and maintaining a Web site, building an order fulfillment infrastructure, and developing a brand name. Customer acquisition costs are high, and the learning curve is steep. Like all retail firms, their gross margins (the difference between the retail price of goods sold and the cost of goods to the retailer) are low. Therefore, virtual merchants must achieve highly efficient operations in order to preserve a profit, while building a brand name as quickly as possible in order to attract sufficient customers to cover their costs of operations. Most merchants in this category adopt low-cost and convenience strategies, coupled with extremely effective and efficient fulfillment processes to ensure customers receive what they ordered as fast as possible. In the following E-commerce in Action section, we take an in-depth look at the strategic and financial situation of Amazon, the leading online virtual merchant. In addition to Amazon, other successful virtual merchants include Newegg, Netflix, Overstock.com, Ratuken.com (Buy.com), Gilt Group, Wayfair, Rue La La, Blue Nile (profiled in the opening case), Bluefly, Hayneedle, Net-a-Porter, and Shoebuy.

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| **virtual merchant** single-channel Web firms that generate almost all of their revenue from online sales. |

**Multi-channel Merchants: Bricks-and-clicks**

Also called multi-channel merchants, **bricks-and-clicks** companies have a network of physical stores as their primary retail channel, but have also introduced online offerings. These are multi-channel firms such as Walmart, Macy’s, Sears, JCPenney, Staples, OfficeMax, Costco, Target, and other brand-name merchants. While bricksand- clicks merchants face high costs of physical buildings and large sales staffs, they also have many advantages such as a brand name, a national customer base, warehouses, large scale (giving them leverage with suppliers), and a trained staff. Acquiring customers is less expensive because of their brand names, but these firms face challenges in coordinating prices across channels and handling returns of Web purchases at their retail outlets. However, these retail players are used to operating on very thin margins and have invested heavily in purchasing and inventory control systems to control costs, and in coordinating returns from multiple locations. Bricksand- clicks companies face the challenge of leveraging their strengths and assets to the Web, building a credible Web site, hiring new skilled staff, and building rapid-response order entry and fulfillment systems. According to Internet Retailer, in 2012, the chain retailers accounted for around $75 billion (around 35%) of all online retail sales. In addition, 8 out of the top 10 fastest-growing merchants over a 10-year period tracked by Internet Retailer from 2003 to 2013 were retail chains (Internet Retailer, 2013a).

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| **bricks-and-clicks** companies that have a network of physical stores as their primary retail channel, but have also introduced online offerings |

Macy’s is a prime example of a traditional merchant based on physical stores moving successfully to a multi-channel online store. Rowland H. Macy opened the first R.H. Macy & Co. store in New York City in 1858, and moved the flagship store (now the site of the famous Macy’s Thanksgiving parade) to Herald Square at 34th Street and Broadway in 1902. Today, Macy’s is one of the largest national department store chains, with around 800 Macy’s department stores throughout the United States.

Like many traditional retailers, Macy’s has had to change its business model to accommodate the Internet. Macy’s (then called Federated Department Stores Inc.) jumped into e-commerce in 1995 with the creation of the Macys.com Web site. In 1999, Federated bought Fingerhut, at that time a leading catalog and direct marketer, in part for its expertise in e-commerce fulfillment and database management. Although the Fingerhut acquisition did not prove to be a financial success, Macy’s e-commerce efforts benefitted from the acquisition.

In 2012, Macys.com ranked 12th on Internet Retailer’s list of the top 500 retail Web sites ranked by annual sales, with about $3.2 billion in online sales, representing over 40% growth over 2011, and a tripling since 2008. Growth of its physical store sales pales by comparison.

The Macys.com Web site receives around 13 million monthly unique visitors. Web site features and functions include an interactive catalog, enlarged product views, ability to see products in different colors and from alternate views, including via zoom, and videos. It also offers product comparisons, product ratings, and product recommendations, as well as a real-time inventory check system. Macy’s ranked 8th in the 2013 National Retail Federation survey of companies with respect to the best e-commerce sites for convenience, safety, and customer service.

