



E-commerce

business. technology. society.

Third Edition

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Chapter 11

Online Service Industries

NetBank and the Future of Branchless Banking

Class Discussion

- What is the value proposition of online banks?
- Why have stand-alone online banks in the United States not done well?
- What were the key ingredients of NetBank's business model that made it successful?
- Why do most Americans still prefer to use their local branch bank?

The Service Sector: Offline and Online

- Service sector: Largest and most rapidly expanding part of economies of advanced industrial nations
- In the United States, services plus fire, insurance, real estate sector employs about 42% of labor force; accounts for \$4.2 trillion of GDP in 2005

What are Services?

- Service occupations: Are “concerned with performing tasks” in and around households, business firms, and institutions
- Service industries: “Domestic establishments providing services to consumers, businesses, governments, and other organizations”
- FIRE is largest segment of services industry

Categorizing Service Industries

- Within service industry groups, can be further categorized into:
 - Transaction brokers
 - Hands-on service provider
- Services industry features:
 - Knowledge- and information-intensive, which makes them uniquely suited to e-commerce applications
 - Amount of personalization and customization required differs depending on type of service

Online Financial Services

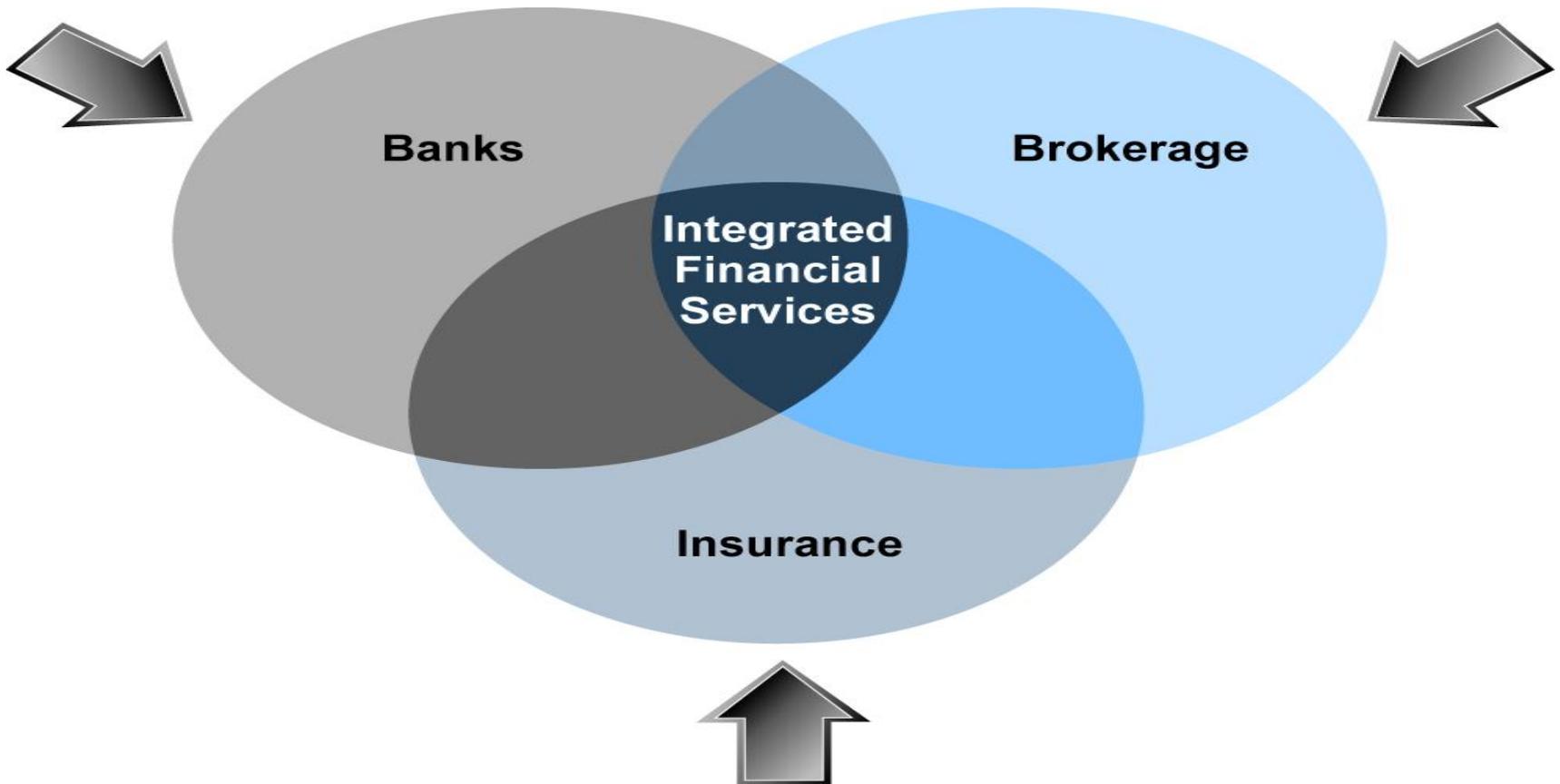
- Online financial services sector an example of an e-commerce success story, but success is somewhat different from what had been predicted
- Pure online financial services firms in general are not yet consistently profitable
- Multi-channel established financial services firms are showing fastest growth and strongest prospects

