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EVOLUTION OF INTERNET RETAILING

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Abstract

With online businesses booming it seems these days that any type of transaction can be done online; from auctioning canoes and cell phones to buying kitchen appliances, toys, and books. As Jim Griffith of Ebay says, "I don't think any of us had any idea it would be so huge and encompass the whole world eventually (Maney, 2005)."

This thesis aims to take a closer look at the history, expansion, and future of internet retailing. It will delve into how Ebay and Amazon have been so successful since their startup and look at the increased competition from other companies. It will also take into account brick and mortar stores that have started to have success in internet retailing. Then it will look to understand how these companies have been expanding, through offering more product lines and acquiring smaller online companies. Finally, it will look towards the future to see how internet retailing will continue to change and if the success of e-commerce will be a continuing trend.

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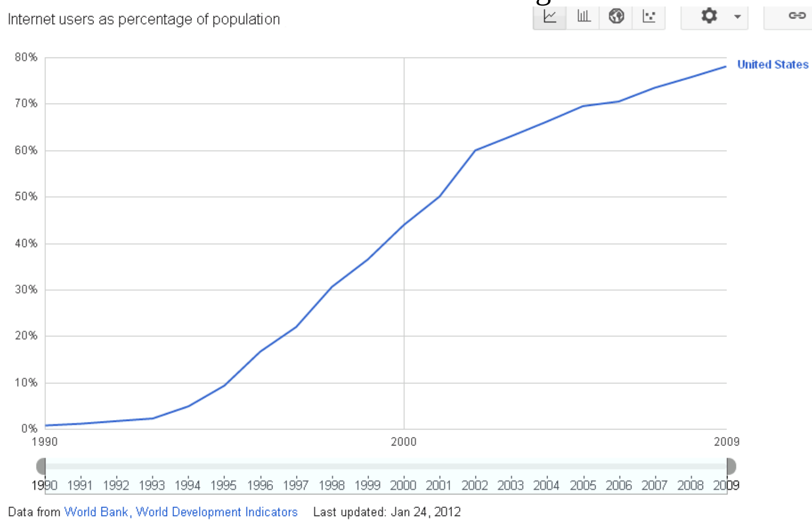
Chapter One
Introduction to Ecommerce

During the holiday season stores are under increased pressure to keep their inventory up in order to please customers. In fact they also need to be able to handle the pressure of millions of customers entering their stores on a daily basis. However, since the popularity of shopping online has increased, this pressure to keep up appearances in stores has been decreasing. Companies are now focusing on how to improve their online presence. Other companies, like Amazon.com, are focusing on how to expand their online websites to be able to sell everything and anything a consumer would need. With online businesses booming it seems that any type of transaction can be done online, from auctioning canoes and cell phones to buying kitchen appliances, toys, and books. As Jim Griffith of Ebay says, “I don't think any of us had any idea it would be so huge and encompass the whole world eventually (Maney, 2005).”

E-commerce became more popular with the increasing use of the Internet, as can be seen in Exhibit 1. Around the year 2000, the Internet was becoming increasingly popular in Europe and the United States and e-commerce was becoming known as purchasing goods and services on the Internet using electronic payments. Later in 2000, with the dot-com burst, online internet retailers saw a sharp decline in sales causing many online companies to shut down. However, brick and mortar stores knew of the many advantages of e-commerce and were sure to bring back the use of online shopping to be even stronger than before. E-commerce has allowed for many advantages for both customers and suppliers. The customers are able to browse thousands of items while sitting at home and are also able to compare prices very easily. Suppliers on the other hand are able to market their products and services very cheaply and all across the globe thanks to the use of the Internet. All of this has led to the continued success of so many online companies (History of E-commerce, 2004).

Exhibit 1: Internet Usage

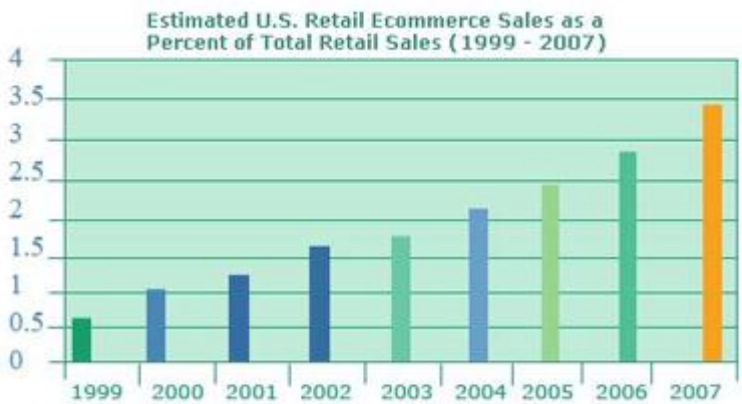


(“Internet Users as Percentage of Population”, *World Bank*, 2012.)

The first two companies to allow electronic transactions, Amazon and Ebay, truly started this trend towards electronic commerce. Amazon.com was started in 1995 by Jeff Bezos as a business known as “Earth’s Biggest Bookstore.” Since 1995 Amazon has grown to sell a variety of other product categories and is still continuing to expand today (Amazon.com Inc. Company Profile, 2012). Ebay, an online auction service, was started in 1995 by Pierre Omidyar with a goal to “become the world's most efficient and abundant marketplace by expanding its community of users, delivering value to buyers and sellers, creating a global marketplace (Ebay Inc. Company Profile, 2012).” Ebay has also grown since 1995 to become the “largest online trading community (Ebay Inc. Company Profile, 2012)”.

With both Ebay.com and Amazon.com starting this wave of e-commerce, other companies started websites and saw increased online sales. Brick and mortar companies like Wal*Mart, Office Depot, and REI have expanded to offering their products online because of all the added advantages of e-commerce. Each of these companies is continually trying to improve their ever-expanding product lines and logistics to improve their sales. The success of these online businesses has especially been seen in recent years. The U.S. Commerce Department reported that US e-commerce sales totaled $165.4 billion in 2010, up 14.8 percent from $144.1 billion in 2009, according to non-adjusted estimates. As can be seen in Exhibit 2, sales have taken a spike from 1999 to 2007. They also reported that e-commerce is growing faster than retail sales and that 4.2 percent of total retail spending took place online during 2010, up from 3.9 percent in 2009 (Enright, 2011).

Exhibit 2: U.S. Retail E-commerce Sales



("History of Ecommerce." *E-Commerce Land*. E-Commerce Land, 2004. Web. 5 Jan. 2012. <http://www.ecommerce-land.com>.)

This research will take a closer look at the history, expansion, and future of these e-commerce businesses. It will delve into how Ebay and Amazon have been so successful since their startup and will look at the increased competition from other companies. It will also examine how these companies have been expanding, through offering more product lines and purchasing smaller online companies. Finally, it will offer examples of the future to see how things will continue to change and if the success of e-commerce will be a continuing trend.

Chapter Two
Methodology

This research will begin by looking at the start-ups of various online businesses, from Amazon to Wal*Mart. It will then look into the expansion of these companies through the years and what their status is today. Finally, it will attempt to understand the future of these online businesses.

The primary research for the history, expansions, and current position of these companies was done through secondary data analysis. This secondary data was collected from various newspapers, journals, and databases. The data was collected mainly between November 2011 and January 2012. This was the most appropriate way to collect data for this portion of the thesis because there was so much research and information already available for each of the companies. The companies chosen for this research were Ebay, Amazon, Recreation Equipment Inc, Office Depot, and Wal*Mart.

The information regarding the future state of the online businesses was done through interviews from various employees at the companies discussed in this thesis. The interviewees, topics, and questions were approved before conducting the formal interviews. The contacts were determined through the Center for Supply Chain Research at Penn State. These employees were able to provide insight into how the companies will move forward and the successes or failures they see in the future of their company's online business. They were also able to fill in any questions regarding the history and current standings of the companies. This data was mainly collected from February 2012 to March 2012; however the specific dates varied according to availability. Collecting this data through interviews was the best approach for research on the future of the online businesses because these employees have experience in the company. They have seen the changes that have occurred in the past, allowing them to better understand how they will continue to change in the future.