Macy’s has jumped into social media as well, with a Facebook page that has over 12 million Likes, a Twitter feed with over 270,000 followers, a Pinterest page with 33 different boards, and a YouTube channel with almost 4 million views. A shopping widget allows shoppers to create polls on Facebook. Macy’s gets about 3% of its referred traffic from social networks, with the majority of it originating from Facebook, and an estimated $30 million in social commerce sales.

Macy’s ranks 21st on Internet Retailer’s Mobile 400, with an estimated $66 million in mobile sales, double that of 2011. It has iPhone and Android apps and an HMTL5 mobile Web site powered by Usablenet. It has also tried QR codes, SMS marketing, and augmented reality. In a trial run into mobile game advertising, Macy’s ran an ad in the Pandora iPhone application that encouraged users to play a game while listening to music. The top of the ad promoted a one-day sale, and after playing the game, users could click through to visit the Macy’s mobile site, where the sale was promoted. Previously, Macy’s had partnered with Spotify as one of Spotify’s first mobile advertisers. Macy’s ran audio ads inside Spotify’s iPhone app to promote its MStyleLab, targeted at Millennials. The goals of the campaign were to increase awareness and brand affinity for MStyleLab and drive sales. Macy’s has landed on Internet Retailer’s 2013 Hot 100 list for its efforts in targeting a new generation of shoppers through e-commerce (Internet Retailer, 2013a, 2013b, 2013c, 2013d; Kats, 2013; Love, 2013; Johnson, 2012).

**Catalog Merchants**

**Catalog merchants** such as Lands’ End, L.L.Bean, CDW Corp., PC Connection, Cabela’s, and Victoria’s Secret are established companies that have a national offline catalog operation, but who have also developed online capabilities. Catalog merchants face very high costs for printing and mailing millions of catalogs each year—many of which have a half-life of 30 seconds after the customer receives them. Catalog merchants typically have developed centralized fulfillment and call centers, extraordinary service, and excellent fulfillment in partnership with package delivery firms such as FedEx and UPS. Catalog firms have suffered in recent years as catalog sales growth rates have fallen. As a result, catalog merchants have had to diversify their channels either by building stores (L.L.Bean), being bought by store-based firms (Sears purchased Lands’ End), or by building a strong Web presence.

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| **catalog merchants** established companies that have a national offline catalog operation that is their largest retail channel, but who have recently developed online capabilities |

Catalog firms are uniquely advantaged because they already possess very efficient order entry and fulfillment systems. However, they face many of the same challenges as bricks-and-mortar stores—they must leverage their existing assets and competencies to a new technology environment, build a credible Web presence, and hire new staff. Nevertheless, according to Internet Retailer, in 2012, catalog merchants generated combined Web sales of about $25 billion (Internet Retailer, 2013a).

Arguably one of the most successful online catalog merchants is LandsEnd.com. Lands’ End started out in 1963 in a basement of Chicago’s tannery district selling sailboat equipment and clothing, handling 15 orders on a good day. Since then it expanded into a direct catalog merchant, distributing over 200 million catalogs annually and selling a much expanded line of “traditionally” styled sport clothing, soft luggage, and products for the home. Lands’ End was the first apparel retailer to have an e-commerce-enabled Web site, launching in 1995 with 100 products and travelogue essays. Located in Dodgeville, Wisconsin, it has since grown into one of the Web’s most successful apparel sites.

