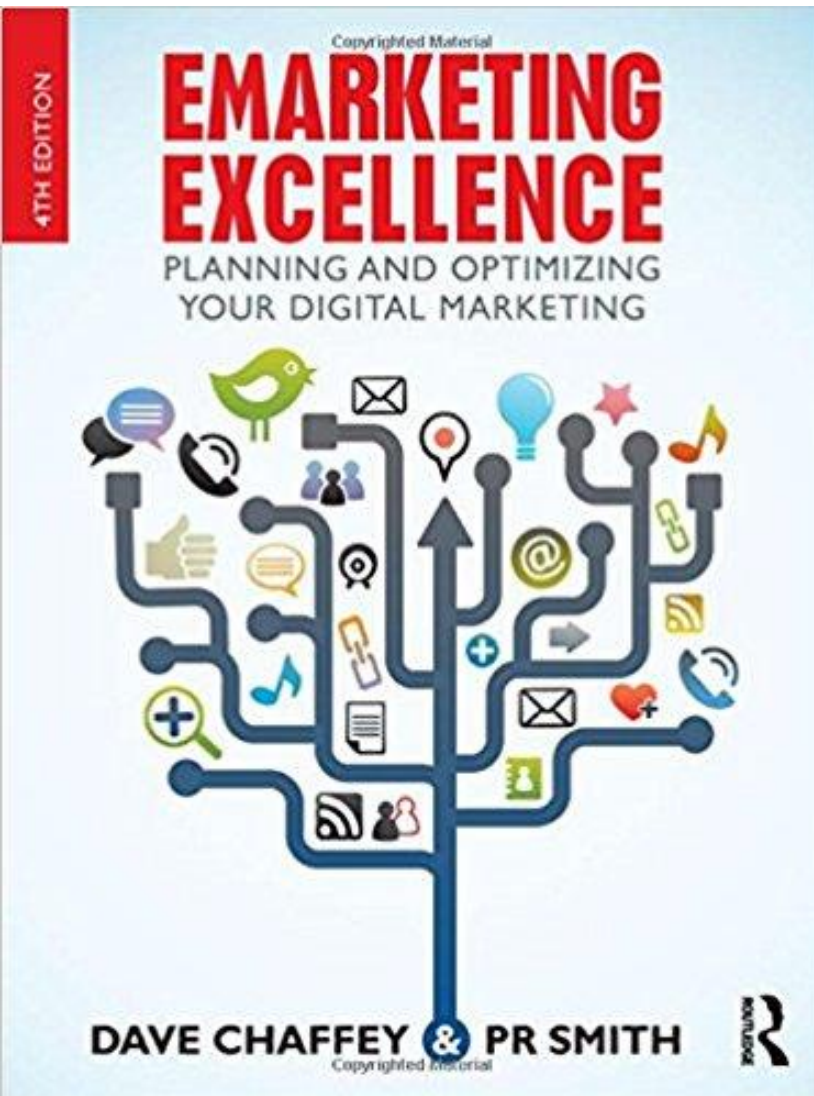




WESTMINSTER

INTERNATIONAL UNIVERSITY IN TASHKENT

An Accredited Institution of the University of Westminster (UK)



Frictions (New Forms of Interaction)

Lecture 2

By Dr. Umidjon Akhunjonov

What we plan to cover today:



Frictions and Commerce

Online-offline overview

Online-offline (O2O)

Variety and the digital economy

Part 1

Frictions and Commerce

- Frictions in real world markets;

Friction – impediments to transactions getting done or **information** getting found by customers and firms

EXPERIMENT 1 (search friction)



ПАХТАКОР-79





Sourcing Solutions ▾ Services & Membership ▾ Help & Community ▾

Categories ▾

Products ▾ Machinery: Alibaba.com International Online Exhibition

Найти идеальное путешествие

Расположение

Дата заезда

Дата выезда

+ Улучшенный Поиск

Искать

MY MARKETS

- Consumer Electronics
- Machinery
- Automobiles & Motorcycles
- Home & Garden
- Apparel
- Beauty & Personal Care