Chapter Three
History of Ecommerce

E-Commerce Beginnings of Ebay

Ebay is the world's largest trading community and is headquartered in San Jose, California (Ebay Inc. Company Profile, 2012). The first version of what would soon be called Ebay went online in September 1995 by Pierre Omidyar. This was the first online auction sight. Omidyar started it simply because he wanted to help his girlfriend trade her Pez collection online. But then he explains that, "I got thinking that the Net could be used to create a perfect marketplace, where everyone was on equal footing and the marketplace set the price" (Maney, 2005). He developed software for the site and put it up on the internet. Omidyar originally wanted it to go by Echo Bay Technology but after learning this was taken shortened it to Ebay (Maney, 2005). The first item sold on eBay was a broken laser pointer for $14.83. Margaret Whitman, who was working at Hasbro at the time, was given the position of CEO of Ebay in early 1998. In September 1998 the company went public and launched a national ad campaign. Overnight Omidyar became a billionaire by this IPO. Ebay became a more familiar name thanks to the IPO and their deals with AOL and WebTV. Ebay's target share price was $18 but on the first day of trading it sold at $53.50 (Oliver, 2012).

Ebay saw enormous growth from before it went public and afterwards as well. The company was worried that the site would not be able to keep up with the growth and that it would crash. Omidyar made attempts to try and slow the growth by limiting the number of items that could be posted and by making the listing fees higher. This soon backfired because users realized only 10,000 items could be listed each day so they rushed to get their items on as soon as they could. Then on June 10, 1999, the site crashed for twenty-two hours. However, CEO

Whitman says that this was good for the company because it allowed them to ground themselves. Whitman really excelled as CEO during this time and was able to get the problem fixed. She also had employees call and personally apologize to those this crash affected. Thanks to the great response by their CEO, eBay was able to turn around and continue its success after the crash (Maney, 2005).

E-Commerce Beginnings of Amazon

Amazon.com was started by Jeff Bezos as the "Earth's Biggest Bookstore" (Amazon.com Inc. Company Profile, 2012). In the early 1990's Bezos was researching the internet for hedge fund D.E. Shaw, where he was a vice president. He discovered that book distributors kept electronic lists of all books so this would make them perfect for e-commerce. With his dream of being an entrepreneur he went to a book distributor in Seattle to better understand how this could work. Brick and mortar book stores like Barnes and Noble could only keep so many books available in stores whereas an online book retailer could have countless books on its website. He launched Amazon's website in July 1995 and the first book sold was Douglas Hofstadter's *Fluid Concepts and Creative Analogies*. Amazon soon became the number one site for book e-tailing. By September 1995 the site was making $20,000 per week and they were continuing to grow. They came up with ideas that now are seen in everyday online shopping like e-mail confirmation and available customer reviews of products. The site was also extremely user friendly, allowing customers to search for specific titles and also by topic (Biesada, 2012). Another part of Amazon that made it very popular was the cheap prices. Without having to pay warehousing costs Amazon was able to keep actual book costs down. Many of the books were sold with a ten to thirty percent discount compared to other retailers. Amazon only carried 2,000 titles in a small warehouse. Most orders would be placed directly to publishers on the site so a large warehouse with countless titles was not necessary like competitor brick and mortar stores needed. By doing this Amazon was able to get the books from other sources to ship to the customer. Amazon went public in May 1997. With the increased success from going public, Bezos wanted to focus on improving the already popular website and improving their distribution process. In September 1997 they expanded their Seattle distribution center. They also opened a second distribution center in New Castle, Delaware. This had a great effect because it allowed Amazon better access to east coast publishers and customers. Both of these improved distribution centers allowed Amazon to shorten time to customers (International Directory of Company Histories, 2004). The brand became even more popular when it became the sole book retailer for AOL and Netscape (Biesada, 2012).

Ebay and Amazon both have very different histories but both have become top e-commerce businesses with continued success today. Now that this research has explored the history of the two starters of this e-commerce trend it will now move on to understand how they have expanded as well as to identify other companies that have entered the e-commerce business.

Chapter Four
Expansions of E-commerce Sites

Ebay Acquisition of GSI

Ebay is now planning on taking on rival Amazon by acquiring GSI Commerce. GSI Commerce is an online service company that was purchased by Ebay for $2.4 billion in March 2011. This purchase will allow Ebay to connect with large retailers. GSI's warehouses will help stock a retailer's merchandise by shipping and tracking the product (Rusli, 2011). GSI designs everything relating to ecommerce: the actual website, the shopping-cart components, and the electronic payment (Von Bergen, 2011). Until this acquisition, Ebay has done its best to avoid stocking merchandise, shipping, and processing returns. They had the sellers on the site handle these themselves. Jordan Rohan, an analyst with Stifel Nicolaus, said that "By integrating GSI's services with the PayPal payment service and the Bill Me Later online credit service, which it also owns, Ebay could compete with Amazon, which also offers fulfillment services for small businesses" (Rusli, 2011). They are paying a reasonable price for this competition with Amazon (Rusli, 2011).

GSI will help Ebay grow because it will help them take customer orders, manage them and fill them. This is new for Ebay but Amazon has experience in these areas. Currently, Amazon is fulfilling its third-party sellers. Ebay on the other hand is all third-party sellers so adding GSI will certainly change the game for Ebay (EBay Moves to Beef up Its Online Markets with Offer to Purchase GSI Commerce, 2011). The competition between Ebay and Amazon has continued to grow because they are both battling for market share in the United States. In 2010 Amazon grew significantly more than Ebay so Ebay is hoping this acquisition will allow further growth. In the future GSI could also take advantage of this acquisition by using Ebay as an outlet for their large retailers to rid themselves of surplus inventory (Rusli, 2011).

Amazon Acquisition of Zappos

In 2009 Amazon completed the acquisition of Zappos.com. The deal was worth a total of $850 million and as part of the deal Zappos would operate separate from Amazon. Zappos kept their headquarters in Las Vegas and the warehouse in Kentucky would operate the same and the management would remain the same. In return, Zappos.com employees received $40 million in cash and restricted stock. (Amazon Completes Zappos Buy, 2009). Zappos was founded by Nick Swinmurn in 1999 and just a decade later was taken over by Amazon. Zappos is the number one online shoe retailer. They have aimed to be the e-tailer that sells "anything and everything." They stock three million pairs of shoes, handbags, apparel and accessories. They also specialize in having thousands of brands that are difficult to find in stores (Colbert, 2012). Zappos is known for its customer service and they plan to continue this service since they will run as a separate entity from Amazon. They offer free shipping in four or five business days on all its orders and pay for return shipping (Mintz, 2009).

This acquisition has had benefits for both companies. Amazon became an expert in online shoe sales with this purchase which helped continue their growth (Biesada, 2012). Zappos CEO Tony Hsieh stated, "We realized that Amazon's resources, technology, and operational experience had the potential to greatly accelerate our growth." Hsieh also confirmed that, ""We are planning on continuing to run Zappos as a separate company with our own culture and core values" (Mintz, 2009).