Lands’ End has always been on the leading edge of online retailing technologies, most of which emphasize personal marketing and customized products. In 2012, it was featured as one of Internet Retailer’s Hot 100 E-Retailers of 2012, which recognizes e-commerce sites that offer innovative tools and services. Lands’ End was the first e-commerce Web site to allow customers to create a 3-D model of themselves to “try on” clothing. Lands’ End “Get Live Help” enables customers to chat online with customer service representatives; Lands’ End Custom allows customers to create custom-crafted clothing built for their personal measurements. While customized clothing built online was thought to be a gimmick in the early years of online retailing, today, 40% of Lands’ End clothing sold online is customized. In 2003, Lands’ End was purchased by Sears (which itself was purchased by Kmart in 2004) but retains an independent online presence and catalog operation. In 2012, Lands’ End took 7th place in the National Retail Foundation’s ranking of best customer service. Features that garnered praise include live video chat, product recommendations that reflect a shopper’s preferences, content display based on the shopper’s location and referral source, and iPhone and iPad apps that deliver Lands’ End catalogs to mobile users. The digital catalogs contain exclusive content, including stories written by Lands’ End employees. Shoppers can also visit Lands’ End on Facebook, where it has over 1 million Likes. Shoppers can send Lands’ End e-gift cards directly from Facebook. Lands’ End also has a Twitter presence, where it has over 13,000 followers, and over 40 different Pinterest boards. Sears has incorporated many of Lands’ End’s online techniques into its own Web site, Sears.com (Landsend.com, 2013; Demery, 2012; Wagner, 2011).

**Online Financial Services**

The online financial services sector is a shining example of an e-commerce success story, but one with many twists and turns. While the innovative, pure-online firms such as E\*Trade have been instrumental in transforming the brokerage industry, the impacts of e-commerce on the large, powerful banking, insurance, and real estate firms have been delayed by consumer resistance and the lack of industry innovation. For instance, online-only banks have not displaced or transformed the large national banks or even regional and local banks. But e-commerce has nevertheless transformed the banking and financial industries, as the major institutions have deployed their own online applications to service an increasingly connected online customer base. Insurance has become more standardized and easier to purchase on the Web. Although security is still a concern, consumers are much more willing to trust online sites with their financial information than in the past. Firms such as Mint.com (now owned by Quicken), SmartyPig, Credit Karma, Moven, and Simple continue to show growth. Multi-channel, established financial services firms—the slow followers—also continue to show modest gains in online transactions.

**Online Financial Consumer Behavior**

Surveys show that consumers are attracted to financial sites because of their desire to save time and access information rather than save money, although saving money is an important goal among the most sophisticated online financial households. Most online consumers use financial services sites for mundane financial management, such as checking balances of existing accounts, and paying bills, most of which were established offline. Once accustomed to performing mundane financial management activities, consumers move on to more sophisticated capabilities such as using personal financial management tools, making loan payments, and considering offers from online institutions. The number of people using mobile devices for financial service needs is also surging. According to research from Mojiva, 70% of survey respondents used a mobile device to access a financial app or site four or more times a week. Over 70% accessed banks accounts, more than 50% used credit card apps and sites, over 40% looked at financial news and stock market information, 35% accessed budgeting apps or sites, and 27% brokerage accounts (Mojiva, 2013).

**Online Banking and Brokerage**

NetBank and Wingspan Bank pioneered online banking in the United States in 1996 and 1997, respectively. Although late by a year or two, the established brand-name national banks have taken a substantial lead in market share as the percentage of their customers who bank online has grown rapidly. The top banks are all large, national banks that also offer online banking: Bank of America, JPMorgan Chase, Wells Fargo, and Capital One. The major direct banks (those that operate without a network of branches or branded ATMs), include Ally, Discover, Capital One 360, and USAA. These direct banks have seen customer deposits grow faster than regular banks, indicating their growing popularity, particularly with younger customers. Several start-ups have also moved into the online banking and financial services spaces. For instance, Moven offers checking account services linked with online and mobile financial management tools. Another start-up, Simple, provides checking accounts linked to debit cards in addition to financial management tools.