Financial Service Industry Trends

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

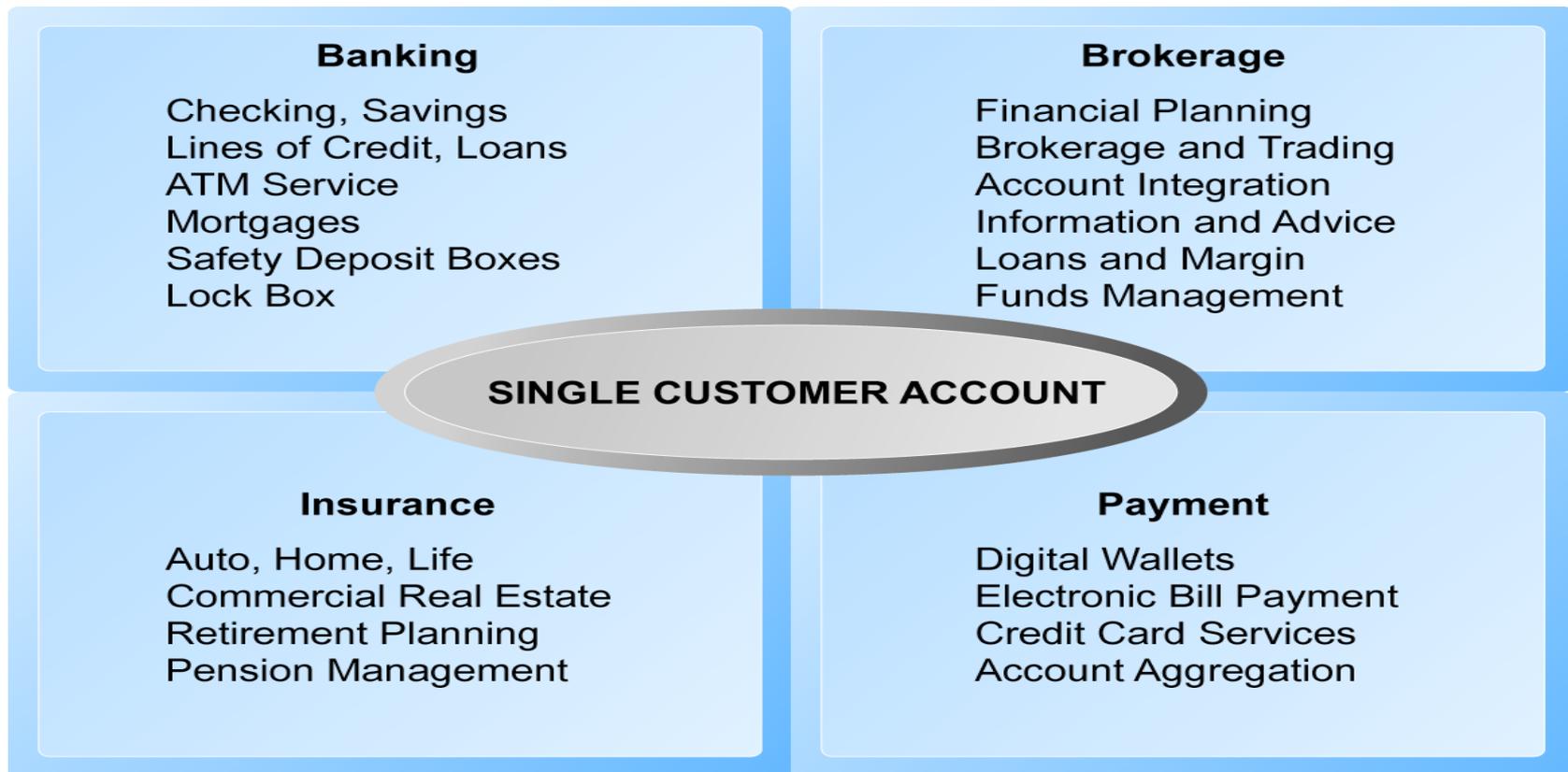
Industry Consolidation and Integrated Financial Services

