

The Expansion of Online Retailing as a Supplementary Shopping Channel for Customers

by George Cosmin Tănase



ABSTRACT

In online retailing or electronic retailing (or e-retailing, electronic commerce, Internet retailing, e-commerce), retailers offer their products and services over the Internet. Merchandise is thus presented in Internet shops. Customers usually place their orders via electronic checkouts or they can use e-mail or traditional modes of communication (e.g. mail, phone and fax). While, in most cases, customers pay through traditional systems (e.g. credit card, purchasing on account), some Internet shops also offer electronic payment systems. In electronic retailing, according to their merchandise strategies, retailers can be divided into general merchandise and specialty retailers.

KEYWORDS: Online Shops, Market Consolidation, Digital Products, Internet Auctions, Price Comparison Systems, Mobile Commerce, Live Shopping, Umbrella Brand Strategy

JEL Classification: L81, M31, L86

Generally, all kinds of products can be sold over the Internet, but major sales are generated in such categories as books, CDs, DVDs, clothes, computer software, toys and home electronics. The Internet is also of high importance for digital products such as software, music and e-books that – unlike physical goods – can literally be transferred through electronic channels. In such cases, the Internet offers additional shopping convenience in terms of the direct and immediate availability of the products purchased (“**transaction convenience**”). The most prominent example of a successful Internet retailer is *Amazon*, which started off as a specialty retailer focusing on books, but has added more and more product categories to its portfolio since, such as music, toys, consumer electronics, pet supplies and even groceries.

The “hype” that was associated with Internet shopping as a revolutionary retail format in the beginning has receded, and a **market consolidation process** has driven many Internet retailer innovators out of the market. Nonetheless, for several years electronic retailing – internationally – has been the retail format with the fastest growth. The relevance of the Internet as a shopping channel is prevalent all over the world. In 2010, there were 475 million Internet users in Europe, nearly 270 million in North America, nearly 850 million Internet users in Asia-Pacific and about 170 million Internet users in Africa and the Middle East. While this accounts

for a world penetration of about 26% of the total population, there are strong differences between the developed and developing world.

With regard to online shopping, the percentage of people that use the Internet as a shopping channel varies and is as high as 70% of the Norwegian population, with an average penetration rate of 37 % in Europe. In 2010, US online retail sales were as high as 172.9 billion USD, with a predicted growth of about 20 billion USD per year until 2014. This trend of Internet shopping being a retail channel of growing importance seems to be a worldwide trend. For example, online sales in China experienced growth by almost 90 % from 2009 to 2010 to a total of 58 billion EUR.

However, the relevance of the Internet as a retail channel is still rather low, with a market share of 7 % of all retail sales in North America and 5.5 % in Europe in 2010 (Reuters 2010). This is also reflected in the share of online shopping spending of customers. When the Internet was introduced as a shopping channel, there were pessimistic prognoses that predicted that electronic commerce would damage traditional bricks-and-mortar stores, but the emerging reality rather proposes that e-commerce has become a **supplementary shopping channel** for customers.

With regard to price formats, the general **price strategies** can be differentiated in online retailing. For example, there are online discounters that sell products at prices below the average price line and there exist quality-oriented retailers that charge higher prices for more exclusive offers. In online retailing, low price formats such as value retailers, off-price stores and factory outlets also exist that offer products at lower than average prices as well as stock-outs and end of line stock. For example, on sites such as *Overstock.com*, *Sears Outlet* or *Tesco Outlet*, overstocks, remnants or products from the previous season are offered.

A specific form of online closeout retailers are **private shopping clubs** such as *Gilt Groupe* or *brands4friends* where members can buy popular brands at high discounts. Through this shopping channel, retailers organise time-limited online shopping events in which remnants or liquidation stock in apparel, accessories, homewares or toys are sold only to club members, i.e. registered users. To become a member, consumers need to be invited by other members or they can get waitlisted to get membership. One advantage of the closed membership base is that offers from these online shopping clubs do not appear in price comparison sites, which would hurt the brand image of the offered designer brands. The emergence of Internet retailing has also led to **new business models** and new forms of retail transactions that are mediated by the computer. With regard to price formats, dynamic pricing models are important.

For example, **Internet auctions** have emerged. While in online **Dutch auctions** prices start at a high level and are reduced until the first bidder accepts the price, the most common form of online auctions is the **English auction** where the initial price starts low and the price is bid up by successive bidders. This traditional type of auction is, for example, employed by *eBay*, the most successful online auction platform. Bids cannot be made for free in all cases. For example, **bidding fee auctions** (also labeled **penny auctions**) have emerged (e.g. *Swoopo*) where bidders must purchase credits to make bids. However, these types of auctions are controversially discussed and have been criticized as being a specific type of gambling.

Another new price format is referred to as **live shopping**. This price format is characterized by a very limited assortment, often only a couple of products, that is available on the live shopping platform for a very low price, often the best online price of the day, but the offer is only available for a very limited time, usually 24 hours. This time limit and the limited availability of the products forces customers to make quick purchasing decisions and often impulse purchases are stimulated. Live shopping is applied by specialised retailers such as *Woot*, *Groupon* or *Daily Deal*, that operate live shopping websites, but traditional retailers such as *Sears* or *Buy.com* also integrate live shopping elements into their online shops.