In 2013, around two-thirds of U.S. Internet users use online banking. It has become the primary banking channel for all age groups. According to comScore, U.S. banking Web sites have around 100 million monthly unique visitors in 2013, via both desktop and mobile devices (Bruene, 2013). Online banking via a mobile device is growing, with 34% reporting that they access their banking information via a mobile app on a smartphone, and 23% via a mobile browser. Research firm Aite Group estimates that there are about 50 million mobile banking users in the United States in 2013 and predicts that that figure will almost double to around 96 million by 2016 (eMarketer, Inc., 2013c). Top mobile banking activities include checking balances and bank statements, viewing recent transactions, transferring money from one account to another, paying bills, and depositing checks.

From the bank’s perspective, online and mobile banking can provide significant cost savings. According to Javelin Strategy & Research, the average in-person transaction at a bank branch costs $4.25, while an online transaction costs 19 cents, and a mobile transaction, just 10 cents.

The history of online brokerage has been similar to that of online banking. Early innovators such as E\*Trade have been displaced from their leadership positions in terms of numbers of online accounts by discount broker pioneer Charles Schwab and financial industry giant Fidelity (which has more mutual fund customers and more funds under management than any other U.S. firm).

**Online Mortgage and Lending Services**

During the early days of e-commerce, hundreds of firms launched pure-play online mortgage sites to capture the U.S. home mortgage market. Early entrants hoped to radically simplify and transform the traditional mortgage value chain process, dramatically speed up the loan closing process, and share the economies with consumers by offering lower rates.

By 2003, over half of these early-entry, pure-online firms had failed. Early pureplay online mortgage institutions had difficulties developing a brand name at an affordable price and failed to simplify the mortgage generation process. They ended up suffering from high start-up and administrative costs, high customer acquisition costs, rising interest rates, and poor execution of their strategies.

Despite this rocky start, the online mortgage market is slowly growing; it is dominated by established online banks and other online financial services firms, traditional mortgage vendors, and a few successful online mortgage firms.

Many mortgage shoppers research mortgages online, but few actually apply online because of the complexity of mortgages. Most mortgages today are written by intermediary mortgage brokers, with banks still playing an important origination role but generally not servicing mortgages they originate.

Although online mortgage originations currently represent a small percentage of all mortgages, their number is expected to continue to grow slowly but surely over the next several years.

Consumer benefits from online mortgages include reduced application times, market interest rate intelligence, and process simplification that occurs when participants in the mortgage process (title, insurance, and lending companies) share a common information base. Mortgage lenders benefit from the cost reduction involved in online processing of applications, while charging rates marginally lower than traditional bricks-and-mortar institutions.

Nevertheless, the online mortgage industry has not transformed the process of obtaining a mortgage. A significant brake on market expansion is the complexity of the mortgage process, which requires physical signatures and documents, multiple institutions, and complex financing details—such as closing costs and points—that are difficult for shoppers to compare across vendors. Nevertheless, as in other areas, the ability of shoppers to find low mortgage rates on the Web has helped reduce the fees and interest rates charged by traditional mortgage lenders.

**Online Insurance Services**

In 1995, the price of a $500,000 20-year term life policy for a healthy 40-year-old male was $995 a year. In 2013, the same policy could be had for around $400—a decline of about 60%—while other prices have risen 15% in the same period. In a study of the term life insurance business, Brown and Goolsbee discovered that Internet usage led to an 8%–15% decline in term life insurance prices industry-wide (both offline and online), and increased consumer surplus by about $115 million per year (and hence reduced industry profits by the same amount) (Brown and Goolsbee, 2000). Price dispersion for term life policies initially increased, but then fell as more and more people began using the Internet to obtain insurance quotes.

Unlike books and CDs, where online price dispersion is higher than offline, and in many cases online prices are higher than offline, term life insurance stands out as one product group supporting the conventional wisdom that the Internet will lower search costs, increase price comparison, and lower prices to consumers. Term life insurance is a commodity product, however, and in other insurance product lines, the Web offers insurance companies new opportunities for product and service differentiation and price discrimination.