Amazon Acquisition of Quidsi

Amazon continued to make acquisitions to increase their growth. In November 2010 they bought Quidsi.com for $500 million. Just as they did with the purchase of Zappos, Amazon will allow Quidsi to operate independently after the acquisition. Quidsi owned Diapers.com, Soap.com, Wag.com, and BeautyBar.com at the time (they now also own YoYo.com selling toys and Casa.com selling home essentials) (Ortutay, 2010). “Quidsi is one of the fastest growing e-commerce companies with a fixed focus on customer service,” as their website states (Our Story, 2005). Quidsi was cofounded by Marc Lore and Vinit Bharara. They were new dads who were tired of waiting in lines to get diapers which led them to start Diapers.com in 2005 (Colbert, 2012). They first operated from their garage fulfilling phone-in orders, but then in 2006 opened a formal office in Montclair, NJ. They began by only offering a variety of diaper brands, formula, and wipes but today sell nearly any baby product parents would need. They wanted to be sure to deliver fast and cheap products so they began opening warehouses around the United States. They also invested in technology to help productivity and efficiency. Lore and Bharara even hired someone to develop a system to optimize order-to-box size. This would drastically help them reduce shipping costs which was key in order to deliver low price products to families (Our Story, 2005).

Prior to the acquisition by Amazon they launched a second site, Soap.com in July 2010. This site offers more than 25,000 products and 900 brands, from laundry detergent to toothpaste The two sites work together and share a shopping cart so that products bought from both sites can be shipped in the same box, again saving on shipping costs. Their dedication to logistics in order to keep costs down is part of what has made them so successful and this is evident when speaking to the cofounder, Lore (Our Story, 2005). "Selection, price, customer service, speed of delivery, in-stock rates, ease of shopping -- when it comes to any of those areas, I put analytics aside and work backward," said Lore, in an interview with Inc. magazine. "I say, 'Let's work with the most perfect thing we can do, the best possible consumer experience, and then now, analytically, let's try to figure out how to do that as efficiently as possible” (Murphy, 2010).

Quidsi next launched BeautyBar.com in 2010 which was a beauty boutique online to serve its customers even better (Our Story, 2005). In July 2011 Quidsi introduced Wag.com to sell pet supplies. In opening Wag.com Quidsi needed to be sure not to fail like previous online pet supply companies. These companies, like Pets.com, failed due to spending too much money on inventory, warehouses and shipping. However, Quidsi has the ability to overcome this due to their obsession with logistics and their extremely modern warehouse technology. Another problem is that shipping bulky items such as dog food is expensive. Today however consumers are more interested in organic dog food which costs more per pound, so shipping costs as a percent of revenue are lower. Quidsi also has the advantage of Amazon's lower shipping rates (Miller, 2011). To add to its brands Quidsi launched YoYo.com in the fall of 2011. This site has products ranging from toys to collectibles to games (Our Story, 2005).

Quidsi continued to expand in February 2012 when they launched a new site, Casa.com. There are 35,000 products available on this new site, from products for homes and apartments to kitchenware and bedding. Quidsi owner Marc Lore says, "The selection is anything you find in Bed, Bath & Beyond and Williams-Sonoma" (Woo, 2012). He also reports that they will have anything available for the "busy mom." They will continue their two-day shipping on purchases over $49 and 365 day return policy like their other sites (Woo, 2012). All six of these Quidsi brands, Diapers.com, Soap.com, BeautyBar.com, Wag.com, YoYo.com, and Casa.com, share one online shopping cart. This allows customers to shop across all six sites at once. This shared cart also benefits customers because of Quidsi's guaranteed free shipping of orders over $49; they are able to reach free shipping faster since the $49 can be combined across all six sites (Our Story, 2005). The acquisition of Quidsi certainly helped Amazon become the seller of anything and everything due to the large variety of products that would become available on Amazon's website.

Recreation Equipment Inc E-commerce Startup

In 1996 Recreation Equipment Inc (REI) announced the opening of an online site. Prior to the launch of their website REI had more than 46 stores nationwide. Lloyd Anderson founded REI in his Seattle garage in 1938. They had slow growth until 1991 when they opened their first distribution center; they had 27 stores at this time (Colbert, 2012). The purpose of the new site was to offer customers located anywhere another outlet to purchase products and also obtain information on their outdoor products. The online store was split into three main areas of service: 'Great Gear' where customers can browse and order products; 'Get Out There' where customers can find resources about getting outdoors; and 'More Than A Store, where customers can check on their patronage refunds, change their addresses and find corporate information (REI Launches New Online Store Based on Netscape Software, 2006). This first site was launched with just six employees, 580 products, and $250,000 invested in using the internet. However, the site generated a profit by 1998. REI also added kiosks in-store in 1997 to allow customers to search REI.com while in the store for products that are not currently in stock. Seeing the great online success REI.com had, they launched their second site later in 1998, REI-OUTLET.com which helped increase their sales even more. REI kept an infrastructure that had a customer contact distribution and fulfillment center. They have found great success with their customer service because they allow all three of their channels, in-store, online, and catalogs, to work together. Customers can make returns from online or catalogs to stores and can use gift certificates at any channel (REI.com Celebrates Fifth Anniversary, 2001).

Office Depot E-commerce Startup

Office Depot is the number two office supply retailer, second behind Staples. They sell to both consumers and businesses offering computer hardware and software, office furniture, school supplies, and printing and copying services. They had continued success since 1986 with their retail stores and in the late 1990s began looking to join the wave of companies opening internet stores. In 1996 Office Depot started their first business-to-business e-commerce site. Then in 1997 they began designing their first public website to offer customers the convenience of buying all of their office supplies online. This website was launched in January 1998. Officedepot.com saw a lot of success in the first year and sales totaled $66.5 million by the end of 1998. In 1999 they launched their first international website and their domestic website continued to grow reaching nearly $350 million, earning them a spot in the *Internet Retailer* rankings of "Top 25 of the Web" (Timeline at Office Depot, 2012).

In 2002 Office Depot announced its alliance with Amazon. They were to begin selling over 50,000 products on Amazon.com. At the time Office Depot's main customers were small business owners. With this alliance they will be better able to reach more customers. Monica Luechtefeld, Office Depot's executive vice president for e-commerce, stated "We've been doing a lot of research lately, and one of the markets that we think is under-served is that personal shopper." Amazon was set to handle the transaction while Office Depot planned to manage the inventory and product fulfillment. Office Depot would also handle customer service related to the actual products while Amazon would handle the website customer problems (Owers, 2002).

Wal*Mart E-Commerce Startup

Wal*Mart has become known as the top brick-and-mortar retailer. However, it entered the e-commerce market significantly later than others. Wal*Mart.com was founded in 2000 and is based in California, far from its retail store headquarters in Arkansas. The website offers a variety of products ranging from tires and jewelry to electronics and groceries. In 2009 they added third-party retailers to the website to draw in more customers. These retailers include eBags, Shoebuy.com, and ToolKing.com. Wal*Mart is using its website to offer a better range of products than what is available in its stores. Their stores typically have 120,000 products while their website has more than 500,000 (Biesada, 2012).

However, Wal*Mart has not seemed to perfect its e-commerce strategy yet. They may be the largest retailer, but they have some tough competitors with Amazon being the largest online retailers. Wal*Mart is about ten times Amazon's size in overall sales, but it has only about one-tenth as much in online sales. Amazon took on many packaged-goods products that are staples to Wal*Mart's sales with their acquisition of Quidsi, products such as shampoo and diapers. However, Wal*Mart believes they are in a better position in to grow profitably in e-commerce. Their strategy is to integrate their store and online marketing like never before. They are also giving incentives to employees to promote Wal*Mart.com. The employees will get credit for online sales from their territory. Wal*Mart has also introduced an iPad app, Facebook app, and will soon release an updated iPhone app to give customers even more ways to shop online via Wal*Mart.com. Another way Wal*Mart plans to get ahead of Amazon is by using their 3,800 stores and 150 distribution centers. They want to offer next-day delivery and plan to use their large number of stores and distribution centers to make this work at a low price (Neff, 2011).

Chapter Five
Current E-commerce Standings

In 2010 ratings agency StellaService LLC in New York ranked the top 150 internet e-tailers. The ratings looked into 300 factors relating to customer service including online tools, user interfaces, ease of ordering and returning, and interactions with customer service representatives. Zappos.com came in as number one. Other notable companies that followed Zappos in the rankings were Diapers.com, BlueNile.com, Amazon.com, Staples.com, Crutchfield.com, LLBean.com, BestBuy.com, Apple.com, Sears.com and REI.com (E-business Zappos Earns No. 1 Ranking for E-retailing, 2010).