**FEATURED AT
FOODTECH PACKTECH**

• Free inspection service

Source Now

Machinery Online Exhibition

Food Machinery

View All



Timepieces, Jewelry, Eyewear

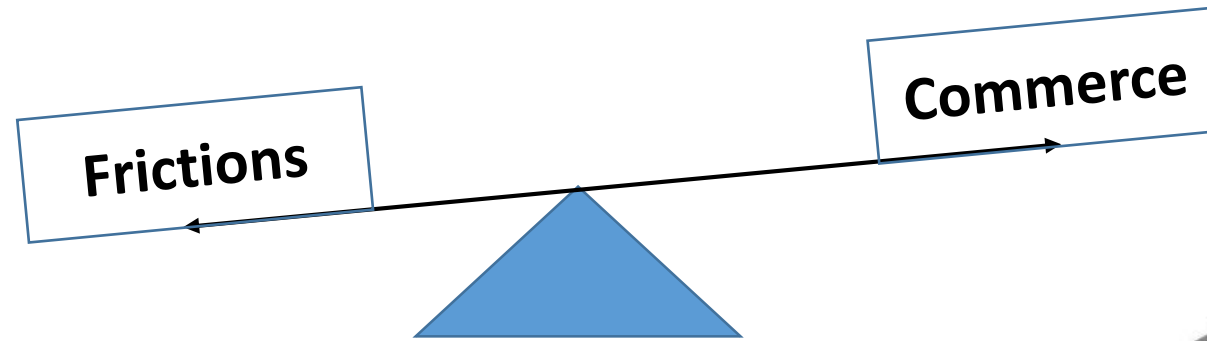
View All



EXPERIMENT 2 (geographic friction)



What is the status of frictions in the digital economy?



Yet, most transactions happen offline!!! Why???

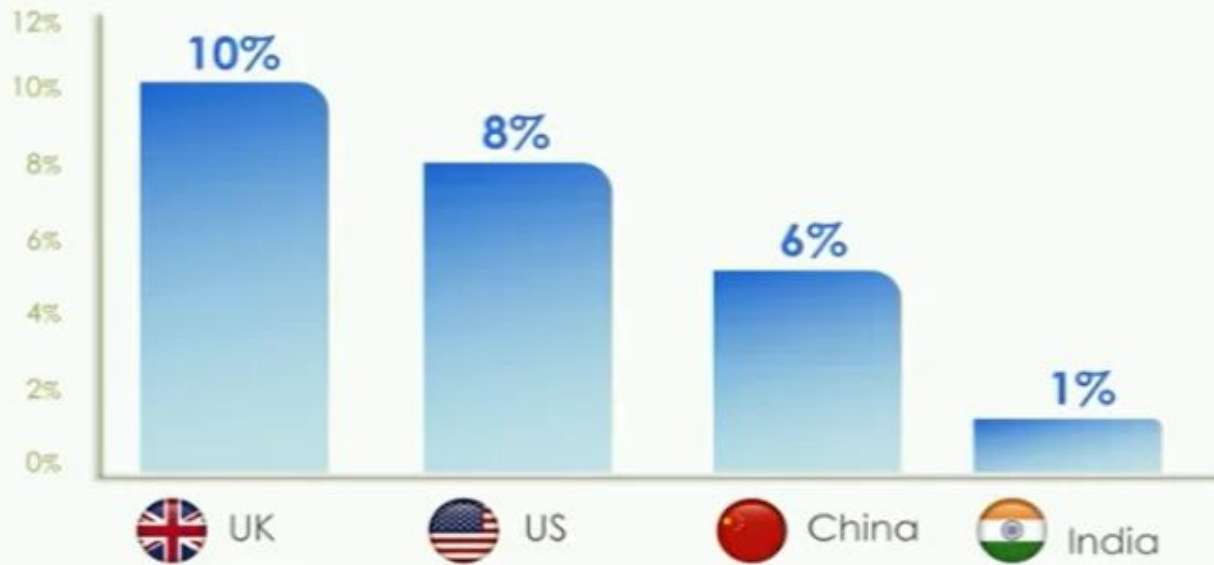
Touch and feel;

Wait for couple of days;

Transactions (Uzbekistan).



Percentage of Commerce Transacted Online



Source: Euromonitor, Morgan Stanley Research; excludes travel



4% sold online
95 % sold offline

Yet, mutual influence exist!

Evolution of real world economy

Bigger town – More stuff (**agglomeration**)



Woman living in a city with a lot of physical stores around (**Shanghai, Beijing**)



Woman living in a town with very few physical stores around (**downtown areas, other provinces**)

Who is more likely to shop online at

- www.soap.com
- www.suits.com
- www.shirts.com

- ❖ Globally, consumers who live **further** from offline commerce options are more likely to shop online for **goods**
- ❖ Furthermore, consumers who live in **large cities** are heavy consumers of **information** (another 50-60 "local sites" for every additional 1m residents)

- ❑ Real world markets impose two important frictions on consumers, **search** friction and **geographic** friction;
- ❑ The Internet helps alleviate both, but helps consumers in large and small markets **differently**;
- ❑ The Internet also imposes its own set of frictions (many new companies are starting up to eliminate them).