Other price formats that have been developed are **Internet price comparison** (e.g. *froogle*) or “**name-your-own-price**” systems (e.g. *Priceline.com*), although not all of them are successful.

Experiential and Community-based Online Retailing

Technological developments in online communication offer new dimensions in online retailing with regard to **experience shopping**. With the use of videos, avatars, user communities or other interactive measures, many retailing websites have performed a trading-up process. Retailers that follow this approach usually use sophisticated methods to address their customers. Companies such as *ASOS* or *Globetrotter*, for example, provide emotional shopping environments with intensive information on product specifications and usage situations and use product rating systems where customers rate and discuss products, combined with further options to interact with customers as well as topic-related **discussion forums**. Even video shopping is offered where products are featured and can be put into a shopping cart right out of the video. While in these types of online shops social communities are important but rather peripheral elements of the websites, **community-based retailing** sites have emerged that have been established around a social community or with a social community as an integral element of the retailing concept. For example, on the *Amazon* website, product ratings and discussions between members of the community are integral parts of the retailing concept. *Smatch.com* uses a community as the basis for a product search platform that links product from several retailer websites. Many retailers now use such features but some online shops also now focus on these social interactions in their marketing efforts.

Online retailing also allows for new business models with regard to the products offered. A specific type of assortment strategy that has emerged mainly in the online environment relates to the **individualisation** of products. In Internet shops that focus on this type of strategy, customers are able to alter product specifications in order to assemble their individual products. Typically, customers can combine different product elements (e.g. form, colour, ingredients, etc.) and create their own, individualised configurations of the product. Usually, retailers provide a standardised set of product elements that is customisable in the hands of the end-user. On retailing sites such as *spreadshirt*, *zazzle* or *chocri*, customers can create or alter the product themselves; the product is then configured "on demand" and shipped to the consumers. Often, this strategy is applied by manufacturers that use the online channel to directly sell to consumers. Many manufacturers of soft goods such as apparel or shoes use this strategy, e.g. *Nike* with *NIKEiD* or *Adidas*. It is also popular in the consumer electronics industry, with companies such as *Apple* or *Dell* providing product individualisation or personalization options. However, mass customisation is also applied in the food industry. For example, on sites such as *Mixmygranola.com* or *mymuesli.com* customers can create their own breakfast cereals.

Merchandise-oriented Shops in Online Retailing

Assortment-oriented online retailers provide online shops in which customers primarily search for products. A common type of assortment strategy in online retailing is implemented as **online department stores** that - similar to their stationary pendant - carry a broad variety and a deep assortment. *Amazon* proudly announces that it has the widest possible assortment in most of the categories offered. Companies such as *Otto* or *Walmart* also make a mark in online retailing, mainly with their wide selections of products from a broad number of categories. This strategy corresponds to general merchandise catalogue retailers.

More common in the online environment is **specialty online retailing**. This strategy implies a more focused assortment; thus, retailers concentrate on one or a few specific categories of merchandise. Similar to specialty stores, they offer deep but narrow assortments in specific market segments. Retailers that operate such specialty online shops are *Lands' End* or *Next* in apparel retailing or online bookstores.

Because of the high transparency of prices on the Internet, these online specialty retailers are under high pressure because price aggressive formats are common online. **Online category killers** such as *Microspot* or *Pixmania*, both price aggressive online retailers in consumer electronics, *Zalando* as a price aggressive online retailer in the field of shoes, clothes and accessories or *123pneus*, an online category killer in the field of tyres, offer complete assortments in their categories at low prices. However, online retailers have challenges with regard to customer attraction and awareness. Therefore, high **communication efforts** are often necessary to establish their online shops. Additionally, the operating costs of online shops may be very high, especially if the retailers focus on emotional or experiential shopping environments and want to use individualization options on their websites. A method to solve these problems is cooperation between retailers. In this context, platform strategies are common. **Marketplaces** or **online shopping centres** have emerged. On these platforms, a wide and deep selection of products can be accessed by customers. Contrary to traditional online stores that are operated by one retailer, the products on these sites are offered by many retailers. Examples are *Stylight* or *Taobao*, but also *Amazon* or *eBay* serve as electronic marketplaces as they operate platforms for third-party retailers.