In September 2011 Dollar General launched its first e-commerce site. This is unique because it is much harder for discount stores to sell online and most of Dollar General's products are one dollar and the higher priced items are mostly under ten dollars. However, with online retailing being such a great way to help a company grow, Dollar General was bound to go this route. The products sold online will be of higher quality and pricier than the products sold in stores. They also sell the products they sell in stores in bulk online. By selling online they not only reach a wider range of customers (most of their stores are only located in specific regions in the United States) but also can have more items available than what is currently in their physical stores. This opening of an online site has also been a response to their rival Dollar Tree, having an already up and running website (Tsuroka, 2011). The opening of dollar store online websites just is able to show us how important e-commerce is today.

Today REI.com and REI-OUTLET.com have expanded to offer 78,000 products, 45,000 pages of product information, expert advice, interactive community system, and a travel service. (REI.com Celebrates Fifth Anniversary, 2001). In 2003 REI continued to improve their online channel by integrating the three sales channels on IBM's WebSphere platform. Before this the infrastructure was a mixture of in-house applications and various vendor codes. With this updated infrastructure, REI will be able to develop its e-commerce and kiosk capabilities even more (REI Overhauls Its E-commerce, 2003). Also in 2003 REI gave a new option to customers to have in-store pickup from online sales. This allowed shoppers to have a larger selection than in the store. The customers are then able to pick up their products at a local store with no shipping charge, saving the customer money. REI also saw an advantage to this because many customers were purchasing more once they got to the stores to pick up their orders. This is just another way REI has continued to expand and improve their online services (REI Store Pickup Lifts Store and Internet Sales, 2003). CEO Dennis Madsen talks about their success in e-commerce by saying, "We made a strategic investment in the Internet early in the game, and I'm pleased to say that our investment is successful and our direct sales channel is doing a terrific job of supporting our members and customers." (REI.com Celebrates Fifth Anniversary, 2001).

Today Office Depot continues to see success with their online sales. They also continue to make improvements to better serve their customers. In March 2011 they launched their new iPhone and Android mobile applications. Office Depot has an "Office Depot Anywhere" strategy that aims to help customers shop at their convenience no matter where they are located. To reach even more customers, those without an iPhone or Android, Office Depot has also enabled OfficeDepot.com for mobile browsing on non-iPhone and Android's. Barry Litwin, VP of E-Commerce for Office Depot explained, "We know customers are busy and sometimes the only time they have to shop for their office needs is between meetings, in the airport, or from the road. The advanced functionality of Office Depot's new mobile applications for the iPhone and Android-based phones provide our customers with a best-in-class experience, including the ability to check out and purchase products without being redirected to another site outside of the mobile application" (Office Depot Rolls out New iPhone and Android Applications, 2011). This new application will allow customers to search and purchase any products directly from their phone. They will also be able to look at reviews, find an Office Depot store, and track their shipment. Office Depot plans to continue to offer the convenience of shopping through any channel for their customers in the future by adding more mobile platforms, for example for BlackBerry and tablet devices (Office Depot Rolls out New iPhone and Android Applications, 2011).

Today Wal*Mart continues to experiment with other ideas to improve their online sales and to try and catch up with Amazon. In 2010 they began a new program called "Pick Up Today." This program allows customers to place their order online and then receive free same-day pickup at a local Wal*Mart store. They also introduced another program "FedEx Site to Store." This program allows customers to purchase items online and then have them shipped for free to FedEx Office location. This option is aimed to serve customers who do not live close to a Wal*Mart store. (Wal*Mart Continues eCommerce Growth Through Multichannel Tests, 2010). Then in 2011 they began testing an online grocery delivery service in the Silicon Valley, called Wal*Mart To Go (Hachman, 2011). With new programs like these Wal*Mart hopes to draw in more customers to improve their standings in the e-commerce market.

As is seen, companies are continuing to grow and improve their online presence today. The companies that are continually making changes according to customer needs are the companies that are going to see success in the future and see themselves ranked in the top internet e-tailers.

Chapter Six
Future of Ecommerce

Expected Future Trends

The future of e-commerce is uncertain. As has been seen, it has had extreme growth in recent years and it is expected to continue to grow as the age of the Internet is growing. However, there are many predictions of what will become popular, whether it is the use of social networking or mobile phones. It is also uncertain whether the growing popularity of e-commerce will begin putting physical stores out of business. One way to better understand the expected trends is to look at research and opinions of people working in the industry.

Terry Lundgren of Macy's says, "It used to be catalogues killing physical stores, then it was TV shopping and now it is online retail" (Making It Click, 2012). He thinks it is important for retailers to begin using multi-channels to have online retailing and physical stores. Kevin Ryan who is the chief executive of Gilt Groupe on the other hand feels that there is, "no evidence that there are big opportunities for traditional retailers in online retail" (Making It Click, 2012). He feels this way because overall retail sales are flat in the United States while e-commerce sales are predicted to continue growing in the future, as seen in Exhibit 3. However, there is no single success tool for retailing in the internet age. José Alvarez of Harvard Business School says retailers are going to need to balance their investment between staff, locations, inventory, and online operations (Making It Click, 2012)

Exhibit 3: Expected Growth of U.S. E-Commerce Sales

("Making It Click." *The Economist* 25 Feb. 2012: 75-76. Print.)

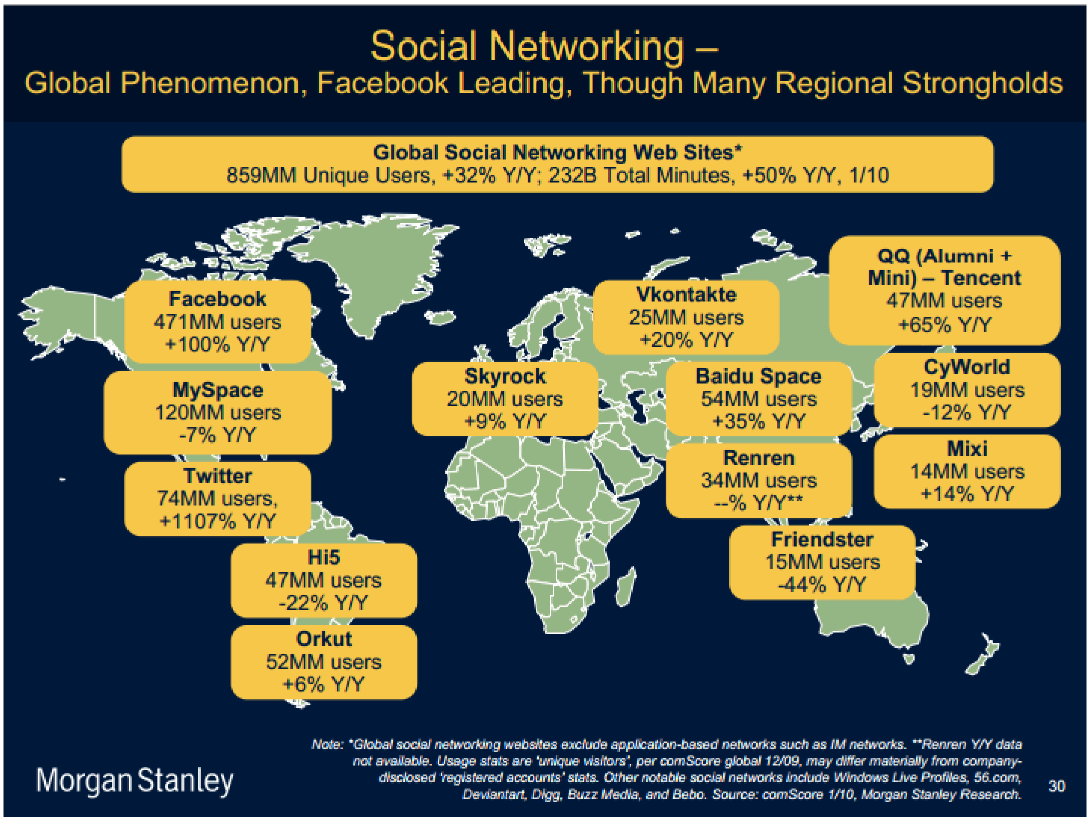
Whether online retailers are going to eliminate retail stores is uncertain. However, if retailers are planning to open up online websites they must integrate seamlessly their online business with their bricks-and-mortar operations. Keeping them separate increases the risk that they will fail to communicate or work together to create success. An example of this can be seen through Wal*Mart who recently began starting their online business. Wal*Mart's online operations are located in Silicon Valley which is far from their retail headquarters in Arkansas. This may be the reason why Wal*Mart has a small online presence relative to their large retail size (Making It Click, 2012).

