

E-COMMERCE FUNDAMENTALS



LECTURE 2

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WHAT TO EXPECT

- AGENDA:
 - Commerce principals
 - On line marketing
 - Payment systems
 - E-commerce business Tools



WHAT TO EXPECT

- AGENDA:
 - Commerce principals
 - On line marketing
 - Payment systems



E-MARKETING PLAN



E-MARKETING: DEMAND ANALYSIS

- Traditional Marketing vs Internet Marketing
- Demand Analysis:
 - The level of connectivity to the internet by customers;
 - The level of interactivity by those with internet access;
 - The number of customers who purchase products or services via the internet;
 - The number of customers who access websites but who do not purchase via the internet;
 - Identifying the barriers to using the internet for purchasing purposes.
- Customer segmentation:
 - Socio economic Groups
 - Geographic Groups
 - Business Groups: Financial Services, Retail, Transport, Public Sector,



E-MARKETING: COMPETITOR ANALYSIS

- Competitor analysis helps to determine the impact that the actions of a rival will have on the performance of a business.
- The information required for competitor analysis:
 - Suppliers and customers
 - The industry intelligence gathered by employees.
 - Competitors' promotional material,
 - Advertisements,
 - Industry reports, government reports, ..etc



E-MARKETING: MARKETING MIX

- **Product:**

- Physical vs Digital
- Product life cycle
- Value added
- Bundling

- **Price**

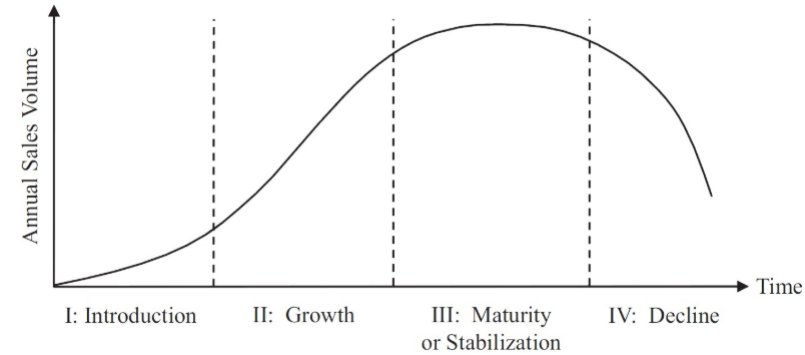
- Premium prices: prices above the industry average are charged (Quality, Uniqueness, Status or Availability)
- Average prices: the price charged reflects the market demand and supply dynamic.
- Discount prices: prices are discounted below that of the market price (Example: Gaining Market Share)
- Freemium
- Yield Management

- **Place**

- Communication Channel
- Distribution Channel

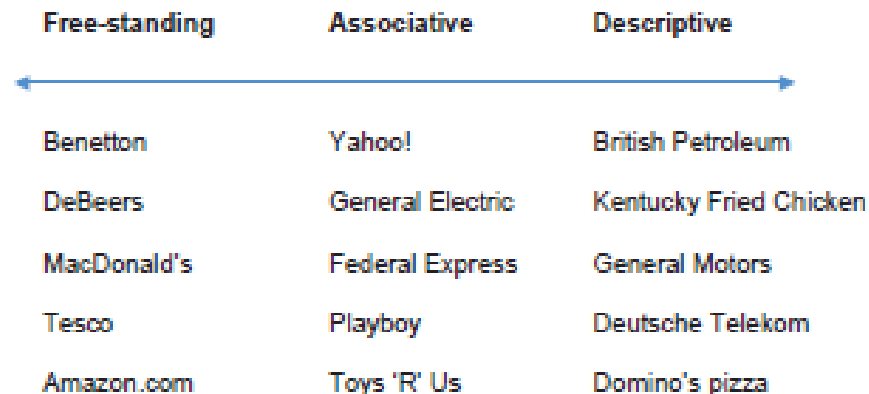
- **Promotion:**

- Discount Rates, Black Friday



E-MARKETING: BRANDING

- Branding refers to the process of creating and developing brands that add value to consumers or where consumers perceive there to be added value.
- The brand name chosen should:
 - Identify the unique aspects of the company and its products;
 - Communicate the company aims and objectives to a wide audience;
 - Help to protect the intellectual property of the company.
- There are three main types of brand names along the spectrum:
 - Free-standing: the name is designed to be unique and memorable;
 - Associative: the name is chosen to reflect links with quality or is an abbreviation of the full company name;
 - Descriptive: the name of the product or service or the productive process.