The insurance industry forms a major part of the financial services sector. It has four major segments: automobile, life, health, and property and casualty. Insurance products can be very complex. For example, there are many different types of nonautomotive property and casualty insurance: liability, fire, homeowners, commercial, workers’ compensation, marine, accident, and other lines such as vacation insurance. Writing an insurance policy in any of these areas is very information-intense, often necessitating personal inspection of the properties, and it requires considerable actuarial experience and data. The life insurance industry has also developed life insurance policies that defy easy comparison and can only be explained and sold by an experienced sales agent. Historically, the insurance industry has relied on thousands of local insurance offices and agents to sell complex products uniquely suited to the circumstances of the insured person and the property. Complicating the insurance marketplace is the fact that the insurance industry is not federally regulated, but rather is regulated by 50 different state insurance commissions that are strongly influenced by local insurance agents. Before a Web site can offer quotations on insurance, it must obtain a license to enter the insurance business in all the states where it provides quotation services or sells insurance.

Like the online mortgage industry, the online insurance industry has been very successful in attracting visitors who are looking to obtain prices and terms of insurance policies. While many national insurance underwriting companies initially did not offer competitive products directly on the Web because it might injure the business operations of their traditional local agents, the Web sites of almost all of the major firms now provide the ability to obtain an online quote. Even if consumers do not actually purchase insurance policies online, the Internet has proven to have a powerful influence on consumer insurance decisions by dramatically reducing search costs and changing the price discovery process. According to a 2013 survey by Accenture, 47% of respondents preferred to obtain auto and home insurance quotes online or via a mobile app. However, conversely, most still preferred to meet in person with an agent to set up and proceed with payment for such policies (Accenture, 2013). Another survey found that over 60% of consumers surveyed would use the Internet to conduct research if they were to make a life insurance purchase, although they ultimately would buy from an insurance agent, and an additional 23% said they would both research and buy life insurance online (LIMRA and Life and Health Insurance Foundation for Education, 2013). Other forms of insurance are more likely to be purchased online. For instance, according to a 2012 comScore study, online auto insurance policy sales grew by 6% to 3.1 million online policy sales in 2011. The survey also found that the online channel continues to be consumers’ preferred method for shopping for auto insurance policies, with nearly 70% of shoppers getting an online quote (comScore, 2012b). Some of the leading online insurance services companies include InsWeb, Insure.com, Insurance.com, QuickQuote, and NetQuote.

**Online Real Estate Services**

During the early days of e-commerce, real estate seemed ripe for an Internet revolutionthat would rationalize this historically local, complex, and local agent-drivenindustry that monopolized the flow of consumer information. Potentially, the Internetand e-commerce might have disintermediated this huge marketspace, allowingbuyers and sellers, renters and owners, to transact directly, lower search costs tonear zero, and dramatically reduce prices. However, this did not happen. What didhappen is extremely beneficial to buyers and sellers, as well as to real estate agents. At one point, there were an estimated 100,000 real estate sites on the Internet worldwide. Many of these sites have disappeared. However, the remaining online sites have started to make headway toward transforming the industry. In addition, most local real estate brokers in the United States have their own agency Web sites to deal with clients, in addition to participating with thousands of other agencies in multiple listing services that list homes online. Some of the major online real estate sites are Realtor.com, HomeGain, RealEstate.com, ZipRealty, Move.com, Craigslist, Zillow, and Trulia.

Real estate differs from other types of online financial services because it is impossible to complete a property transaction online. Clearly, the major impact of Internet real estate sites is in influencing offline decisions. The Internet has become a compelling method for real estate professionals, homebuilders, property managers and owners, and ancillary service providers to communicate with and provide information to consumers. According to a survey conducted by the National Association of Realtors, 90% of buyers surf the Internet to search for a home. Although buyers also use other resources, most start the search process online and then contact an agent, with about 85% purchasing through an agent. Almost 40% of buyers said that they first learned of the home that they ultimately purchased via the Internet (National Association of Realtors, 2010).

