

Innovative online business models: learning from Woot.com



Ever since the World Wide Web emerged in the early 1990s, it has dramatically changed the ways that companies, consumers, and governments conduct their business. Corporations of all sizes have emerged online, and many of these new ventures have adopted innovative modes of operations that are quite effective.

CATE, an acronym for the cultural, administrative, technological and economical, is an example of a model that has helped small and medium enterprises (SMEs) to reach online audiences that were previously not possible.

The new media and technology associated with the Internet have not only allowed e-commerce companies to migrate business models in the offline world to the digital channel, but also enabled them to deploy brand new business models, such as the name-your-own-price model at Priceline.com, the online consumer-to-consumer auction model at eBay, and the group-buying model at GroupBuyCenter.com. Actually, these new business models and tools have facilitated many SMEs to emerge. The e-auction model is now being accepted by consumers from around the world.

The "one deal a day" business model

Among the many newly emerged business models online is "one deal a day" where only one product is available for sale until it is sold out during each 24-hour period. Woot! (www.woot.com), a deep discount retailer selling mainly consumer electronics, wine, and t-shirts, is the most successful "one deal a day" website. Occasionally, Woot! also offers a series of products one after another during its "woot-off" days and a sold out product is immediately superseded by the next product in line.

Launched in July 2004, Woot! is believed to have pioneered the "one deal a day" business model. Now, there are more than 100 "one deal a day" websites on the internet, and the competition is quickly intensifying. More established online retailers, such as Amazon.com and Buy.com, have also noticed the consumer enthusiasm about the "one deal a day" format and now offer different variations of "deal(s) of the day" on their websites.

Woot!

Woot! operates four websites – a main site at Woot.com offering primarily consumer electronics, a second one at wine.woot.com selling one wine product each week, a third one at shirt.woot.com selling one t-shirt each day, and a Woot! powered one deal a day shopping service (<http://sellout.woot.com>) at Yahoo! Shopping. During each 24-hour period starting from midnight central time, the website offers one product for purchase until it is sold out or the 24-hour period runs out. There is usually a maximum of three-units per product limit for each member. Along with product descriptions, the website offers information on the order pace, purchase quantity breakdown, sales percentage breakdown by hour, and purchaser seniority with the site.

Occasionally, Woot.com offers "woot-off" where a series of products are available during a two-day period. The next product in line will not become available until after the previous

product has sold out. Beforehand, consumers are not aware of either the product line-up nor the quantity available for each product. During a woot-off, two flashing lights appear below the product image. In between them, a horizontal bar shows the rough percentage of the current product that is still available.

For most products, Woot! charges a flat \$5 shipping and handling fee for each order. After a product is sold out or the 24-hour period has passed, Woot! displays on its website the total quantity sold and the percentage of sales that came during each hour. In addition to being a retailer, Woot! also tries to foster a community that promotes the interaction among its members. For example, Woot! has a member forum where members cannot only discuss the woot of the day and woot-related issues, but also participate in contests and discuss other non-woot-related issues.

"One deal a day" versus multi-product business models

Using an innovative "one deal a day" business model, Woot! has been very successful in fostering an online community and accumulating a loyal customer base. How does the Woot! phenomenon affect the competitive landscape in the retail industry? Does Woot! pose a major threat to retailers, such as Wal-Mart and Amazon.com?

The following compares the "one deal a day" and multi-product business models on product selection, pricing, marketing style, customer service, and market niche.

Product selection

The "one deal a day" business model has a limited product selection and only offers one product at a time. However, because the item may sell out at any time due to limited inventory, there is a sense of urgency and excitement among consumers. In addition, consumers do not know what products will be available next, which may raise their curiosity. Products available on "one deal a day" websites usually are those that are near the end of their shelf lives, overproduced products, or refurbished items.

On the other hand, multi-product retailers offer a wide selection of products. Consumers can buy multiple products during a shopping trip or visit to a website, which is convenient. However, the risk of in stock items being sold out is low so there is no sense of urgency. In addition, products sold there are usually new products that are still in the early stages of their life cycle.