“I don’t make money when I sell books. I make money when I help customers make better decisions.”

Jeff Bezos, CEO of Amazon
(when all Amazon did was sell books)



**Information
Drives Decisions**



**Online Needs
Offline**



**Digital Versus
Non-Digital**



**Mobile Changes
Everything**

Find the best business in town



Big Fish Little Fish Unclaimed

★ ★ ★ ★ ★ 9 reviews [Details](#)

★ Write a Review

📷 Add Photo

🔗 Share

🔖 Bookmark

Poke, Japanese, Hawaiian [Edit](#)



📍 **Westfield Sf Centre**
865 Market St
San Francisco, CA 94103
Union Square, SoMa
[Get Directions](#)
[Send to your Phone](#)



Reviews (negative, positive, positively negative)



Ad One Boiling Pot

★ ★ ★ ★ ★ 89 reviews

📍 4.9 miles away from Big Fish Little Fish

Peter R. said "I come here on a regular basis and the food is great! But thats not why I'm writing a review. Yesterday night at Walgreens, I had a medical emergency. I urgently had to use the restroom. Walgreens wouldn't..." [read more](#)

[Edit business info](#)

👤 [Work here? Claim this business](#)

[Hours](#)



- Final Sale
- New
- Featured Shops
- Activewear
- Bottoms
- Tops
- Tailored
- Outerwear
- Golf
- Underwear
- Accessories
- Bonobos App
- Groomshop
- Gift Cards
- Gift Box
- Guideshop Locations
- Sign In