Figure 11.1, Page 624



The Financial Supermarket Model: Integrated Online Financial Services

Figure 11.2, Page 625



Online Financial Consumer Behavior

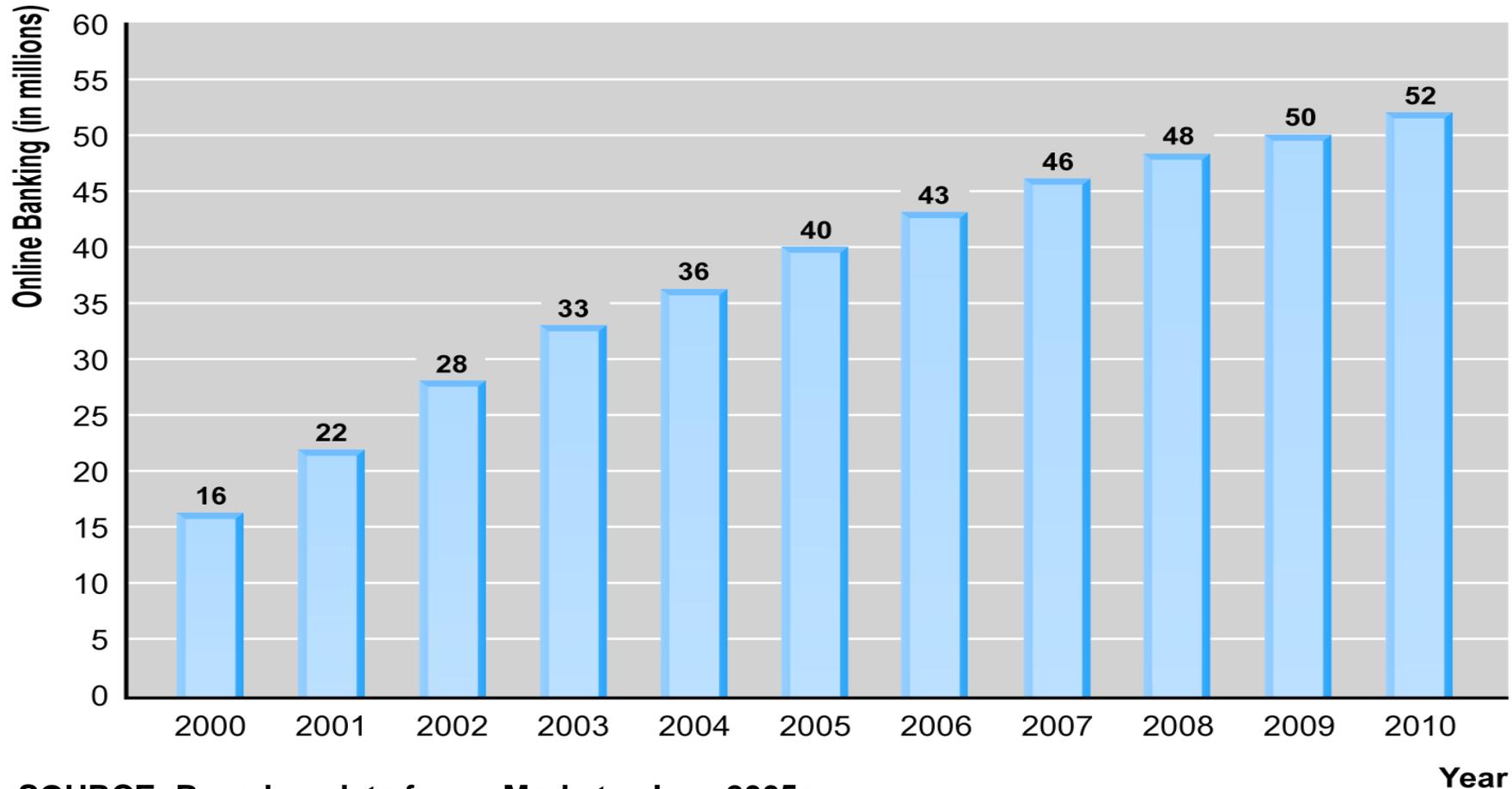
- Consumers attracted to online financial sties because of desire to save time and access information rather than save money
- Most online consumers use financial services firms for mundane financial management
- Greatest deterrents are fears about security and confidentiality

Online Banking

- Online banking pioneered by NetBank and WingSpan
- Established brand name national banks have taken a substantial lead in market share
- Over 50 million people use online banking, and around 40 million households
- Movement toward online banking is global

The Growth of Online Banking, 2000–2010

Figure 11.3, Page 628



SOURCE: Based on data from eMarketer, Inc., 2005a.

