



## Christmas E-tailers: Will It Be Ho-Ho or So-So?

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We've built them, but will they come? And, if they do come, can we handle the load? These are two of the questions Internet-based retailers are asking themselves this Christmas season.

E-tailers have spent huge amounts of time and money beefing up web sites to accommodate an anticipated holiday-shopping crush. How well they manage last-minute gift orders is one issue. Another is whether shoppers will spend the money that online retailers, especially small ones, need in order to stay financially healthy.

To be sure, online holiday shopping is increasing. According to [Forrester Research](#), a Massachusetts firm that specializes in e-commerce analysis, consumers are expected to spend \$4 billion online between Thanksgiving and New Year's Day, nearly triple the \$1.5 billion spent in 1998. Forrester estimates that \$2.9 billion of this amount will be spent by experienced online shoppers, defined as people who have been shopping online for more than two years and bought gifts via the Internet last Christmas.

To meet the demand, e-tailers have geared up for the Christmas season in several ways. Beyond spending millions of dollars on advertising — one toy company alone plans to spend \$50 million to promote its online site this season - they have spent millions more to strengthen their fulfillment capabilities. Retailers know that gifts that arrive late could sour consumers on ever using a web site again.

### A critical season

Christmas-shopping has long been crucial to retailers. Its "official" kickoff, the day after Thanksgiving, is known as Black Friday because that is the time when traditional bricks-and-mortar retailers begin to become profitable. For e-tailers, however, virtually all of which have yet to turn a profit, the importance of the holidays is not so much that e-tailers move from the red to the black, but that they show gains in sales and customers.

"Everybody has been anticipating that this is *the* Christmas for online retailers," says marketing professor [David Reibstein](#). "They're betting their future on Christmas. Everybody is going to look at this holiday season and say, 'Did you get customers?' Nobody evaluates web sites based on profitability. They evaluate them on the basis of customers and revenue."

Because many e-tailers have not yet gone public, Reibstein says, they will continue to rely on venture capital for their next round of financing to stay in business. "How well they fare in general in that next round will be dramatically impacted by the holidays."

Whether there is enough business to go around, however, is still a question mark. Marketing professor [Peter Fader](#) says he is upbeat about the long-term prospects for e-commerce. But he fears that there is too much "e-commerce infrastructure" being developed.

"There are way too many sites for the economy to [accommodate]," Fader says. "Much of the run up in valuations [of e-commerce companies] is based on the belief that 'If you build it, they will come.' When will they come? Christmas!" At least, that's what e-tailers are hoping.

### Navigational Aids



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Assuming shoppers do come, note faculty members, e-tailers of all kinds could do more to make their sites easier to use, thus staving off potential consumer frustration.

"I think the biggest issue is the difficulty of navigating and the time consumption involved in that," says Reibstein. "Sometimes sites put up unnecessary pictures which take a long time to download ... One of the major motivations to shop online is to save time. If the task is cumbersome, that purpose is defeated."

A way to streamline the process, Reibstein adds, is for e-tailers to use a practice called collaborative filtering: Gathering information about customers so that visits to web sites can be customized to meet their needs. That way, "we don't get bombarded with all the junk information which we have to wade through. If you buy baby diapers, the next time you go online, what you see are baby-related products."

[David Schmittlein](#), chair of the Wharton marketing department, agrees. "The most-often used button [by online shoppers] is the 'back' button. Why is that? You have to go back and back to extricate yourself from the mud so that you can proceed in another direction. The further you have drilled down, the longer it takes to go back to the start. The failure by electronic retailers to provide easy access to cut across departments is one of the big drawbacks at many web sites."

Schmittlein says consumers ought to be able to tell web sites what their shopping preferences are. In turn, web sites could anticipate what customers want by analyzing their past browsing patterns or by simply knowing where they live.

Consider fishing rods. An e-tailer who knows that a customer lives in a coastal city could organize a series of clicks that would take the customer directly to fishing tackle that meets his or her interests — saltwater versus freshwater equipment, for example.

Online retail sites typically "work too much like phone directories," Schmittlein says. "You search down long lists rather than having the customer help the retailer figure out what it is the customer wants."

## The great shakeout

Holiday sales are important to established online sites, but they are even more vital to smaller, lesser-known sites struggling to break through the online clutter and establish a presence in the minds of consumers.

"All these little guys who didn't exist several months ago, who have been placing all their eggs in one basket, may find that there are only so many eggs to go around," Fader says. "On January 15, when everybody does their holiday counting, e-tailers may find that sales were higher but not nearly as high as expected. This holiday season will be the trigger for the great shakeout, and a lot of people who are worth a lot of money right now will not be around next holiday season."

Some sites have already experienced outages and slowdowns due to the point-and-click shopping crunch, as anyone knows who has tried to order from certain companies in recent days. "The net has promised a wide variety of products, great prices, wonderful convenience and secure transactions," notes Schmittlein, "but there's the potential for a great deal of frustration." To counter that, he adds, "several leading Internet retailers have spent dramatically over the last six to eight months to increase their capability. The question is whether they have grown as fast as demand has grown. The jury's still out on this one."

Schmittlein says one reason this Christmas season is critical for e-tailers is that holiday shopping will test e-tailers' claims that online shopping can match traditional window-shopping by allowing consumers to use search engines to generate gift ideas, compare prices and find products they didn't even know they wanted.

In some ways, adds marketing professor [Barbara Kahn](#), more is at stake for online retailers than the bricks-and-mortar companies.

"A lot of the people in online retailing are newcomers," Kahn says. "They don't know how to manage inventory or logistics. [One of the biggest challenges] is managing uneven demand. If you're ready for the peak, that's fine, but you can't keep your inventory at those levels all the time. Will e-tailers be able to

deliver packages on time? If they deliver on December 26, it's over. They have a lot to lose if they mess up. Last-minute shopping is not an area e-tailers are experienced in."

Kahn and Fader agree that smaller e-tailers are at greater risk than firms with a track record. "Brand name matters more than ever," Kahn says. "The first one in has an advantage. Amazon and eToys have a huge advantage in brand awareness."

"Branding matters much more than at any other time of the year," Fader adds. "People don't want to do extensive searching. They just want to get a gift."

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