Get an Extra 50% Off All Final Sale Items

Use code ITSOVER

SHOP SALE

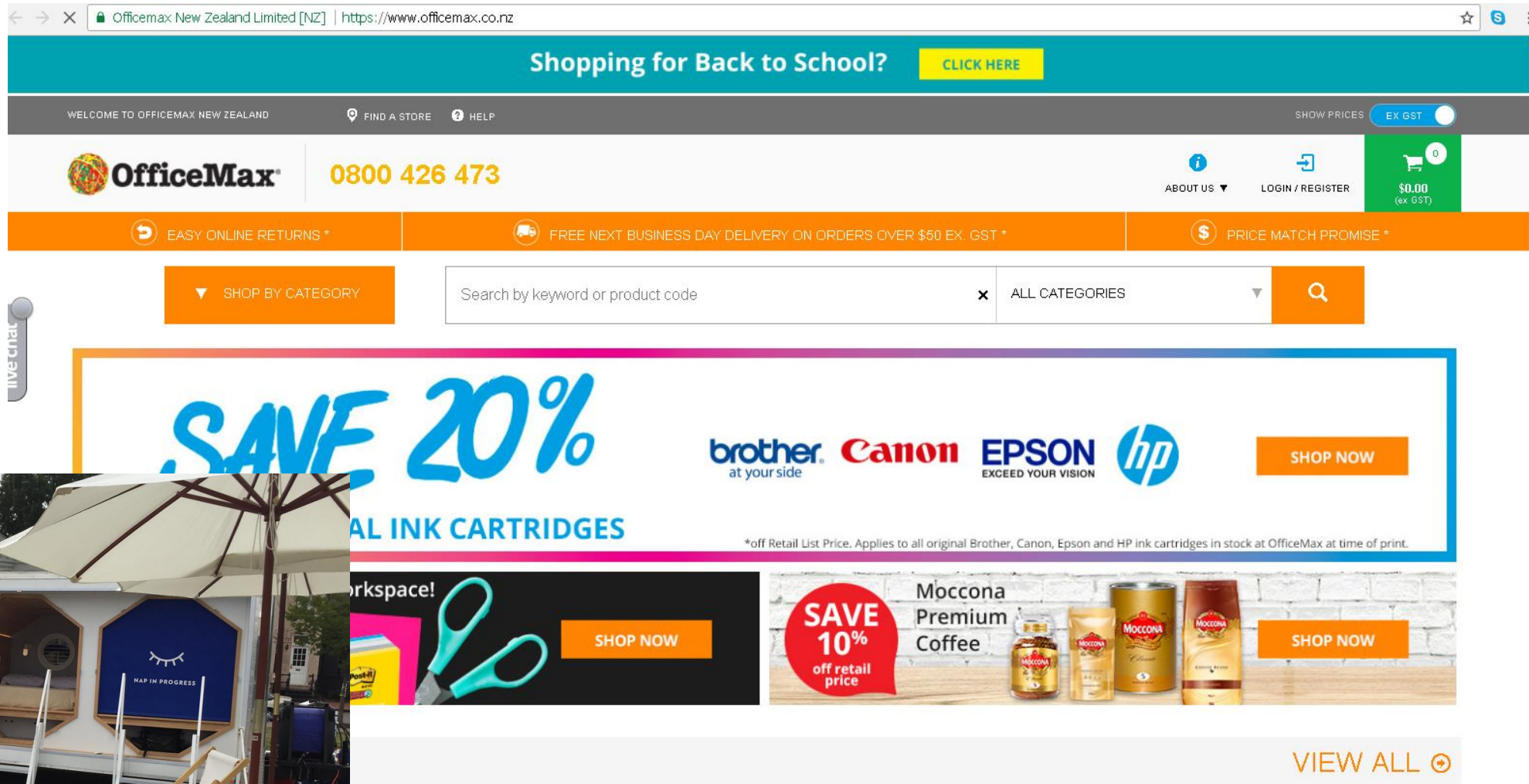
The Voyagers

https://www.youtube.com/results?search_query=CEO+bonobos+2008



Online-offline fundamentals

Amazon.com;
Zappos.com;
www.officemax.com;
Casper.com (NapMobile).



The screenshot shows the OfficeMax New Zealand website. At the top, there's a teal banner with the text "Shopping for Back to School?" and a yellow "CLICK HERE" button. Below this is a navigation bar with "WELCOME TO OFFICEMAX NEW ZEALAND", "FIND A STORE", "HELP", "SHOW PRICES", and "EX GST" toggle. The OfficeMax logo and phone number "0800 426 473" are prominently displayed. There are also links for "ABOUT US", "LOGIN / REGISTER", and a shopping cart icon showing "\$0.00 (ex GST)".

Below the navigation bar are three orange promotional banners: "EASY ONLINE RETURNS *", "FREE NEXT BUSINESS DAY DELIVERY ON ORDERS OVER \$50 EX. GST *", and "PRICE MATCH PROMISE *".

