The Study of New Opportunity and Potential Risks in the Mode of O2O E-commerce

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ABSTRACT

O2O tries to attract and find consumers online and bring them into physical stores. People pay online to buy the goods and services, and go to the offline to take the goods and services; this concept came from America at the first, but now it is quite makes waves in China. The core point of O2O is: it is using the ways that give discount or provide service to send the physical stores’ information to internet users, thus bring them into physical stores.

The existing development environment is conducive for O2O. The explosive growth of internet user is the precondition of O2O’s development. The increase of the online shopping users and the third-part payment users is the development bases of O2O E-commerce. The popularization of intelligent terminals and mobile internet provide a better channels and platforms to develop O2O E-commerce. The appeared of mobile internet and the improvement of mobile device drives provide more convenient for the development of O2O mode. Location Based Services will become the main manifestation of O2O.

INTRODUCTION

O2O e-commerce refers to Online to Offline. As a kind of new electronic business mode, O2O have gradually to be known and accepted by people with the rise of group-buying websites. The key to O2O is that it finds consumers online and brings them into real-world stores. With the emergence of O2O, it will be a new opportunity and challenge for the e-commerce application of traditional manufacturing, service, and move the traditional e-commerce platform to offline.

Along with the development of the localization of e-commerce on the Internet, links between information and material, online and offline become more closely, O2O will become the next nuggets point of e-commerce sites. In fact, O2O combines business opportunities in offline and the Internet technologies to make Internet become offline trading desk, at the same time have the effect of promotion and clinch a deal. So, there must be so many new opportunities had be provide by the mode of O2O e-commerce, but opportunities always coexist with risks; will O2O give entrepreneurs some new opportunities? Will it brings any Risks to entrepreneurs?

THE CONCEPT OF O2O MODE

I believe that everyone had get familiar with B2C and C2C, we have seen the E-commerce has changed the way of life of the masses from 1995 to now.

When it comes to public life, as the Customers-terminal, most of the time they buy goods online, and then Business-terminal or the
goods’ owner put the goods into the box and sent to consumers by Logistics Company.

As the development of the goods consumer E-commerce, the situation has reached: you can buy everything you want using internet just need that things can be packaged. On the other side, not everything could be bought online, packed in the box and delivered to customers home, sometimes they go to see movies, repair their car in dealer shop, and do their hair in a salon, that all need customers go to the real stores. Those kinds of service consumptions take almost 96% of the total, and it is totally irrelevant with E-commerce. Even in the United States which is the place that the E-commerce developed mostly, the service consumptions also take 93%. Because the service consumption cannot be shipped, the E-commerce also is unable to deliver the experience of take the services.

But we both know the E-commerce certainly would deep into every aspect of people’s social life; no matter it is 96% or 93%, the services markets will inevitably control by E-commerce.

Then a new E-commerce mode had start: the mode of O2O E-commerce.

The so-called O2O, namely Online to Offline, that is, line internet and business opportunities together, let the internet become the front line transactions. This line can be used online services to Showmanship, consumers can use to filter online services, online transactions can be settled, and soon reach the scale. The model is the most important features are: the effects to be investigated, each transaction can be tracked.

The definition is O2O tries to attract and find consumers online and bring them into physical stores. People pay online to buy the goods and services, and go to the offline to take the goods and services; this concept came from America at the first, but now it is quite makes waves in China. The core point of O2O is: it is using the ways that give discount or provide service to send the physical stores’ information to internet users, thus bring them into physical stores.

SLEPT ANALYSIS OF O2O MODE

Social analysis

1. The explosive growth of internet user is the precondition of O2O’s development: The number of global internet users in 2012 totaled 2497 million, internet penetration rate take up 34.3% of all, and increased 230 million new users for the year. The rapid development of broadband access makes internet coverage has gradually expanded from first-tier and second-tier cities to grassroots areas. O2O e-commerce is based on a large number of network users, the enterprise according the user’s behavior and migration path to modify the traditional business model, which is more convenient for provide a variety of new service to the users.

2. The increase of the online shopping users and the third-part payment users is the development bases of O2O E-commerce: The development premise of O2O requires users can pay the bill online, now the third party payment platform is the most ideal payment tool for online payment, it can guarantee the goods quality and reliable exchange, and the exchange of a purchase. It will monitor the processes of trade to ensure the both buyers and sellers are honest. In addition, online shoppers are still the main users of O2O. The Users familiar with online shopping trading operations and they understand access to information those will lead them to become the first users of O2O. A survey has revealed that the number of people shopping online across the globe has skyrocketed from 10% to 85% in two years.