With the uncertainly of retail stores in the future, companies that want to keep their stores as well as online operations are going to need to start getting innovative. Stores will have to become more fun to visit so that customers feel it is worth the trip. For example, Apple shops thrive because they contain cutting edge products, are beautifully designed, and have extremely helpful staff. If stores do not focus building this relationship with shoppers they risk having shoppers try products out in physical stores before buying them cheaper online. To survive in the new world of retail, stores will need large amounts of imagination and money to keep customers coming back. However, many stores do not have the money to invest in this which is exactly why they are focusing on their online presence. The internet is a cheaper and easier way for companies to reach a large audience of customers (Clicks and Bricks, 2012).

In order to be successful, online companies not only need to integrate with their retailers but also need to experiment with new ideas to keep up with customers' needs and wants. In 2010 Macy's introduced a virtual fitting room where customers were able to try on digital versions of clothes. They were then able to share these images with their friends on Facebook. However, this experiment did not work. This will not stop Macy's from trying to reinvent their online sales; they are now looking to try out virtual mannequins (Making It Click, 2012).

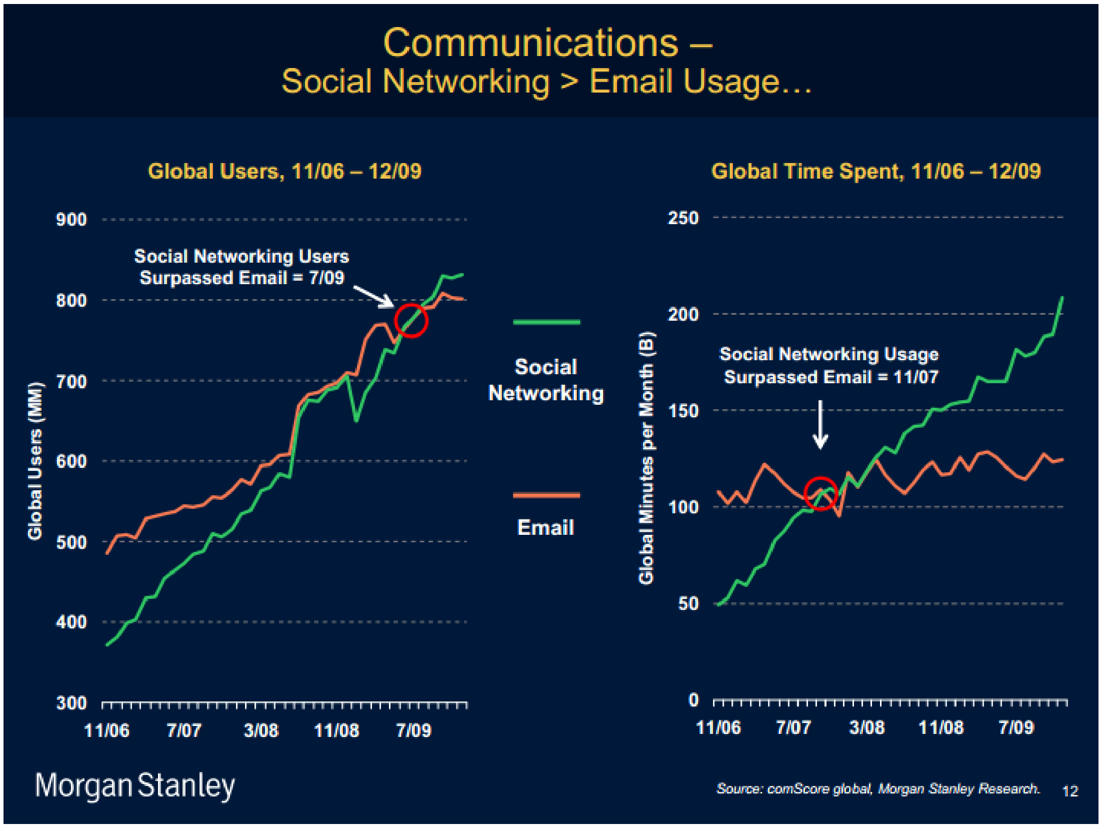
Macy's is not the only company that has seen a failure through attempting to sell via social media. Other bricks-and-mortar retailers like GAP, J.C. Penney and Nordstrom have tried to open storefronts on Facebook but had to close them shortly after because they were not successful (Making It Click, 2012). It is uncertain if selling through social networking will one day be more widely used. However, Morgan Stanley analysts did research on upcoming trends in the changing mobile internet market (Morgan Stanley, 2009). This research showed that global social networking is widely used globally, as seen in Exhibit 4. In fact, the number of social network users surpassed the number of email users in 2009 and global time spent using social networks surpassed email usage globally in 2007, as seen in Exhibit 5. Therefore it is imperative that companies continue to experiment with new ways to use the popularity of social networks to sell their products (Morgan Stanley, 2010).

Exhibit 4: Global Use of Social Networking



(Morgan Stanley, 2010)

Exhibit 5: Increased Use of Social Networking Compared to E-mail Usage

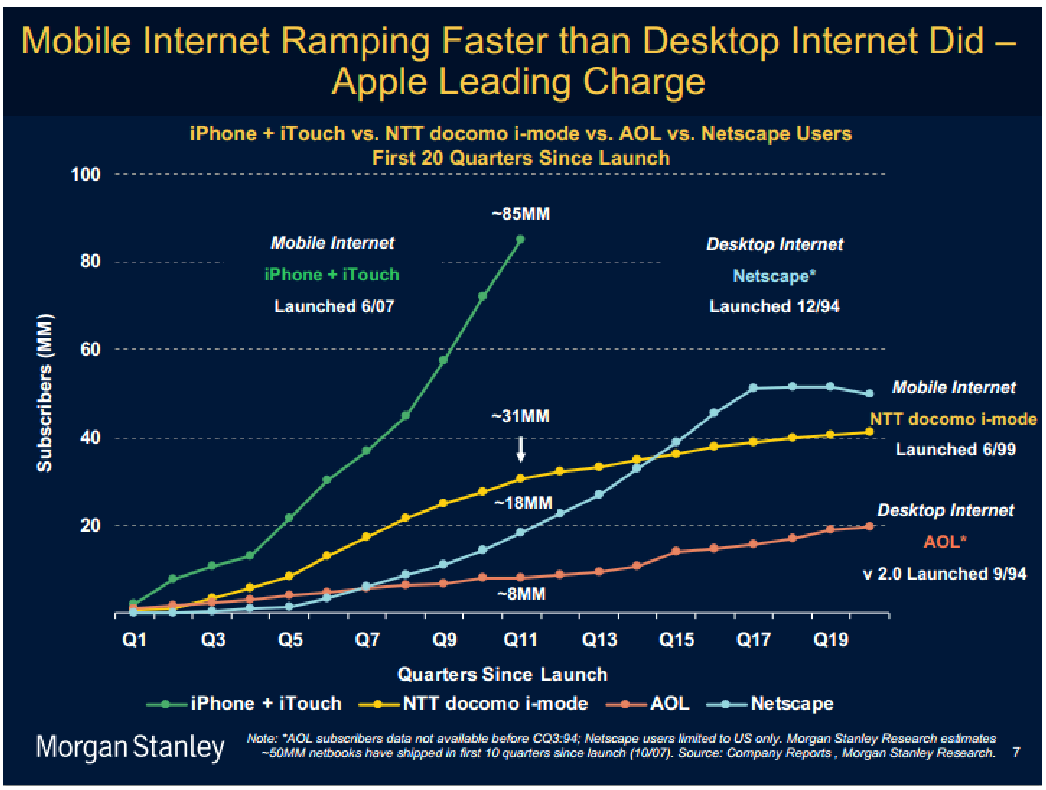


(Morgan Stanley, 2010)