The main content area features a search bar with the text "Search by keyword or product code" and a dropdown menu set to "ALL CATEGORIES". Below the search bar is a large promotional banner for "SAVE 20% ALL INK CARTRIDGES" featuring logos for Brother, Canon, Epson, and HP. A "SHOP NOW" button is present. A note below the banner states: "*off Retail List Price. Applies to all original Brother, Canon, Epson and HP ink cartridges in stock at OfficeMax at time of print."

Below the ink cartridges banner are two more promotional banners. The first is for "workspace!" featuring a pair of scissors and a "SHOP NOW" button. The second is for "Moccona Premium Coffee" featuring a "SAVE 10% off retail price" badge and a "SHOP NOW" button.

At the bottom right of the page, there is a "VIEW ALL" button with a plus icon.





**Mobile Changes
Everything**

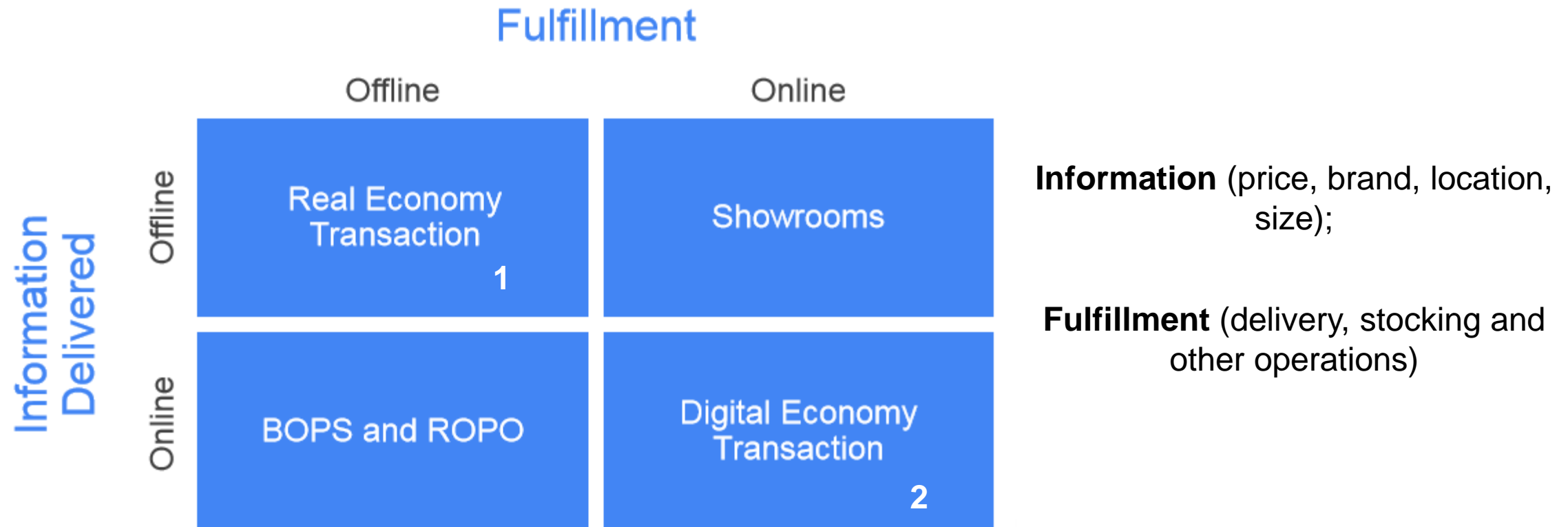
Five features;
Snacking (elevator or queue);
Distribution and payment system;
Intelligent and creative;
Unique user interface;
Amplification of WOM.