Media for Online Retailing

While online shopping is often understood and investigated as purchasing on a retailer's website by personal computer or laptop ("stationary Internet"), new digital devices (e.g. smartphones, tablet PCs or Internet-enabled TVs) provide new possibilities for customers to shop online. In particular, **mobile commerce** (m-commerce) is rapidly emerging as an alternative form of online shopping. While for a long time m-commerce was mainly associated with mobile phones, portable two-sided digital devices such as tablet PCs or media players are growing in significance for online shopping. Total US m-commerce grew 253 % from 396.3 million USD in 2008 to 1.4 billion USD in 2009 (ABI Research 2010), as more customers tend to choose mobile shopping over traditional online shopping. Regarding usage, access to online shopping is spreading from desktops to the living room, supported by the trend of more and more TVs offering Internet access. However, **Internet-enabled TV (IETV) sets** are quickly becoming mainstream, with iSuppli (2010) estimating that global shipments will reach nearly 150 million units by 2014, representing 54 % of the total TV market. Thus, mobile Internet and Internet access via TV obviously differ from stationary Internet, and it is expected that these differences will bring new challenges and opportunities to online retailers.

Multichannel Retailing

The term multichannel retailing refers to retailers using several retail channels in parallel to sell their merchandise. This strategy has been common for a long time, but has recently become more relevant and topical because of new channels of distribution, in particular the Internet. Many retailers act as **multichannel retailers** and combine several retail formats, such as bricks-and-mortar stores and/or traditional catalogues with Internet retailing. By doing so, companies can exploit the unique benefits of different retail formats and thus increase customer benefits. However, they also have to deal with the specific drawbacks associated with each retail format. The main reasons for evolving into multichannel retailers are:

- **Expanding** market presence into new markets (e.g. new target groups, geographically new markets, etc.)
- **Leveraging** skills and assets to increase revenues and profits (e.g. well-known retail brands, supplier relationships, buying power, customer information, supply chain systems, etc.)
- **Overcoming the limitations** of existing formats (e.g. store size, flexibility in pricing and merchandise provision, information-provision modes, etc.)

- **Increasing customer share**/share of wallet (customers' percentage of total purchases with the retailer).

Multichannel retailers applying an **umbrella brand strategy**, which means that all retail formats of the company carry the same retail brand, must provide a consistent image to consumers across all channels. Thus, the integration of retail channels is one of the major issues with which retailers are still struggling. The provision of integrated retail channels is important in multichannel retailing, as customers in many cases use several retail channels in combination in their **buying processes**. For example, consumers can (1) gain initial information on brands and product types from the catalogue, (2) inspect the physical aspects (e.g. colours, materials, content) at the store, (3) check prices and (4) availability, (5) complete the transaction in the Internet shop and (6) pick up or (7) return products at or to the store. Successful multichannel retailers include *Otto* (catalogues, stores, Internet shop, mobile commerce and TV shopping), *Lands' End* (catalogues, stores and Internet shop), *Tesco* or *Carrefour* (multiple store formats and Internet shop) and *Douglas* (stores and Internet shop). It is expected that these new developments in online retailing with new forms and situations of online access will bring new challenges and opportunities for multichannel retailers and profoundly reshape the retailing landscape, just as the Internet channel has done to date.

Conclusion

With regard to the retailing landscape, a high share of companies is engaged in online and multichannel retailing. Almost all large retailers that operate stores have opened online shops, and most category specialists, with companies including retailers such as *H&M*, *Deichmann*, *Best Buy* or *Decathlon*, operate multichannel retailing systems. For remote ordering retailers, even though catalogues remain an important means of retailing, online channels are proving vital. However, many pure players in online retailing such as *Amazon*, *Zalando*, *Pixmania* and many others are among the most successful retailers in their industries, implying that multichannel retailing is not an indispensable strategy a retailer needs to choose.

Thus, even though there are many successful examples of multichannel retailers, multichannel retailing is not appropriate for every retailer. For example, small and medium-sized retailers rarely possess the financial and managerial resources to create seamless multiple channel environments by consolidating disparate retail management systems into one customer-focused system. Additionally, the potential **synergies** of a multichannel system are not the same for all retailers.

REFERENCES

- [1] KRAFFT, M. /MANTRALA M.K. (2010) – “Retailing in the 21st Century: Current and Future Trends”, Springer-Verlag Berlin Heidelberg.
- [2] WILLIAMS, D.E. (2009): “The Evolution of E-tailing”, in: *The International Review of Retail, Distribution and Consumer Research*, Vol. 19, No. 3, pp. 219-249
- [3] ZENTES, J.; SWOBODA, B.; SCHRAMM-KLEIN, H. (2010): “Internationales Marketing”, 2nd edition, Munich.
- [4] SCHRAMM-KLEIN, H. (2003): “Multi-Channel-Retailing – Verhaltenswissenschaftliche Analyse der Wirkung von Mehrkanalsysteme” im Handel, Wiesbaden.

- [5] VERHAGEN, T.; VAN DOLEN, W. (2009): "Online purchase intentions: A multichannel store image perspective", in: Information & Management, Vol. 46, No. 2.
- [6] NESLIN, S.A.; VENKATESH, S. (2009): "Key Issues in Multichannel Customer Management: Current Knowledge and Future Directions", Journal of Interactive Marketing, Vol. 23.
- [7] LEVY, M.; WEITZ, B. (2009): "Retailing Management", 7th edition, Boston et al.
- [8] ZENTES J., Morschett D., Schramm-Klein H. (2011) – "Strategic Retail Management", Gabler Verlag, 2nd edition.