E-MARKETING: ADVERTISING

- Banner Advertising
 - The effectiveness of banner advertisements can be measured using the click-through method.
 - Interstitials: Pop up window that blocks the site behind it.
 - Supertials: Window that appears during dead time (in the gap between a command and the actual download) grabs the web user's attention for a few seconds;
 - Rich-media expanding banners: banners that have some functionality and product identity built into them (Video, Audio,...etc).
 - CPT (Cost Per Thousand), CPV (Cost per view), CPC (Cost per Click)
- Affiliate Marketing
 - Single Tier Affiliates
 - Multiple Tier Affiliates
 - Pay Per Click, Pay Per Sale
- Viral Marketing
 - Word of Mouth Principles



E-MARKETING: EXAMPLES OF SOME TECHNIQUES

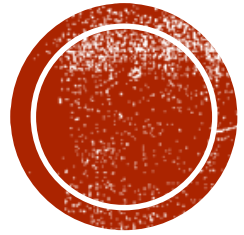
- Web scraping
- Search Engine Optimization (SEO)
- A/B Testing



E-MARKETING: CUSTOMER RELATIONSHIP MANAGEMENT

- The need for a CRM:
 - Acquiring new customer requires 20 times more efforts as to retain him
- Three main components:
 - Customer Acquisition: Advertising and promotion; the offering of discounts, loss leaders or other incentives to attract new customers; the offering of value-adding services to new customers; and the targeting of groups of customers through direct e-mail;
 - Customer Retention: using information on customers to offer a personalized service; access to a community of buyers; discounts for loyalty; or access to specialist promotional material;
 - Customer Extension: to encourage customers to become more involved in the activities of the organisation. This may involve sending additional information via direct e-mail relating to the portfolio of products the company has or about the company itself.





E-COMMERCE CASE STUDY (PART I)



E-COMMERCE CASE STUDY: AMAZON



- Founded by Jeff BEZOS in 1994
- HQ in Seattle, WA ((Availability of Human Ressource + Lower Tax intake)
- Started as Online book seller

STRATEGY

Community building

Sales interface

Core information
management

Core handling and
processing

FUNCTIONALITY

Author/customer supplied information related to specific books.

Direct customer order intake and the registration of individual shoppers. Indirect via Associates.

Building and providing access to book catalogue; building customer database and the value-adding information.

Payment processing, shipping and delivery services.

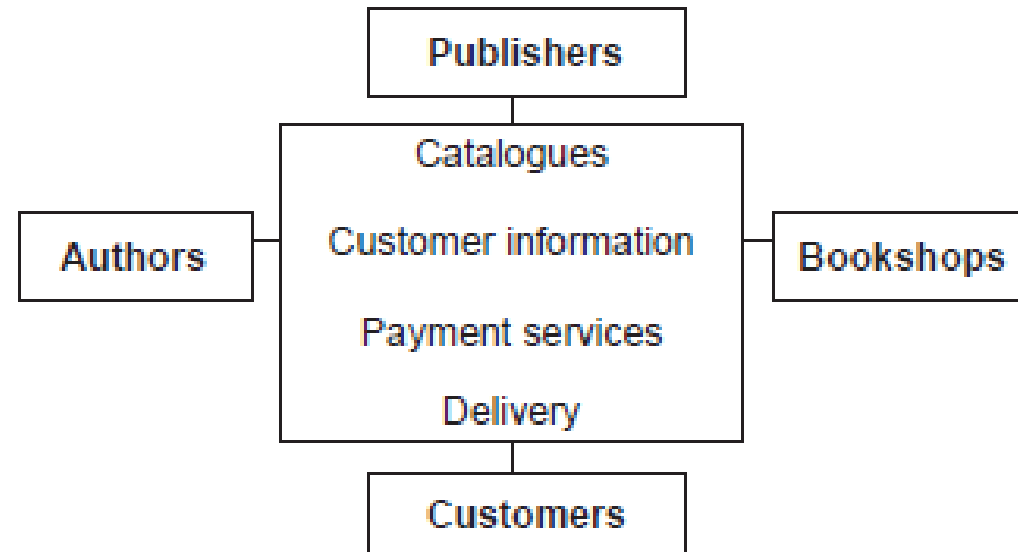


E-COMMERCE CASE STUDY: AMAZON



- Amazon has broken the principle of critical mass for the book market: For the first time, small and independent publishers as well as authors could place their products directly in a (on-line) store with global reach and without investments