Pricing

One major advantage "one deal a day" websites have is their low prices. Since many items they sell are closeout, overproduced, or refurbished products, websites such as Woot! can purchase their products at low-wholesale prices and pass the savings on to consumers.

In contrast, multi-product retailers purchase their items at higher wholesale prices and price their products higher accordingly.

Marketing style

"One deal a day" websites do not spend heavily on advertising. Rather, they rely mainly on repeated customers and word-of-mouth. In addition, Woot! uses its online community and podcasts to increase its website stickiness and promote its products. The online forums allow members to post messages and exchange ideas about a day's deal, which enables Woot! to build a strong community. Members also are very enthusiastic about sharing their knowledge and opinions with others. Usually, within seconds a new product becomes available, posts on the lowest prices elsewhere online would be added to the discussion.

On the other hand, most multi-product retailers spend heavily on advertising both online and offline. Despite websites such as Amazon.com and Buy.com allowing customers to post product reviews, the online community is still not as strong as that of Woot!

Customer service

The low prices on "one deal a day" websites come at the cost of minimal customer service. For example, Woot! does not accept customer returns and does not have a toll-free number. However, most members seem to be comfortable with the lack of customer support as they get low prices in exchange. This is in contrast to most multi-product retailers, who generally provide good customer service and accept product returns or exchanges.

Market niche

"One deal a day" websites focus on a niche market where bargain hunters are willing to sacrifice product quality, product recentness, and customer service in exchange for low prices. These websites do not compete directly with mainstream multi-product retailers such as Wal-Mart or Amazon.com, but rather they provide a good channel for manufacturers to quickly offload their excess inventory.

Managerial implications

Many innovative online business models are being used by internet-based retailers. Research into the "one deal a day" business model that Woot.com uses reveals a number of interesting results that may be of interest to online marketing firms, web-based developers, and e-consultants.

First, it reveals the advantage deep discount "one deal a day" online retailers, such as Woot.com, enjoy due to their low prices. After successfully establishing an image of offering low prices, Woot.com is very successful at building a strong following among online bargain hunters and enjoys high-customer loyalty. Because of this strong following, as long as it remains to offer the lowest prices online, Woot.com can afford to increase its prices a little as the demand on its website is less-price elastic.

Second, are the critical success factors for the "one deal a day" business model. These factors include offering the lowest online prices, having a large installed base of customers, fostering an online community to enhance website stickiness, and using "woot-off" to stimulate sales and create excitement among online bargain hunters. Woot.com has been very successful at fostering an online community. Members who actively participate in the community and post discussions on each day's deal are more likely to be loyal customers who come back often and make purchases. In addition, members also can learn from the posts about a day's deal and how Woot.com's price compares with those elsewhere online. Owing to the popularity of woot-offs, "one deal a day" websites can provide such sales more often. Moreover, as consumers are more likely to stay by their computers during weekdays, "one deal a day" websites can schedule their product line-ups so that the lower priced or more popular items will be sold on weekdays and non-holidays to enhance their sales. Since "one deal a day" websites very often offer the lowest prices online, which leads to increased sales, they may want to add a price comparison tool to their websites to educate their customers about this fact.

Third, "one deal a day" websites can use their customer and sales data to learn more about their customers in terms of price elasticity and behaviour. Such analysis will allow "one deal a day" websites to optimize their pricing, product line-up, and website design so as to maximize sales.

Fourth, mainstream online retailers such as Amazon.com and Buy.com that are using different variations of the "deal(s) of the day" can gain insights on how to increase their sales. Amazon.com now has a "Today's Deals" section where it offers, four times a day, one deal at a time until it is sold out. Buy.com has a "Deal of the Day" section where it features one deal each day. Analysis of Woot.com suggests that both companies would enjoy increased sales if they add price comparison tools to emphasize their low prices and provide discussion forums to foster online communities. Currently, Amazon.com offers a discussion forum on its "Today's Deals" section. However, the forum is not

organized around the products offered and discussion topics are more dispersed.

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