Online Brokerage

- Early online brokerage leaders, such as E*Trade and Ameritrade have been displaced at top by established firms (Fidelity and Charles Schwab)
- Number of online investor accounts has increased to over 37 million

Multi-channel vs. Pure Online Financial Service Firms

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

E-commerce in Action: E*Trade

- E*Trade: 4.3 million online customers; offers online brokerage, banking, lending, corporate financial services
 - Discounted commissions on stock trades, free online information, online order entry, more efficient order execution, and better customer service
- Online brokerage industry growth torrid 1998 - 2000; has slowed somewhat since
- However, despite extraordinary growth and success, not consistently profitable; collapse of stock market and its impact on E*Trade demonstrated fragility of its reliance on pure online domestic brokerage
- Has since been seeking to expand physical presence and diversify revenue streams

Financial Portals and Account Aggregators

- Financial portals: Provide comparison shopping services, independent financial advice and financial planning
 - Examples: Yahoo! Finance, Quicken.com, MSN Money, AOL's Money and Finance channel
- Account aggregation: Process of pulling together all of a customer's financial (and even non-financial) data at a single personalized Web site
 - Yodlee, a leading provider of account aggregation technology; used by Merrill Lynch, Citigroup, Chase, others
 - Raises issues about privacy and control of personal data, security, etc.

Insight on Technology: Should You Aggregate and Have Your Screen Scraped?

Class Discussion

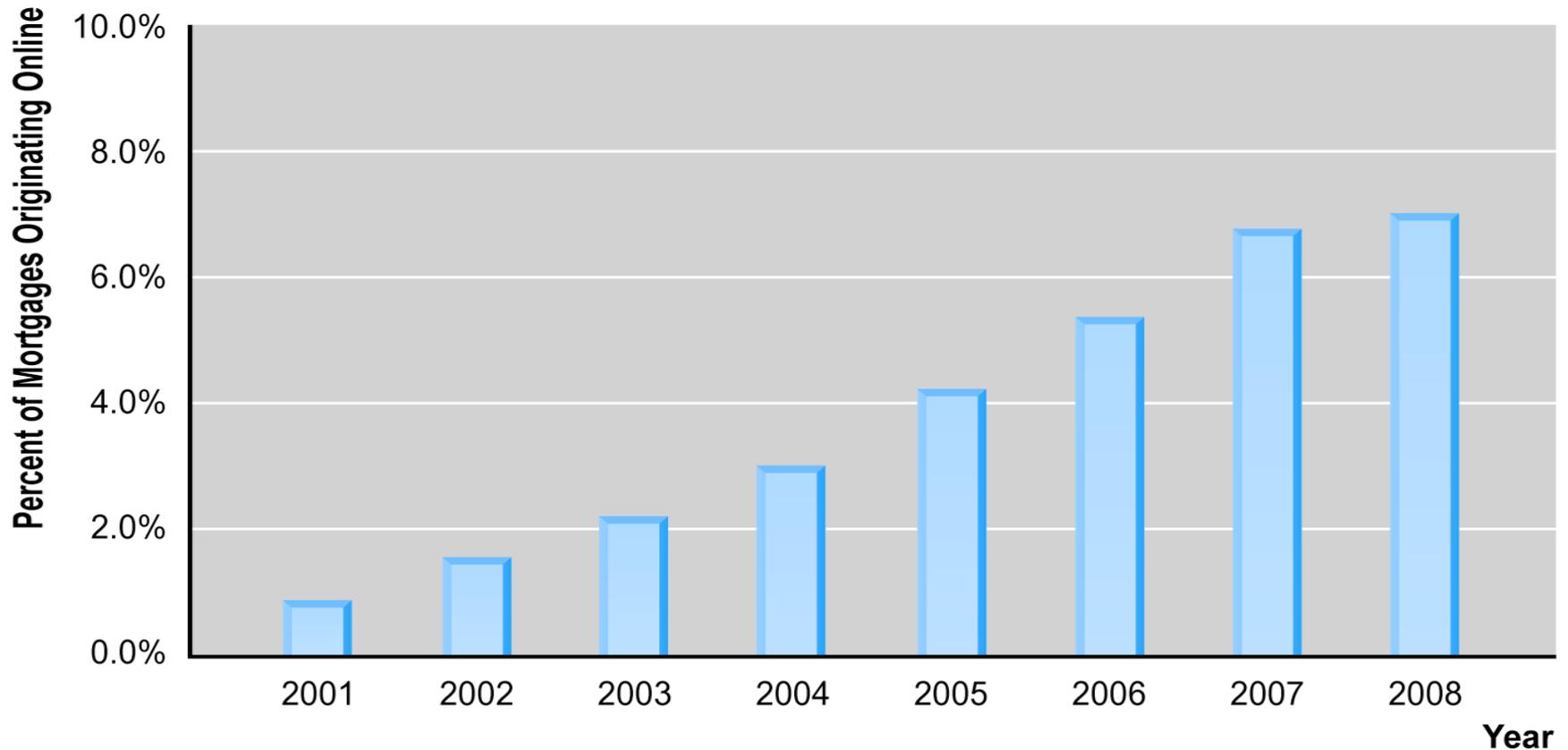
- What is “account aggregation” and what benefits does it offer consumers?
- What is “screen scraping?”
- Why would merchants allow account aggregators to take customer information from their Web sites?
- What are some of the dangers of account aggregation for consumers and businesses?