Intertwined and interconnected

- Value is created when customers can “make better decisions”;
- Customers are present offline and online—business needs to be too;
- Every product or service contains digital (D) and non-digital (ND) attributes—converting ND to D or eliminating uncertainty about ND is key;
- The “computer in the pocket” of billions worldwide will touch every market (remember the Five Rules of Mobile).

Are online and offline businesses competitors?



B-O-P-S-- Buy Online, Pick up in Store, or alternatively,
ROPO-- Research Online, Purchase Offline.

Crate&Barrel

www.crateandbarrel.com (began offline, adding online)



FREE SHIPPING, HOME TRY-ONS & RETURNS SEE DETAILS CONTACT US 888-692-7297 LOG IN CART (0) LET'S FIND YOU SOME AMAZING GLASSES.

WARBY PARKER

MEN WOMEN BUY A PAIR, GIVE A PAIR OUR STORY MONOCLE HELP/FAQ



VISIT OUR SHOWROOMS
See our glasses in person.
MAKE AN APPOINTMENT TODAY >



HOME TRY-ON
3 pairs, 5 days, 100% Free! Select five pairs to try on in the comfort of your own home. GET STARTED >



WARBY PARKER x SUNO
Shop our limited-edition sunglasses designed in partnership with SUNO. GET YOUR PAIR NOW >

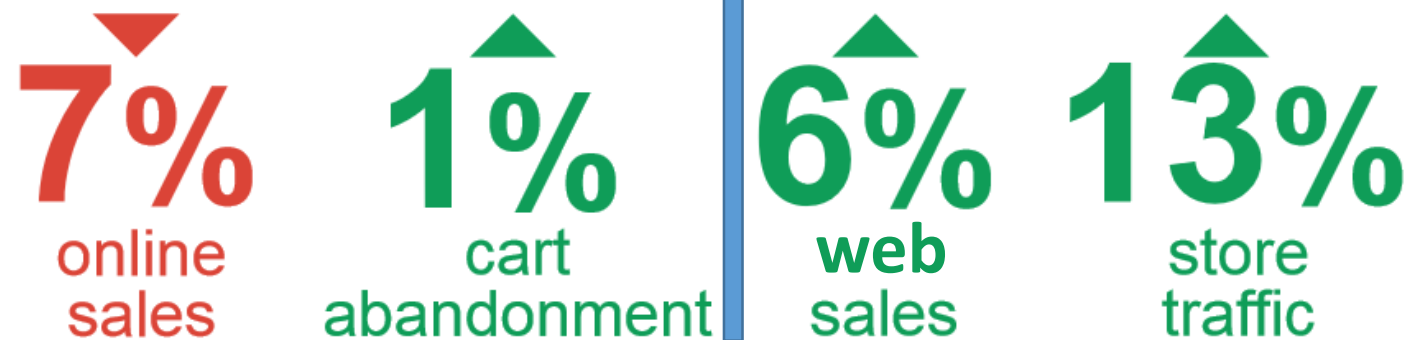
WARBY PARKER

www.warbyparker.com (began online, adding offline)

Natural Experiment

- **Treatment group** (Crate & Barrel store within 50 miles)
 - First, they could have the products they bought shipped to them (online fulfillment)
 - Second, they could go into the store and pick up their purchases (offline fulfillment)
- **Control group** (No Crate & Barrel store within 50 miles)
 - they had to have the product shipped

Two choices are better than one, aren't it?