The primary service offered by real estate sites is a listing of houses available. In 2013, Realtor.com, the official site of the National Association of Realtors, is one of the top Web sites in terms of market share of visits. Realtor.com listed over 4 million homes and had over 11 million unique visitors in September 2013. The offerings have become sophisticated and integrated. Listings typically feature detailed property descriptions, multiple photographs, and virtual 360-degree tours. Consumers can link to mortgage lenders, credit reporting agencies, house inspectors, and surveyors. There are also online loan calculators, appraisal reports, sales price histories by neighborhood, school district data, crime reports, and social and historical information on neighborhoods. Some online real estate brokers now charge substantially less than traditional offline brokers who typically charge 6% of the sale price. They can do this because the buyers (and in some cases, the seller) do much of the work of traditional real estate agents, such as prospecting, choosing neighborhoods, and identifying houses of interest prior to contacting an online agent. For instance, Move.com (the parent company of Realtor.com) also offers a “Find a Neighborhood” feature that allows users to choose the type of neighborhood they want to live in by weighing factors such as the quality (and tax costs) of schools, age of the population, number of families with children nearby, and available social and recreational services. Move.com also offers mobile apps for the iPad and iPhone, Android, and Windows phones. For instance, the Area Scout function allows users to see the list prices of all homes in a neighborhood on the street level.

Despite the revolution in available information, there has not been a revolution in the industry value chain. The listings available on Web sites are provided by local multiple listing services supported by local real estate agents. Sometimes, addresses of the houses are not available, and online users are directed to the local listing agent who is hired by the seller. Traditional hands-on real estate brokers will show the house and handle all transactions with the owner to preserve their fees, typically ranging from 5% to 6% of the transaction.

**Online Travel Services**

Online travel is one of the most successful B2C e-commerce segments. The Internet has become the most common channel used by consumers to research travel options, seek the best possible prices, and book reservations for airline tickets, hotel rooms, rental cars, cruises, and tours. Today, more travel is booked online than offline. Online travel services revenues are expected to reach almost $137 billion in 2013, and continue growing to almost $170 billion by 2017 (eMarketer, Inc., 2013d).

**Why Are Online Travel Services So Popular?**

Online travel sites offer consumers a one-stop, convenient, leisure and business travel experience where travelers can find content (descriptions of vacations and facilities), community (chat groups and bulletin boards), commerce (purchase of all travel elements), and customer service (usually through call centers). Online sites offer much more information and many more travel options than traditional travel agents. For suppliers—the owners of hotels, rental cars, and airlines—the online sites aggregate millions of consumers into singular, focused customer pools that can be efficiently reached through on-site advertising and promotions. Online sites create a much more efficient marketplace, bringing consumers and suppliers together in a low-transaction cost environment.

Travel services appear to be an ideal service for the Internet, and therefore e-commerce business models should work well for this product. Travel is an information intensive product requiring significant consumer research. It is a digital product in the sense that travel requirements—planning, researching, comparison shopping, reserving, and payment—can be accomplished for the most part online in a digital environment. On the travel reservation side, travel does not require any “inventory”:there are no physical assets. And the suppliers of the product—owners of hotels, airlines, rental cars, vacation rooms, and tour guides—are highly fragmented and often have excess capacity. Always looking for customers to fill vacant rooms and rent idle cars, suppliers will be anxious to lower prices and willing to advertise on Web sites that can attract millions of consumers. The online agencies—such as Travelocity, Expedia, and others—do not have to deploy thousands of travel agents in physical offices across the country but can instead concentrate on a single interface with a national consumer audience. Travel services may not require the kind of expensive multi-channel “physical presence” strategy required of financial services (although they generally operate centralized call centers to provide personal customer service). Therefore, travel services might “scale” better, permitting earnings to grow faster than costs. But these efficiencies also make it hard for reservation sites to make a profit.