Online Mortgage and Lending Services

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

Online Mortgage Originations as Percentage of Total Mortgages

Figure 11.4, Page 642



SOURCE: Based on data from E-Loan, 2005; Gatti, 2004; eMarketer, Inc., 2003; authors' estimates.

Online Insurance Services

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

Online Real Estate Services

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

Insight on Society: Turf Wars—Antitrust and the Online Real Estate Market

Class Discussion

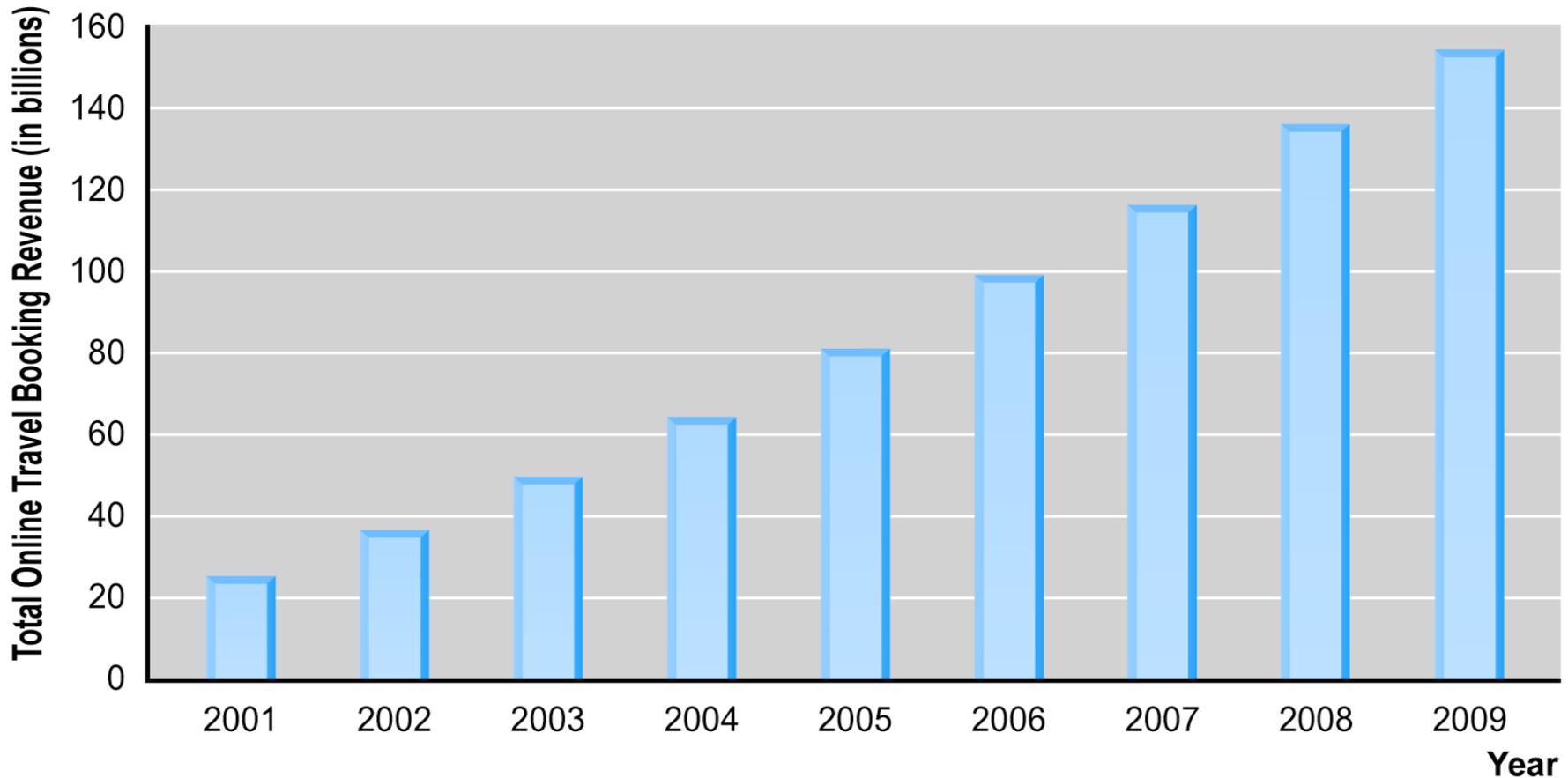
- What is a Multiple Listing Service (MLS) and how does the National Association of Realtors maintain a monopoly over this service?
- Why does the Department of Justice believe the NAR's policies are anti-competitive?
- Why can't online real estate firms develop alternatives to local multiple listing services?
- Would you buy a home using eBay or Craigslist?