Research Study (more info online pulls more offline)

•Treatment group

–First, they could go to the website (offline information)

–Second, they could use the sampling program (offline information)

–Third, they could go to the showroom (offline information)

•Control group customers had the first two options only



VIDEO

8.8%
Total Sales

3.5%
Web Sales

5%
Home
Try-On Sales

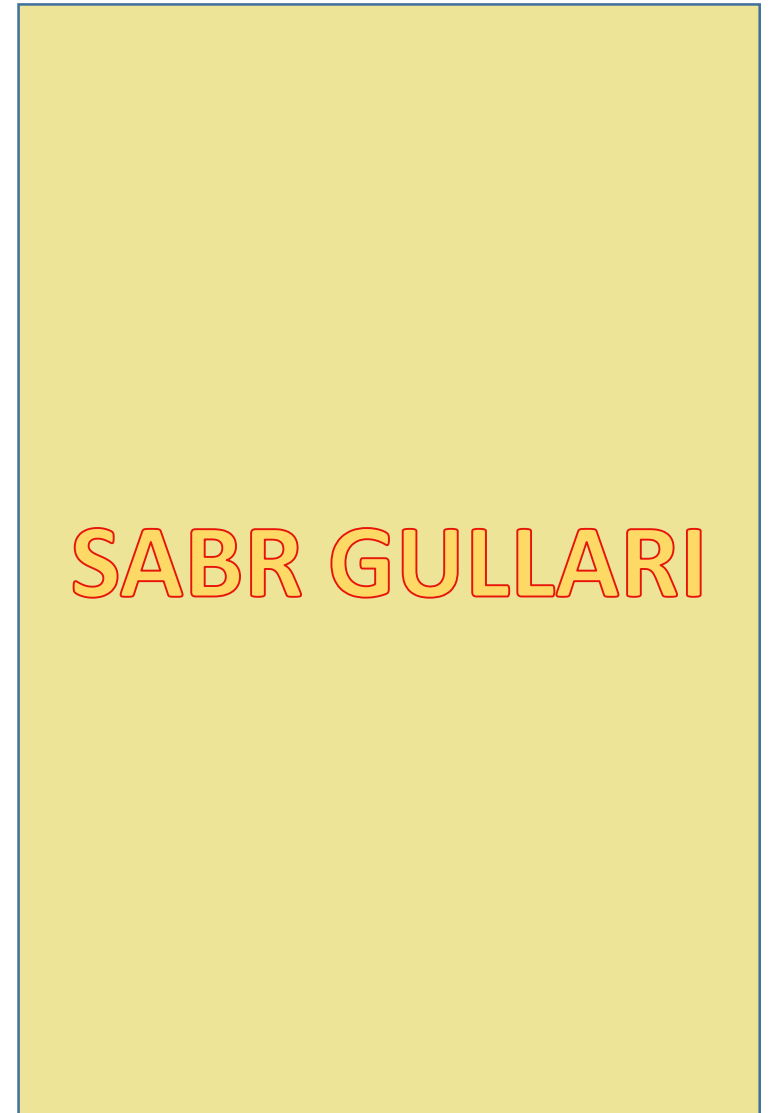
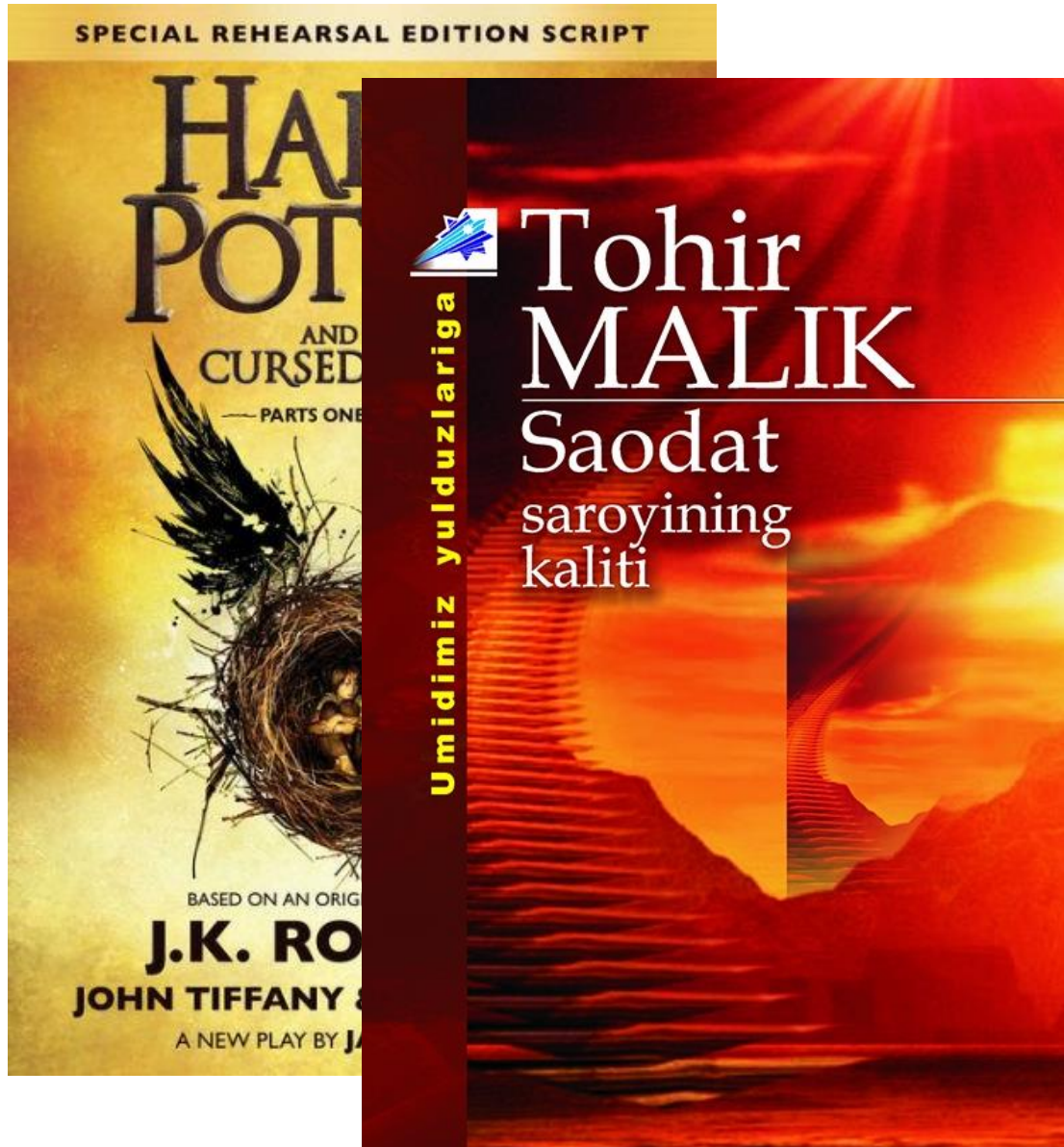
Horizontal brand could be a company like Amazon, or a company that I like and shop at sometimes called Far Fetch-- essentially, a brand that is selling products that are produced by other people.