3. The popularization of intelligent terminals and mobile internet provide a better channels and platforms to develop O2O E-commerce: Intelligent terminal is the terminal like smart phones and other mobile devices have capability to connect the internet. The development of s society and technology makes intelligent terminals to gain popularity, it means that people break through the constraints of PC terminal; people can surf in internet at any time and place. Mobile internet is more care with people's social life, which allows users to search the life service information in everywhere at every time.

Legal analysis
Network transactions makes investigate tax easier, but each of the countries are lack the relevant tax regulations. There is an indeterminate factor if edict new laws to limit online business.

Economic analysis

Services industry occupies a pivotal position regardless of any one country, the services sector account for as much as 63.4% of the total world’s GDP in 2012. In the economic environment, the service sector has created advantage for the O2O mode, and through O2O mode this advantage can be further expanded.

Political analysis

Policy factors will not cause big effect for O2O e-commerce mode. In contrast, some policies to promote the development of economy and technology also promoted the development of O2O mode. For example: China plans to spread nationwide internet before 2015, the average speed of city internet will achieve 8G, in rural areas will achieve 2G. This will not only promoted the development of the internet in China, it will improve the O2O develop environment also.

Technology analysis

1. The appeared of mobile internet and the improvement of mobile device: With the development of internet, people are rely on the internet more and more people, they need surf the internet at anytime and anywhere, so the mobile internet began to appear in people’s lives. The mobile device manufacturers are constantly upgrading their products for people to meet the needs of them. In recent years, people demands of mobile phones are no longer just can calling and texting, internet functions became an indispensable function for a modern mobile phone. The mobile internet associated with the improvement of derivatives and the mobile internet was further improved the mobile device. Then provided an excellent environment for develop the O2O mode.

2. Location Based Services will become the main manifestation of O2O

Location Based Services (LBS) are a general class of computer program-level services used to include specific controls for location and time data as control features in computer programs. The two important functions can used for O2O is: determine the geographic location of mobile device or users, based on the location that had determined to provide various information services.

ANALYSIS THE POSITION AND THE DRIVER OF O2O MODE

O2O is not really a new idea, but it really is a new model. Data show that U.S. online spending accounted for only 8%, the proportion of service consumption still up to 92%; while the ratio in China, were 4% and 96% (or 4.5% and 95.5%). The role of O2O is make the effect of E-commerce cover the services consumption which up to 92% of all.

On the other hand, the service sector’s GDP share are higher than the manufacturing sector, in 2012 the global GDP was 84.97 trillion, service sector GDP share up to 63.4%, while manufacturing accounted for only 30.7% (find information in CIA library). This means that if B2C sales have 500 billion, then the service online sales will reach 1 trillion.

The driver of O2O mode

1. Offline business needs to develop online

After retail enter the e-commerce market the sales all the way up, how could the life services companies not want to put their products on the Web to sell it. But the main commodities in service industries are services, the service cannot be put into boxes delivered to the consumer’s home; and services tend to have regional restrictions and the door-to-door service is impossible across the city, unless they have global chain, in that case the requirement that service company wants to enter the e-commerce would be too difficult to achieve. Internet promotion brings a lot of money for the retail companies that illustrate to promote the services and other industries on interne can also bring huge profits to them, and it shows the offline business needs to develop online, in order to improve their profits.

Meanwhile, there are some limitations for the information service and processing capacity system of offline. Most offline services businesses are lack
of effective marketing. Although the ways like flyers, promotional activities and posters are effective, but they are not suitable for all the needs of all businesses. The lacks of marketing are calling a plentiful, precise marketing platform to appear.

2. Online channel has the ability to drive the business offline

In the past few years, e-commerce had really boost the sales of retail industry, many companies are not sell their merchandise in the large-scale retail e-commerce sales platform only, also recommend their products on some social sites (e.g. Twitter, Face book) to attract customers who might have buying desire. According to statistics, 53% of twitter users will send tweets to their friends to recommend the companies or products, of which 48% of the tweets will convey a willingness to buy. Most people use social networking sites are not just use them to make friends in different regions, they also use the social networking site to build relationships with their real friends, family, colleagues and even the people who have only seen one side, in order they can use social sites to communicate with them. This makes the social networking site not only has the global or national connectivity, but also with local interconnectivity. This local interconnectivity can be used by service companies as a channel to drive offline business.

3. Traditional e-commerce is associated with the points, O2O mode expand associated with the points to become associated with the district

Traditional e-commerce is associated with the point, which is transport from one point to another point. The advantage of point to point is the company does not need to set up branches in each location, and the consumers also do not need to go to the physical stores shopping. But the weakness of point to point also evident, every product needs to transport form one point to another point, that greatly increased the transportation costs, and if the consumers are not satisfied with the product they purchased, to returns it will generate a serious transport cost also, especially for cross-border transport.