Joel Anderson of Wal*Mart says that retailers who will survive online are the ones that are "listening to the dynamic demands of customers" (Making It Click, 2012). One trend from customers that seems very clear is that as personal computing goes mobile people want to buy more via mobile as well. Nigel Morris, chief executive of Aegis Media Americas, predicts "By 2014 mobile internet will overtake desktop internet usage for shopping" (Making It Click, 2012). One explanation behind this prediction is that nearly one-third of people living in the United States own a smartphone and seventy percent of them use it to do searches while inside a shop to compare prices (Making It Click, 2012).

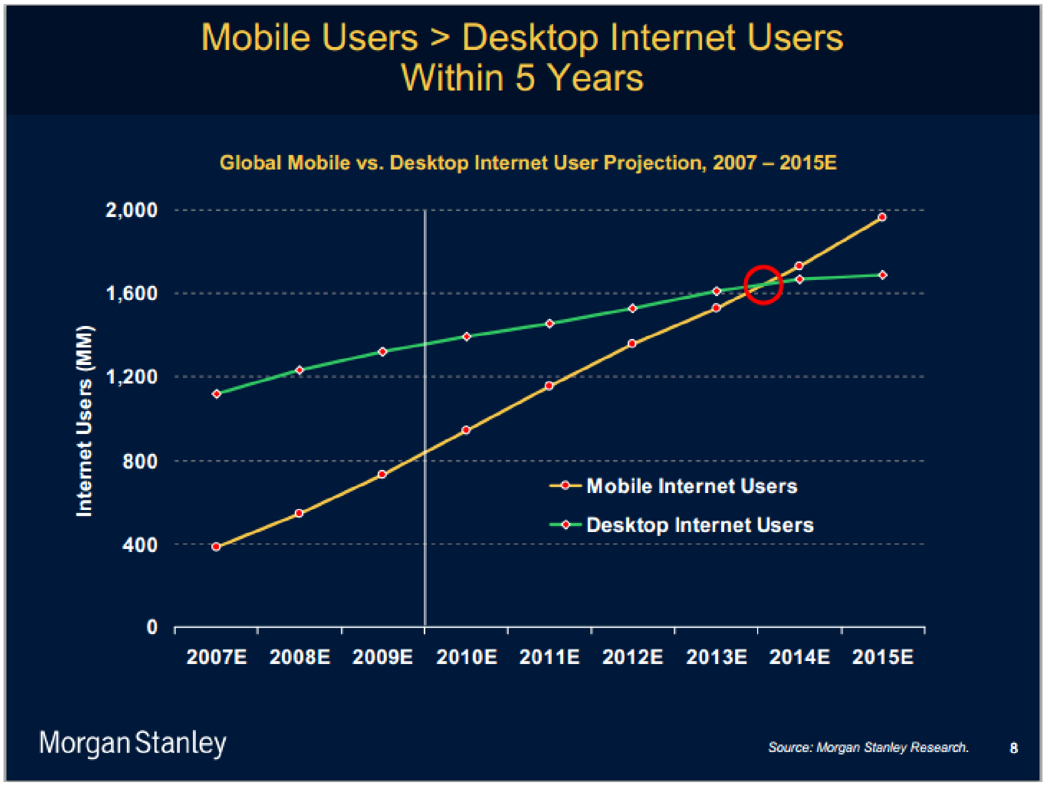
As was mentioned earlier, in 2009 Morgan Stanley global technology and telecom analysts did research on the rapidly changing mobile Internet market in order to better understand how the market will continue to develop in the future. Their results also show that this trend towards retailing via mobile is going to develop even more in the future (Morgan Stanely, 2009). One explanation behind this is seen in Exhibit 6. Mobile internet is growing much more rapidly than desktop internet. The Apple iPhone and iTouch may be main reasons for this. Another analysis done predicts that global mobile users will be significantly greater than desktop users by 2015, as seen in Exhibit 7. This shows that retailers that take advantage of these predictions by giving consumers a way to make purchases with their mobile phones will be a step ahead of their competitors (Morgan Stanley, 2010).

Exhibit 6: Growth of Mobile Internet Growing Faster Than Desktop Internet



(Morgan Stanley, 2010)

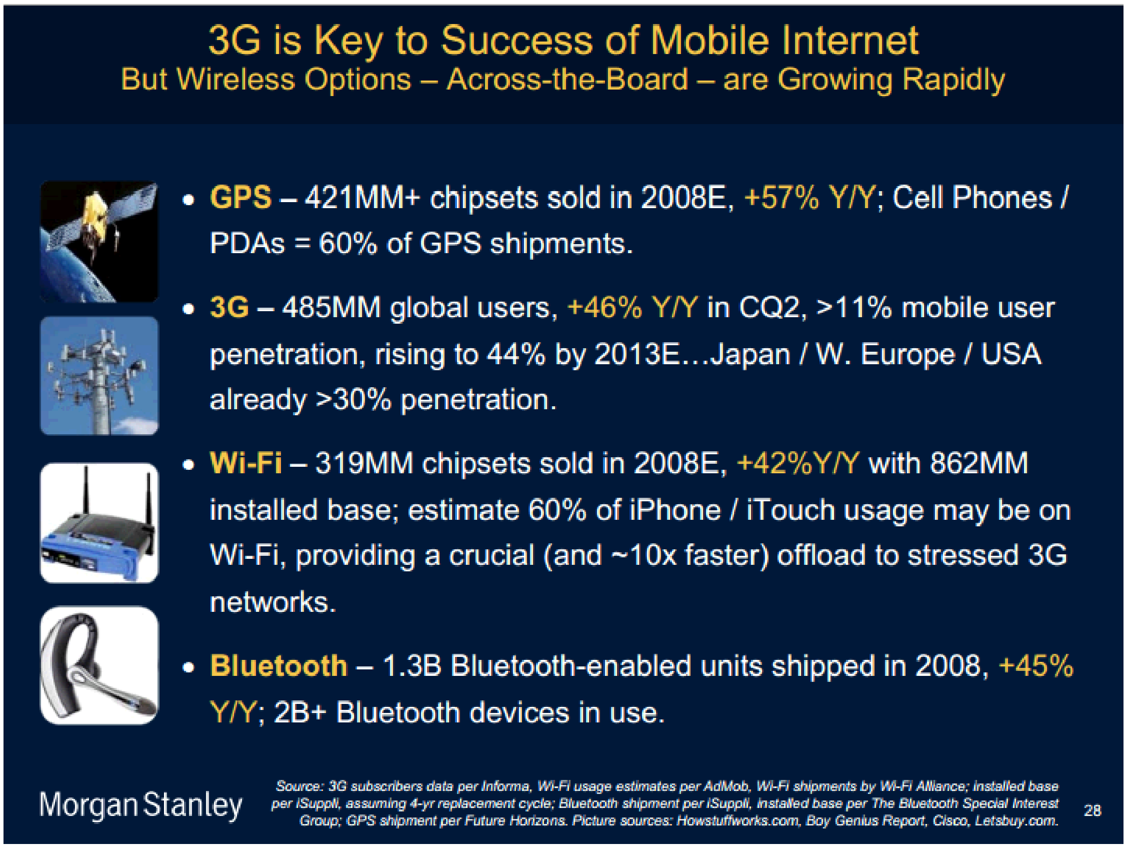
Exhibit 7: Expected Growth of Mobile Internet Users Compared to Desktop.