**The Online Travel Market**

There are **four major sectors** in the travel market: (1) airline tickets; (2) hotel reservations; (3) car rentals, and (4) travel packages. Airline tickets are the source of the greatest amount of revenue in online travel (in 2012, almost two-thirds of all online travel spending). Airline reservations are largely a commodity. They can be easily described over the Web. The same is true with car rentals; most people can reliably rent a car over the phone or the Web and expect to obtain what they ordered. Online car rentals accounted for about 9% of travel spending in 2012. Although hotels are somewhat more difficult to describe, hotel branding, supplemented by Web sites that include descriptions, photographs, and virtual tours, typically provide enough information to most consumers to allow them to feel as if they know what they are purchasing, making them comfortable enough to make hotel reservations online. Online hotel rentals accounted for about 19% of travel spending in 2012. Travel packages purchased online constituted the smallest percentage of travel sales, accounting for only 2%.

Increasingly, corporations are outsourcing their travel offices entirely to vendors who can provide Web-based solutions, high-quality service, and lower costs. Online vendors to corporations provide corporate online booking solutions (COBS) that provide integrated airline, hotel, conference center, and auto rental services at a single site.

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| **corporate online booking solutions (COBS)** provide integrated airline, hotel, conference center, and auto rental services at a single site |

**Online Travel Industry Dynamics**

Because much of what travel agency sites offer is a commodity, and thus they face the same costs, competition among online providers is intense. Price competition is difficult because shoppers, as well as online site managers, can comparison shop easily. Therefore, competition among sites tends to focus on scope of offerings, ease of use, payment options, and personalization. Some well-known travel sites are listed in **Table 1**.

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| **Table 1** | **MAJOR ONLINE TRAVEL SITES** |
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The online travel services industry has gone through a period of consolidation with stronger offline, established firms such as Sabre Holdings (which now owns Travelocity, Lastminute, and Site59, among others) purchasing weaker and relatively inexpensive online travel agencies in order to build stronger multi-channel travel sites. Orbitz and Expedia have also been involved in the industry consolidation. Orbitz was initially an industry consortium, then went public, then was purchased by Cendant (along with other travel firms such as CheapTickets and Trip.com), then sold by Cendant to Blackstone Group, and finally went public again in 2007. Expedia, originally begun by Microsoft, was purchased by Barry Diller’s conglomerate IAC/InterActiveCorp, but has now been spun off as an independent company once again, picking up IAC’s Hotels.com, Hotwire, TripAdvisor, and TravelNow in the process.

In addition to industry consolidation, the online travel industry has been roiled by meta-search engines that scour the Web for the best prices on travel and lodging, and then collect finder or affiliate fees for sending consumers to the lowest-price sites. For instance, TripAdvisor has created a one-stop Web site where consumers can find the lowest price airfares and hotels by searching over 100 other Web travel sites and presenting the fares in rank order. Similar “travel aggregator” sites are Kayak, Fly.com, and Mobissimo. These sites, in the eyes of many industry leaders, commoditize the online travel industry even further, cause excessive price competition, and divert revenues from the leading, branded firms who have made extensive investments in inventory and systems.

Mobile devices and apps used for pre-trip planning, booking, check-in, and context and location-based destination information are also transforming the online travel industry (see also the case study on Orbitz’s mobile strategy in Chapter 4). For instance, in 2013, almost 50 million are expected to use a mobile device to research travel, and that number is estimated to almost double, to about 93 million by 2017. Around 25 million are expected to actually book travel using a mobile device in 2013, and that number is expected to double as well, to over 56 million, by 2017 (eMarketer, 2013d). Most of the major airlines now have apps for a variety of mobile platforms to enable flight research, booking, and management. Apps from hotels and car rental companies are available from most of the major players such as Hertz and Avis for car rentals, and Best Western, Choice Hotels, Hilton, and Starwood for hotels. Apps may sometimes target specific consumer behavior. For instance, the Wyndham Hotel group discovered that about 70% of its mobile bookings come on the same day, in many cases within a few miles of the hotel (eMarketer, Inc., 2012b).

Social media is also having a big impact on the online travel industry. User-generated content and online reviews are having an increasing influence on travel-buying decisions. The Insight on Society story, Phony Reviews, examines some of the issues this presents for the industry.