Author → Publisher → Distributor → Bookshop → Reader



E-COMMERCE CASE STUDY: AMAZON



- "I buy all my books at Amazon.com because I'm busy and it's convenient. They have a big selection, and they've been reliable." Bill Gates
- Bezos' vision has been translated into a large customer base and loyalty rate.:
 - from 1.5 million in December 1997 to 24.7 million in December 2018
- The percentage of repeat customers increased from 64% in 1998 to 78% in 2000.
- In Q4 2001, Amazon spent \$7 to acquire a new customer and the average customer spending was \$123.
- Product Characteristics:
 - Easy to ship
 - Low value item and hence, low risk.
 - Informational products making them amenable to selling them via online storefronts using features such as- ! Sample chapters ! Table of contents ! Editorial reviews ! Customer reviews



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E-COMMERCE CASE STUDY: AMAZON



- Amazon.com rapidly expanded into a number of products:
 - June 1998: Music
 - November 1998: DVD/Video
 - July 1999: Toys and electronics
 - November 1999: Home improvement, software and video games

- The following arguments have been made in favor of rapid diversification:
 - Cross Selling
 - Economies of Scale
 - Brand
 - New products => Higher revenues



E-COMMERCE CASE STUDY: AMAZON



- The associates Program :
 - Small sites would act as traffic generators for the company.
 - These sites would post content on their site with a link to Amazon.
 - Each site would receive a commission of 15% for any referred purchase and 5% for any other purchase made by that consumer.
 - The company would benefit not only by traffic generation, but also by branding. Since the small sites would carry an Amazon logo, it would enhance the online presence of the company.
 - The company paid for the customer traffic after the fact as opposed to traditional advertising where companies pay ahead of time without knowing the level of traffic that will take place.

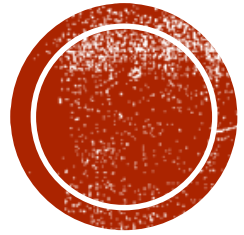


E-COMMERCE CASE STUDY: AMAZON



- Few highlights from the financial statements:
 - Sales has grown from \$147 million in 1997 to about \$3.1 billion in 2001.
 - Average growth rate during this period was 141%.
 - Gross margin during this period has averaged 21.68%.
 - Ratio of marketing expenses to sales revenue has decreased from 16.33% in 1997 to 4.43% in 2001.
 - Loss from operations has increased from \$32,595 in 1997 to \$412,257 in the year 2001.
 - Sales from book, music and video have leveled off. But, this is a very profitable segment. On the other hand, the electronics, tools and kitchen segment is growing rapidly- but it is not very profitable.





E-COMMERCE BUSINESS CASE



SAMPLE STORE A:

basic costs involved in a small ecommerce business model that ships 200 orders per month using in-house fulfillment.

Plan element:	Estimated cost:
Product wholesale cost for the item including inbound shipping	\$2400 (\$12/unit @ 200 sales)
Fulfillment costs: Facility, packaging & order shipping	\$3100/mo. (\$500 rent, \$200 packaging, \$1500 shipping)
Sales channels	\$29/mo. Shopify store \$0 Facebook Shop
Marketing	\$179/mo. (\$150 Facebook ads, \$29 email)
Total costs	\$5708
Break-even cost per order	\$28.54 (\$5708 ÷ 200 orders)



SAMPLE STORE B:

basic costs involved in a small ecommerce business model that ships 200 orders per month using drop shipping.

Plan element:	Estimated cost:
Product wholesale cost for the item	\$2400 (\$12/unit @ 200 sales)
Fulfillment cost: vendor-added discounted shipping per order	\$790 (\$3.95/shipment)
Sales channel	\$29/mo. Shopify store \$0 Facebook Shop
Marketing	\$179/mo. (\$150 Facebook ads, \$29 email)
Total costs	\$3398
Break-even cost per order	\$16.99 (\$3398 ÷ 200 orders)



Q&A