(Morgan Stanley, 2010)

Another key reason that the mobile internet is expected to have such rapid growth is the wireless options that keep being introduced, from wireless to bluetooth. The introduction to 3G is the most important introduction that will allow the continued success of mobile internet retailing, as seen in Exhibit 8 (Morgan Stanley, 2010).

Exhibit 8: Growing Wireless Options



(Morgan Stanley, 2010)

Another way to better understand the expected trends of e-commerce is through speaking with current employees in companies that have an internet presence. Chris Joyce of REI and Maynard Webb of Ebay have given their input on what they expect to see from their specific company as well as e-commerce in general.

Interview with REI

Chris Joyce is the current director of distribution on the east coast for REI. As was discussed earlier, REI started as brick and mortar business and entered into the e-commerce market in the 1990s. Since then REI has made many improvements to their systems to keep customers satisfied. Mr. Joyce was able to share how REI has made improvements, how he feels they will continue to improve, and how other companies in e-commerce will have to change and improve in the future.

He first explained how REI has been at the forefront of e-commerce since the 1990s by being recognized for their good web presence. This allowed them to continually improve their processes to provide seamless shopping from online to stores. This was not an easy process to figure out because of the different infrastructures for stores and online e-tailing. In fact, it took them several years to be able to make one transaction from their REI website and outlet website together. Their outlet website was an important addition to their online business because it allowed them to expand their business without having to physically expand their stores. There were more stock keeping units (SKU's) available online but they did not have to overcrowd their stores with more products. All the slow moving items were on the website so they did not have to be dealt with in store and they also were able to put clearance items online to open up store space for new products. All of this has allowed REI to take advantage of their online sales, giving them a step ahead of the competition.

In the future REI will have to continue changing and improving to provide a seamless customer experience to anyone who shops with them. With new customer needs and competitor improvements, it is important that REI does not just continue doing business as usual but that they are constantly improving to stay ahead. Mr. Joyce discussed how their online presence needs to have a sense of community to keep customers coming back. One way that REI was able to improve their website in the past was through the use of the community discussion boards. These boards gave customers an opportunity to discuss with each other reviews and experiences with the products. This allowed them to have a similar experience that they would get if they physically went into the store.

Mr. Joyce explained how REI will never sit back and let the website continue doing what it does. They will continue to change and offer to customers exactly what they want. One way they are able to better understand what to offer the customer is through their engagement with customers online. Their customers are very engaged and provide feedback on the website. They tell REI exactly what they liked, did not like, and what changes they would like to see. With this information from the customers REI has made appropriate changes and continues to do so. They have expanded their product lines online. They have also recently begun selling mobile. Customers are beginning to want to be able to buy products on the go from their phones instead of sitting at a computer. As discussed earlier, using an iPhone for your purchases is a trend that is expected to grow in the future and REI is working to include this in their future changes. Another change REI is looking into is offering an REI radio channel to try and connect to their customers even better.

Competition in e-commerce has become much more extreme. Mr. Joyce pointed out that you are putting your prices, service strategies, and fulfillment strategies out on the internet for anyone to see. Customers are able to shop around at a huge variety of websites to compare prices and services before making a decision as to where they will order. Competitors are also able to see these prices and services so it is important to keep up with what your competitors are doing so that you do not lose customers due to better deals on shipping or returns. This is another important reason why it is important to continually change and improve your e-commerce strategies.

It is obvious that e-commerce is growing at high rates and companies like REI are expanding their online presence. But it is important to keep in mind that brick and mortar stores are not going to disappear. As discussed earlier, companies will just need to reinvent their physical stores to keep customers coming in. Mr. Joyce mentioned that in their business of selling outdoor goods, many customers still want to be able to come into a store and test out the items they are going to buy. They want to try on backpacks to see how they feel before going on a hike or they want to ride a bike before taking it home to ride. Customers want to have the interaction not only with the product but also with employees at REI to talk about their different choices and their experience with the variety of choices. Although these discussions are happening in the community board online some customers still prefer to physically talk to someone to better understand their options. Therefore, in the future, REI will continue to expand and improve their website but they will also spend time focusing on their physical presence in stores. They will also continue to expand the products available in their stores. One way REI has recently found to help both their in-store and online sales is by opening up new stores where they see many online customers located. Online they are able to collect customer information and they see where many of their customers are living. Then they open up a retail store in that area and they see sales greatly improve. This is a trend they plan to continue in the future.

There are plenty of trends that Mr. Joyce commented on that he believes will not only pertain to REI but also to e-commerce in general as we move into the future. One thing that will be sure to continue in the future is associating with the customer. It is important to understand customer needs and wants. However, it will be extremely important to balance knowing what the customer wants and knowing so much that they feel like you are invading their privacy. This is a line because you do not want your customer to feel like you are intruding on them. Many companies show the customers they have exactly what they want through spam e-mail, but in the future companies must find a better way to do this. They will need to maintain their brand images to keep customer loyalty as well.

Another challenge that will continue in the future will be getting all channels to flow together. Mr. Joyce talked about how one company, Nordstrom, has found a revolutionary way to have an excellent back end system. They have found a way to have every product they sell available online, so if is it in the store, it is also online. All the information about every product has been consolidated. Other companies have found ways to pass the order on to the vendor and let the vendor fulfill it for the customer. This has allowed these companies to save money because they can expand their SKU's without worrying about extra costs for inventory and labor. Many companies may look to do this in the future in order to reduce costs. However, this must be improved upon if there are multiple vendors because all of their systems must find a way to work together.

Yet another challenge for companies in the future will be the increased competition. Mr. Joyce explained how e-commerce has made it easy for anyone to fill orders out of their own distribution center. This way these vendors are able to sell directly to the customer without going through a company such as REI or Amazon. Therefore it is important that companies improve their relationships with distributors so that this does not happen.

Finally Mr. Joyce believes that the next big trend in e-commerce will be customers demanding social responsibility from companies. They will begin to ask about the environmental cost of one day shipping. In order to complete this one day shipping, companies are putting their products on aircrafts which are much more damaging to the environment than tracker-trailers. However, these trunks increase the shipping time because it takes much longer to drive across the United States than it does to fly. He thinks companies will one day begin putting stars next to their products that are socially responsible and this will cause customers to pick that choice over any others. This will therefore increase competition among companies to get the customer exactly what they want since they have so many options to sort through on the internet (Joyce, 2012).

Interview with Ebay

Maynard Webb was the former Chief Operation Officer of Ebay. As was discussed earlier, Ebay was at the forefront of e-commerce. They have come a long way since their beginning and continue to stay ahead of competitors in various ways and will continue to do so in the future. Maynard was able to take his years of experiences at Ebay to explain better how he sees Ebay and e-commerce, in general, will expand in the future.

Specific to Ebay, Mr. Webb believes that the overall future looks positive. He feels that since e-commerce is the fastest growing segment currently in retail, as was seen earlier in the Morgan Stanley reports, Ebay will continue to succeed. Some implications of this improvement is the growth of electronic payments with PayPal. Another reason to expect continued growth in Ebay is the international growth that they have seen recently.

Mr. Webb also discussed some trends he feels that Ebay will look to in the future. They are heavily involved in mobile which is an upcoming trend. Ebay is also beginning to experiment with social media for sales. This could help Ebay with large growth in the future because of how popular the use of social media has become in recent years. They are also continuing to work on ensuring that their customers feel safe buying from them online. They want the experience their customers have to be positive so that they continue to come back.