O2O mode expand associated with the points to become associated with the district, it might be from region to point, or from the point to region. O2O mode divided the companies according their region, consumers choose their area on the website then they can receive the service information from the same area, and they can buy online and take it offline. Although O2O mode has some limitations, but it is real reduced the labor cost, and O2O mode are more focused on service-oriented consumption (it is not means it does not suit for retail consumption).

THE CURRENT SITUATIONS OF O2O MODE

The concept of O2O is originated in the United States, and it was introduced into China with the group-buying and quickly spread. Currently, O2O mode is mainly developing in some developed countries and China.

Many developed companies have entered into the information modernization, the business intelligence is widely used, and the department stores in Europe, America and Japan were into the business intelligence for a long time. Looking for the market of the two-dimensional code, the best development in Asian, in 2010, Japan has own 12 million two-dimensional code users, the awareness reached 98%, South Korea also own up to 30 million users, 90% of the mobile phones are equipped with capabilities to barcode scanning. The information technology and two-dimensional code drive the development of O2O mode in developed countries.

In China, O2O mode has penetrated into many areas of people’s life, such as: online tourism, real estate, ticketing, mobile Internet, catering, car rental, etc., especially has a huge potential in the mobile Internet applications. China had relatively high development of O2O mode, so there will focus introduce the development in China.

NEW OPPORTUNITIES AND POTENTIAL RISKS OF O2O

Through analysis the strength of O2O mode can help us to know how to use O2O mode to create or expand businesses.

1. Inherited the advantages of the internet

O2O mode takes full advantages of the internet such as across geographies, no borders, mass
information and mass users, while fully excavated offline resources, thus contributing the online users buy and go to offline to take goods and services, group-buying is a typical representative of O2O mode.

2. Strengthen the predictability of marketing effect
The effects of traditional marketing are difficult to predict, O2O mode can traditional marketing the merchant’s marketing effectiveness, strengthening the predictability of marketing effectiveness. O2O combined online orders and offline consumption; all consumer behavior can be statistics accurately, and thus attract more companies, and provide more quality products and services to customers.

3. Timely convey discount information to facilitate consumer comparison
In order to attract more users to buy their goods and services, companies will offer some discounts frequently, O2O mode lets companies use the internet to disseminate information about these discounts, so that consumers can obtain this information in a timely manner, and to facilitate comparison of the various information.

4. Breaking the limitation of traditional PC side
The limitations of the traditional PC side to some extent limited the development of electronic commerce. O2O mode are use the portable mobile terminal, the identity of users are unique, the traceability of the user’s location and other characteristics, to seize a number of potential improvisation consumer users, this part of users are not coincide with the consumers whom rising based on the traditional stores, and online customer acquisition costs are far less than store itself, which will expand the market space.

The new opportunities of O2O mode
There is a big difference for the development of O2O mode in the various market segments, the performance has variety changes, and the opportunities are also different. But overall, a good O2O mode will reach “win-win-win" effect, for the local merchants O2O mode requires consumers pay the bill online, their payment information will become a channels to understand consumer shopping information and to facilitate companies to collect consumers purchase data, and then aim to achieve precision marketing and to maintain and expand its customer better. Through online resources to increase customer does not bring too many cost to companies, but it do really bring more profits to companies. In addition, O2O mode in a certain extent reduced the shop’s location dependence, companies did not need to rent a store in a good place to make it shine this reduced the rent expenses. For consumers, O2O provide rich, comprehensive and timely information about discounts, they can quickly filter and order the appropriate goods or services with an affordable price. For the platform providers, O2O mode can bring large-scale consumers of high viscosity, and thus they will be able to win more business resources. The vertical website with higher localization degree can use O2O mode to grasp the huge consumer data resources and provide other value-added services to the companies.

The weakness of O2O mode
O2O mode inherits all of the disadvantages of traditional e-commerce, mainly in three aspects.

First, is the online banking system is not perfect. Online banking system is the main channel to support customers pay the bill online, the major banks have invested heavily in the development of online banking payment systems, but has never been able to achieve perfect.

Secondly, the recognition of online payment is not high. Online payment without any paper receipts and certificates, in spite of reliable payment platform security, customers still maintain the attitude to question the reliability of online payment. This is also reflected from the side of the online banking system needs to be improved.

Finally, difficult to protect after-sales rights lead customer stop step. Customers receive the goods after purchase, or enjoy the service to the physical places, if they found the goods or services from this company are different from those described in the online. At this point, the goods can be return to merchandise, but the services have been unable to return after they enjoyed, and it is difficult to search reliable evidence, which makes the
after-sale rights are difficult to protect, lead customer stop buying.