Online Travel Services

- Arguably, the single most successful B2C e-commerce segment; attracts single largest audience, and largest slice of B2C revenues
- Internet becoming most common channel used to research travel and book reservations
- 2005: \$80 billion in revenue, expected to grow to \$150 billion by 2009
- Popular because they offer consumers more convenience (one stop; offers content, commerce, community, customer service) than traditional travel agents
- For suppliers, offers a singular, focused customer pool that can be efficiently reached

Total U.S. Online Travel Booking Revenue

Figure 11.5, Page 650



SOURCE: Based on data from eMarketer, Inc., 2005e, 2005f; authors' estimates.

Travel as the Ideal Internet Product/Service

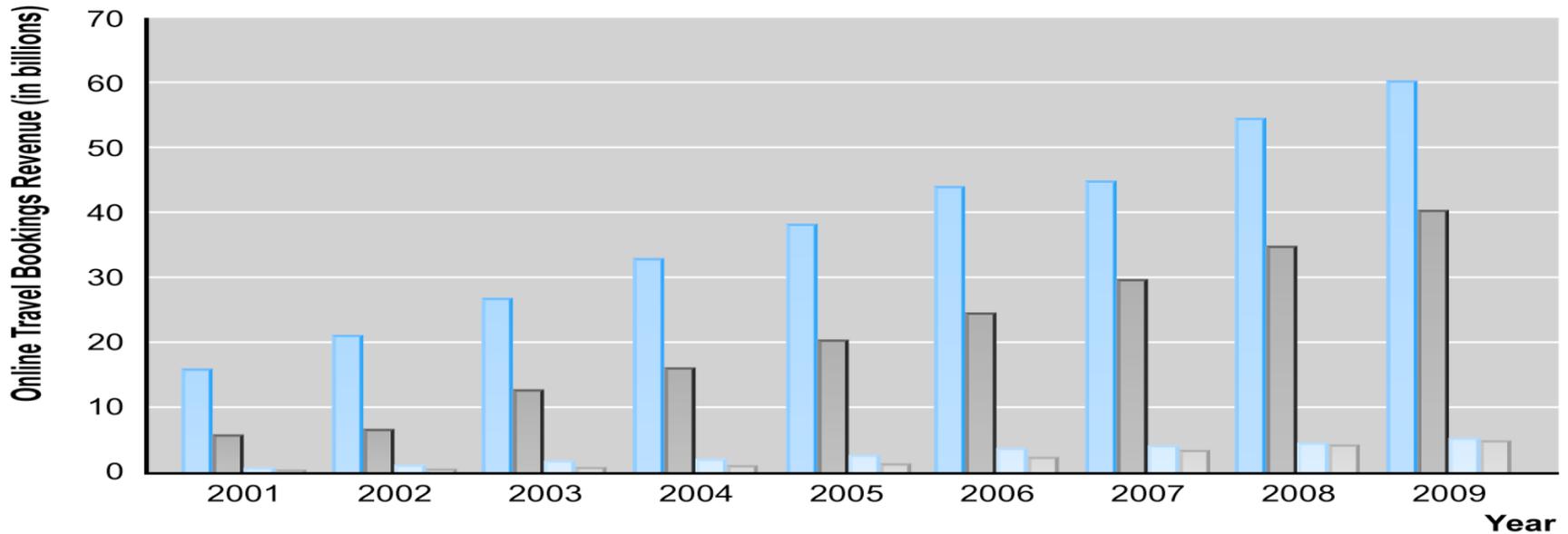
- An information-intensive product
- An electronic product in the sense that travel arrangements can be accomplished for the most part online
- Does not require inventory
- Suppliers are always looking for customers to fill excess capacity
- Do not require an expensive multi-channel presence

Online Travel Services Components

- Airline reservations the largest single component (\$38.5 billion in 2005; \$60 billion in 2009)
- Hotel reservations (\$20.5 billion in 2002, \$40 billion in 2009)
- Car reservations (\$2.7 billion in 2005, \$5.2 billion in 2009)
- Cruise/tour reservations: fairly slow growth since not as well suited for online environment
- Major segments:
 - Leisure
 - Business travel – expected to be a major growth area as corporations seek better control of corporate travel expenses