Not only does Mr. Webb believe that Ebay will continue to grow in the future but e-commerce will grow as well. Traditional retailers like Wal*Mart and Office Depot are heavily invested in their online businesses, not just their physical stores. Mr. Webb explained that a perfect example of such implications through the start of Cyber Monday. In the past, Black Friday, the day after Thanksgiving, was the day that all the physical stores had huge sales for the holiday season. Now Monday is a day dedicated for online sites to have sales for the holiday season.

Another key reason that companies will continue to focus on growing their online presence is because it is cheaper to serve their customers online. However, Maynard said that the physical presence will not be going away anytime soon, if at all. It is obvious that many consumers today prefer online shopping, but not everyone. There are still people that prefer the experience of going into a store to try out the products before purchasing them.

As mobile and social media selling looks to be a future trend for Ebay, Maynard also feels these trends will be used by other online companies. Mobile shopping will allow customers even more flexibility in their shopping habits. They can compare prices and options from wherever they are. Social media will allow them to see what friends are buying before making decisions on specific purchases. Maynard brought up an interesting point about buying sites like GroupOn and Living Social (Webb, 2012). GroupOn and Living Social are companies that help businesses attract customers by offering them a unique way to save on things to eat, see, and do in various cities worldwide. In each participating city they advertise a daily deal (example: half-off a meal at a local restaurant or half off a spa day). Then if enough consumers buy the coupon online by midnight they are free to use the coupon at the local business (McLellan, 2012). These are extremely popular sites now but he is not sure if they will continue to grow or fade out. If these buying sites stay around they will bring greater competition to the online presence. Another challenge for companies like Ebay to consider in the future would be the growth of online presence of traditional retailers (Webb, 2012).

Chapter Seven
Conclusions

This research aimed to take a closer look at the history, expansion, and future of e-commerce businesses. It looked at companies such as Ebay and Amazon who work only with internet sales and then it looked at companies like Wal*Mart and Office Depot that have expanded their retail stores to sell online. It aimed to understand what made these companies successful, or not so successful. Finally the goal was to understand if this e-commerce boom will continue in the future and if so, what affect it will have on consumers and what new trends will be seen in the future.

After taking a look at companies that serve only online it became obvious that the key is to be flexible. This means that they need to be continually changing and updating in order to better serve customers. A perfect example of this is when Amazon acquired Quidsi. This acquisition allowed Amazon to better serve their customers because they wanted them to be able to buy everything and anything on their website. Quidsi gave Amazon this edge by introducing products from bedroom comforters to diapers onto Amazon's website.

For companies that began as brick-and-mortars the key to success is to integrate their online and retail sales. As was seen, companies like REI that have found a way to seamlessly connect the two and have found great success with their website since its beginnings. On the other hand, companies like Wal*Mart, who were late to the game and did not integrate the two, have not seen as much success and are now attempting to catch up with their competitors. Wal*Mart has their retail headquarters in Arkansas while their online distribution center is in California, making for it difficult to integrate the two. However, they have found that they need to improve this so they have plans in the future to use their retail stores and distribution centers to better serve their online customers.

It is important that companies do continue to improve their online presence because it appears that internet retailing is a trend that is not going away anytime soon. Interviews with employees of the companies and this research have shown that e-tailing has been growing significantly in the past few years and that it will continue to grow in the future. In order to keep up with the growing use of the internet, companies must be sure to listen to their customers and improve their sites to encourage customers to return. As was discussed it will be important that companies start becoming mobile because consumers want things to be even more convenient, so convenient that they want to be able to make purchases no matter where they are.

Another trend that many companies have attempted to take advantage of, but failed at, is the use of social networking. However it will be important that companies continue to try and make use of social networking because of the increased use of it throughout the world. This is a great example of how companies will need to experiment based on what customers want until they find something that works. And of course it is important to keep ahead of their competitors with these trends because the use of the internet has increased competition because a company's new ideas are out on the internet for everyone to see and compare.

The effect of this increased use of the internet may have quite an impact on physical stores. Although for some products people may want to still come into a store to test the product out, these people may test the product out and then go online to find it cheaper. This may lead to physical stores being used as just showrooms to then lead customers online to make the actual purchase. The exact future of the use of internet shopping is uncertain, but it certainly appears that companies will need to integrate their channels, have the ability to change as trends change, and continue to experiment with new ideas as consumers change.

Chapter Eight
Limitations and Future Research Opportunities

Limitations

In order have the most expert information this research chose to interview employees of several retail companies. However, this posed many limitations. Ideally it would have been appropriate to interview more companies to gain a wider variety of perspectives, specifically another company involved in only e-tailing like Amazon. However, due to time constraints and scheduling conflicts with the employees this was not possible. Given the opportunity to interview more companies would have a better comparison of how companies have found success in e-tailing, whether it be with companies with just online or both online and retailing. It also would have offered even more insight into potential future trends and ways that other companies are planning to improve their internet strategies.

Future Research Opportunities

The research discussed could be expanded upon further in the future. This research discovered that most companies found success in their retail and online sales by integrating them. It was seen that when Wal*Mart did not integrate they had a harder time keeping up with the competition. Therefore further research could be done to discover exactly how companies integrate these two channels, as well as with other channels a company may have. The research could look into how the most successful companies, and not so successful companies, have integrated to determine the best method according to the type of company.

Future research could also look into the trends discussed in this research to see how they evolve; if trends like the use of mobile or social networking for e-tailing persist in the future or if new trends begin to take form. If these trends do persist it might be insightful to see how companies used these trends to gain an edge on the competition and to increase their sales.

Finally research may be done to see if e-commerce continues to grow as it is expected to and how this growth will affect the presence of physical stores. Future research could examine the effects of companies shutting down physical stores or the impacts of physical stores being used as showrooms for those who want to test the product before going to buy it online.

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Proctor & Gamble **Cincinnati, OH**
Material Supply Management Intern *June 2011-August 2011*

- Developed video training on the material launch and change work process for use in manager development
- Analyzed pros and cons of current material launch and change processes in various business units (e.g. Baby Care, Fabric Care, Family Care) in order to optimize the process
- Created a standardized material tracker for the work process across all businesses by developing a user-friendly excel workbook; including flow charts, overall summary, list of tasks and appropriate roles, and tracker
  - Prepared implementation plan for businesses to begin using standard process; first three business units to begin use in Oct 2011
- Evaluated data to find common suppliers across the company in order to facilitate future horizontal integration

Penn State Smeal College of Business **State College, PA**
Teaching Assistant *Fall 2010*

- Held various administrative responsibilities for business professor in the Honors Business Seminar class and co-taught a resume building class

Mike's Seafood of Ocean City **Ocean City, NJ**
Server/Cashier *Seasonal 2008-2010*

- Maintained positive company image through customer service and trained new employees

LEADERSHIP EXPERIENCE:

20th Annual R. Hadly Waters Supply Chain Conference **University Park, PA**

Student Assistant *April 2010*

- Collaborated with other business students to organize of the annual Penn State supply chain event, focused on Profitable Sustainability: The New Supply Chain Business Model

Alpha Chi Omega Sorority **University Park, PA**

Vice President of Finance *Spring 2011- Fall 2011*

- Responsible for management of sorority budget of $40,000+
- Planned and organized budgets for the eleven executive board members
- Implemented the transition from manual to online fund accounting system, Billhighway
- Participated in the National Alpha Chi Omega Leadership Conference in Indianapolis, Indiana

THON *2008-Present*

- Contributed to largest student run philanthropy benefiting children with pediatric cancer by participating in sorority efforts including canvassing neighborhoods, phone soliciting, and writing letters

Recruitment Counselor *Fall 2011*

- Trained to guide and mentor 45 freshman through ten day recruitment process

HONORS:

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- Dean’s list- Fall 2009, Spring 2010, Fall 2010, Spring 2011, Fall 2011