The threat of O2O mode

First, the online payment security is always tested. Fraudulent website not only against the network user's computer, it also intercepts the payment information, so that people in the online payment mistakenly pay their money to the hacker's account. It is a threat to any websites which supports online payment.

Some companies issue the fraudulent information in the website against the trust of customers to online transactions. Some companies publish attractive discount coupons on the website to attract large number of network users to buy, but in fact the company has closed down or the company received a lot of money later on escaped leave. This greatly reduced the trust of customers shopping online.

The potential risks of O2O

O2O model as a new business model combined internet with the offline, to solve the problem of the traditional industries of e-commerce. However, the model is not simple O2O Internet mode, this mode of implementation of enterprise offline capacity is not a small challenge. It can be said that the level of ability in the offline largely determines the success of this model. Because the online user viscosity has a lot of advantages of user resources, high degree of localization of the vertical site will with O2O mode, a new force to compete for future e-commerce market.

O2O the key point is that the platform to attract consumers through online, real consumption of services or products by the consumers to offline experience, to put forward higher requirements for this service offline. The rapid rise of online start-up company's ability to control the stability of the service system is also a big problem, such as the United States the rapid development of short-term rental website Airbnb because the line was a lot of people questioned. There was a guest "looted" the landlord's room. Airbnb team controlled the same time risk in the line also shows that this model of the short board. Enterprise of most O2O mode and cannot grasp the quality of the service offline, only the equivalent of a third-party intermediary to play a coordinating role in the middle.

In addition, the online payment, offline experience can easily lead to “before payment is God, after the payment is nothing” dilemma. Entities such as the custom class of goods and consumer pre-inconsistent, the quality is lower than expected, even extremely poor consumers in a very passive position. Experiential service with a bad reputation and credibility is difficult to obtain large-scale development. For O2O mode, the main line is the service enterprises, and there are variety of non-standard operations, although the buy has been carried out early education, but distance is still a far cry from the stable and perfect service, and therefore how to protect online information and offline businesses symmetry, this will become a key node the challenge O2O model can truly developed.

O2O mode if the price advantage to attract consumers and businesses how to balance the difference in the prices from the online price and offline, while ensuring that the two sides of the interests of consumers, or pay more attention to which side of consumers, how to attract maximum transaction is also a problem.

CONCLUSION

The proposed of O2O mode changes many people's traditional way of shopping, more and more O2O platform establish and dissolve, O2O mode still be called as a one trillion market. What the future direction of the market will be?

For current situation, the profit model of O2O mode are relatively clear, but also easily lead to many same development models. Group-buying website is a typical case. The development of group-buying is every one rush to one site, small cost businesses, with the same profit pattern, severe homogenization competition,

The operators of O2O platform should not be limited to providing some of the table -level, low-technology services; they need consider digging more potential, more competitive business model. On the operate ideas, the operators cannot just lock the cheap route, should take its own strengths, to help services companies tap some
value-added services. Many companies had launched a wide range of business systems already, but without enough propaganda, these services did not catch the customers. At this point, the O2O platform operators can work together with companies to march diversification business development.

In the future O2O will become a multi-level, multi-dimensional complex ecological system, keep develop to the diversity and depth, the platform will evolution to flatbed type, outsourced type, direct type, cooperative type, regional type, vertical type and other kinds of patterns. Although they will not completely eliminate the competition, but the complementary and cooperation will be more, they will establish a symbiotic win-win relationship.

O2O mode has typical regional characteristics, the main business is based on commercial entities, therefore, in essence, there is not much difference with the commercial entity it is a correspondence between each other. Which is similar to the traditional areas of specialized marketing services agency, which determines it will flourishing same with the commercial entity, is difficult to appear domination company, although there will exists a mega-class enterprise, but it is not equal to dominate the world, the lead of segments market will have a strong competitive advantage, it also just have difference on the size, there is no absolute sense of the strength. That is an enterprise may have more than one individual champion, but it is difficult to become all-around champion.

In the future there will be variety forms of O2O mode coexistence. Traditional commercial format have department stores, supermarkets, convenience stores, shopping centers, food city, hotels, etc., on the category there are exclusive stores, specialty stores, on the architecture they have national chains, regional chains, single store and franchisee outlets, etc., they are all co-exist in a variety of forms, there were never appeared the situation that one form take-all field. In fact, even broken area constraints, if exists the company which have the abilities to achieve world domination there will also emerge the lead of segments market. This is the laws of nature; this is beneficial to the health of the entire business ecosystem.
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