Projected Growth of Online Travel Market Components

Figure 11.6, Page 653

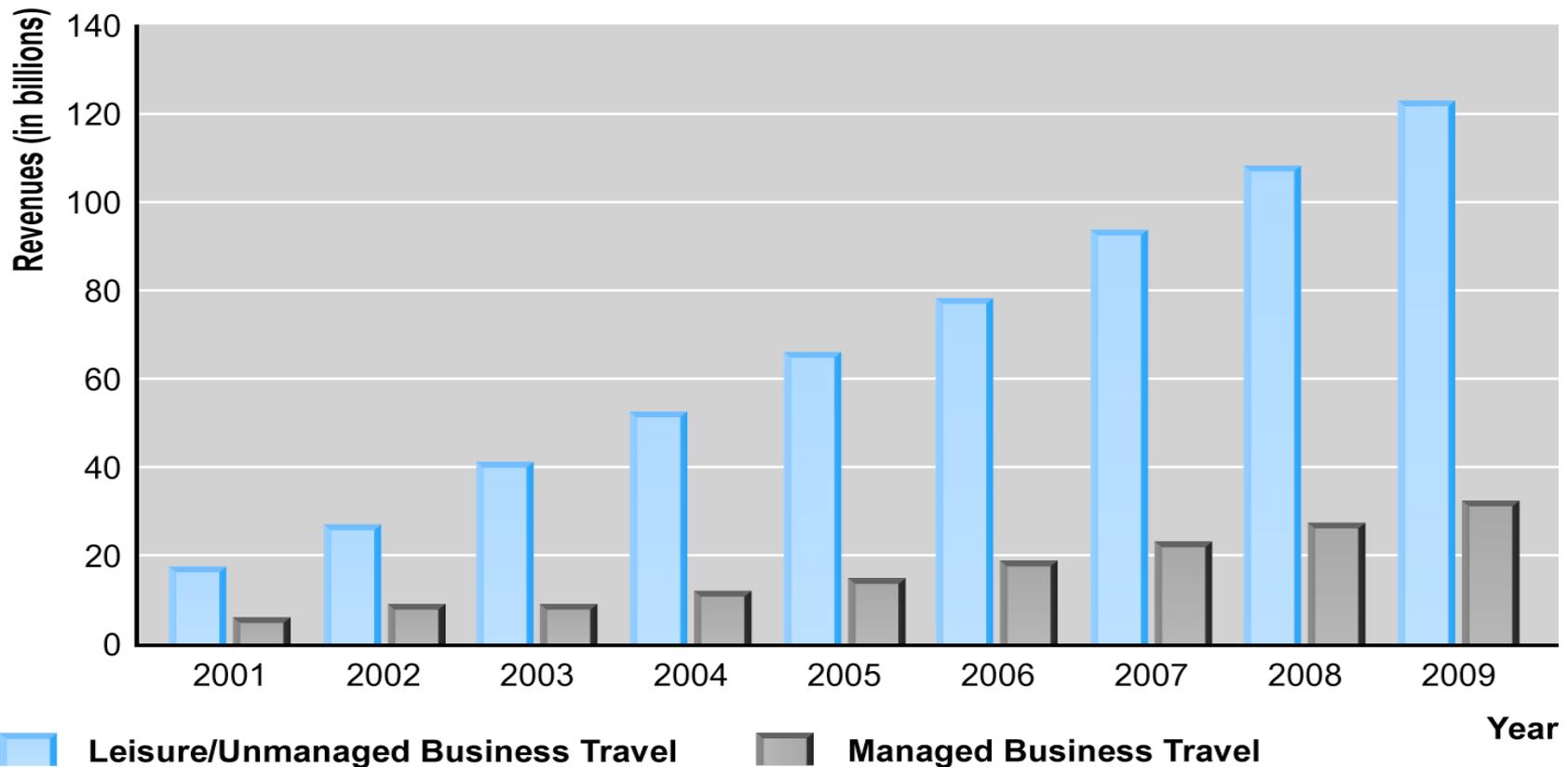


| | | | | | | | | | |
|-------------|------|------|------|------|------|------|------|------|------|
| Air | 16.0 | 21.0 | 26.9 | 32.8 | 38.5 | 43.8 | 44.8 | 54.2 | 60.1 |
| Hotel | 6.0 | 7.0 | 12.6 | 16.4 | 20.5 | 24.7 | 29.6 | 34.9 | 40.1 |
| Car | 0.8 | 1.5 | 2.0 | 2.3 | 2.7 | 3.3 | 4.0 | 4.6 | 5.2 |
| Cruise/tour | 0.3 | 0.4 | 1.3 | 1.4 | 1.8 | 2.5 | 3.4 | 4.3 | 5.0 |
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |

SOURCE: Based on data from eMarketer, Inc., 2004; Forrester Research, 2004; Jupiter Media Metrix, 2001b, authors' estimates.