A vertical brand is something like Bonobos or Warby Parker, where the product is only available at those sellers. Nobody else aside from Warby Parker is selling Warby Parker glasses.

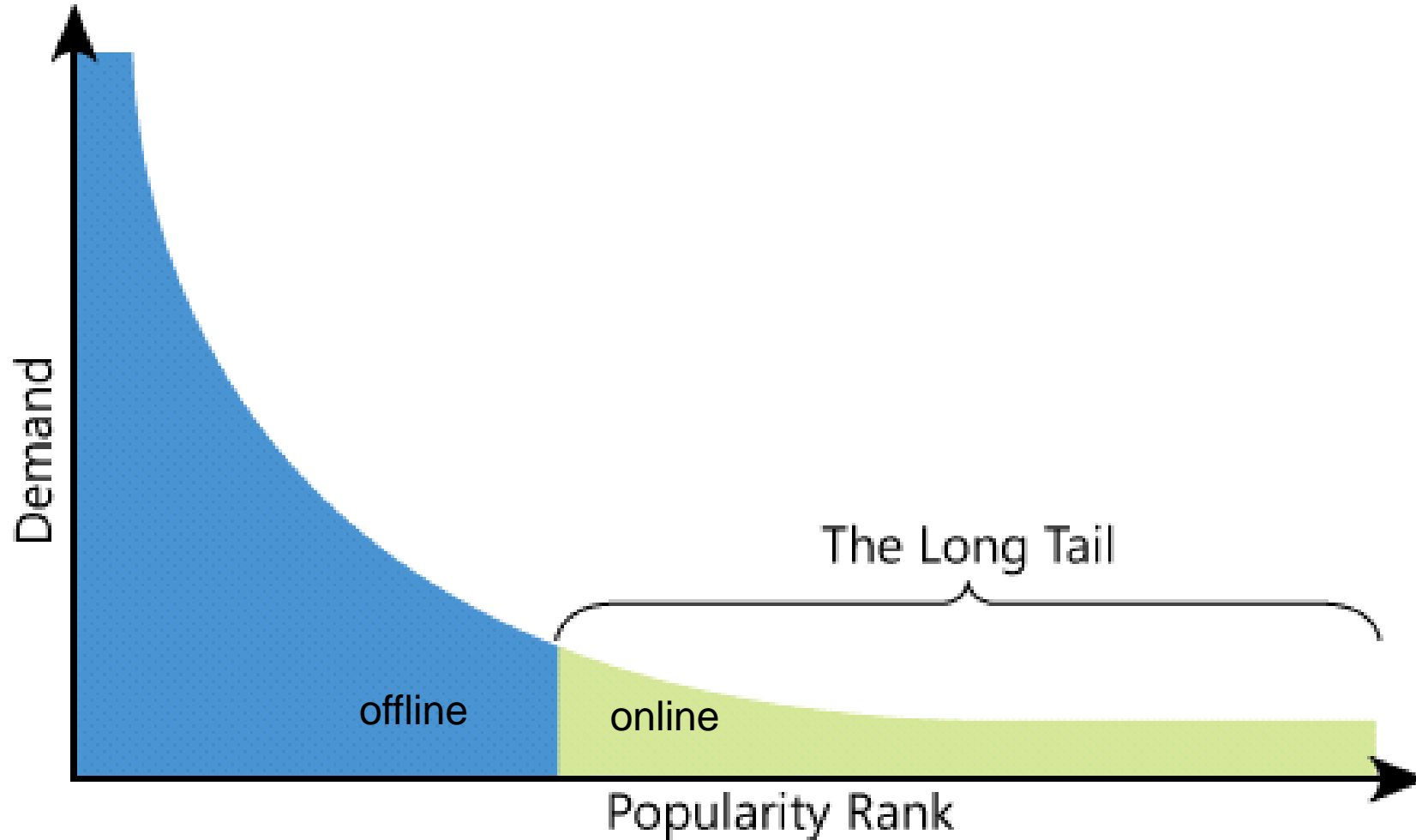
Which one of these should pay more attention to online/offline?

- It helps to think of online-offline interaction through the lens of two core functions: **information** and **geographic** friction;
- When deciding what **activity** to perform online or offline, always think about the “fit” of the activity to the channel;
- Remember: consumers operate in all four cells of our O2O matrix so in most cases, firms need to as well;





- **Cost:** Until relatively recently, it was relatively expensive to offer “more variety” to customers due to the cost of storage and distribution of goods and services
- **Winners:** In most contexts the “80/20” or Pareto Principle held true



Principles

- **Supply** Long tail businesses exist because **technology** has changed the economics of creation, storage and distribution
- **Demand** Long tail businesses succeed when customers have access to **recommendation and search tools** that allow them to discover and consume the variety that they want

www.farfetch.com,
www.edX.com

Internet not only enables, but also generates Long Tail



Fashion Catalogue

- The Long Tail has always been **latent** but just not produced (consumers have different preferences and want variety);
- The digital economy facilitates the **supply** of Long Tail products and services;
- Long tails only “work” in practice when buyers have the necessary **tools of discovery**.

- READING MATERIALS
- David.R.Bell et.al., How to win in an Omnichannel world, MIT Sloan Management Review. <https://www.researchgate.net/publication/279332914>
- Chris Anderson, The Long Tail; Why the future of business is selling Less of More [http://dl.motamem.org/long tail chris anderson motamem org.pdf](http://dl.motamem.org/long_tail_chris_anderson_motamem_org.pdf)
- VIDEO LINKS
- <http://www.cbsnews.com/videos/warby-parker-tops-fast-company-magazines-annual-list-of-most-innovative-companies-in-the-world/>
- <https://drive.google.com/drive/folders/1Z0yJVwp1Fylle-kM-4baZDQ4tzZ1QA9S>

- Chaffey, D. (2011) *E-Business and E-Commerce Management: Strategy, Implementation and Practice*, 5th edition. Financial Times/Prentice Hall, Harlow. Chapter 8 introduces the concept of E-marketing and its relationship with e-commerce and e-business.
- DTI (2003) *Business in the Information Age – International Benchmarking Study 2003*. Department of Trade and Industry, London.
- Bell, D. R. (2014). *Location is (still) everything: The surprising influence of the real world on how we search, shop, and sell in the virtual one*. Houghton Mifflin Harcourt.
http://cdn.chiefmarketer.com/wp-content/uploads/2016/09/Location-Is-Still-Everything_David-Bell_INTRODUCTION.pdf