Projected Growth of Leisure/Unmanaged Business and Managed Business Travel

Figure 11.7, Page 654

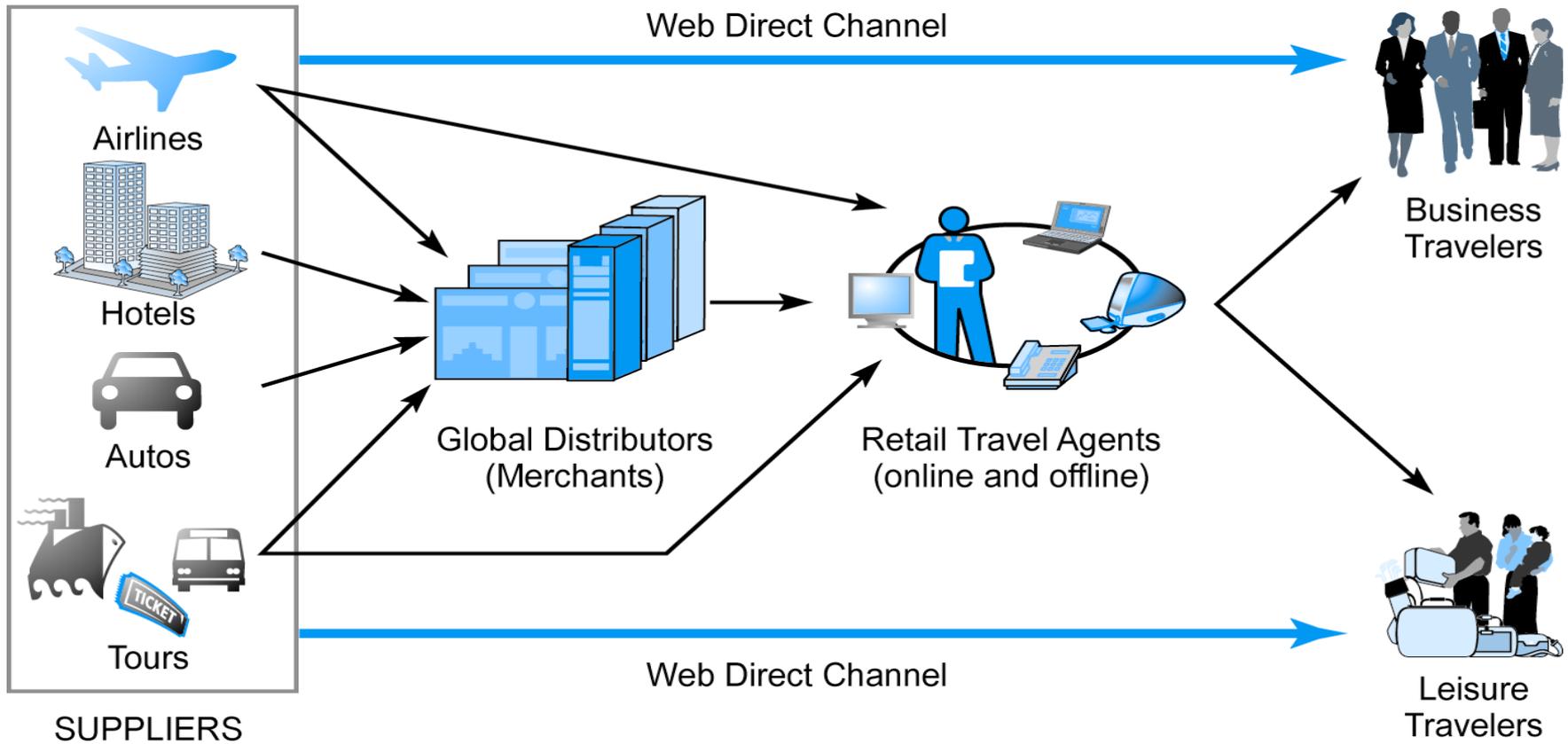


Online Travel Industry Dynamics

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

The Travel Services Value Chain

Figure 11.8, Page 656



Insight on Business: Zipcars

Class Discussion

- What is the Zipcar business model? How does it make money?
- How does Zipcar use the Internet?
- Does Zipcar compete with traditional car rental firms?
- Would Zipcar work only in urban markets? Could it expand to the suburbs?

E-commerce in Action: Expedia.com

- Online travel services company that provides access to information about and sales of travel arrangements
- Originally started by Microsoft, subsequently purchased by InterActiveCorp, then spun-off into separate public company in 2005
- One of top players in online travel services, generating revenues of \$2.1 billion in 2005

Online Career Services

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

Why are Job Sites So Popular?

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

Recruitment Market Segments

- Three major segments
 - General job recruitment: Largest segment and primary focus
 - Executive search: highest revenue potential
 - Specialized job placement services: often run by professional societies

Online Recruitment Industry Dynamics

- Four major trends:
 - Consolidation: Monster, CareerBuilder, and HotJobs together constitute 90% of market
 - Diversification of product line: niche sites
 - Localization: Local boards compete with local newspapers; Craigslist
 - Job search engines “scrape” listings: Indeed.com, SimplyJobs, JobCentral