E-TAILING – THE MANTRA OF MODERN RETAILER's SUCCESS

Mr. P. Sathish Chandra,

Associate Professor in Marketing
Warangal Institute of Management,
(A Unit of ITM Group of Business Schools, Mumbai)
A.P., India

Dr. G. Sunitha,

Asst. Professor in Finance,
School of Management,
National Institute of Technology,
A.P, India

ABSTRACT

Internet is a potent medium that can serve as a unique platform for the growth of retail brands in India. The Indian retail market is witnessing a revolution. The current web-based models for e-tailing are part of an embryonic phase preceding an era of rapid transformation, challenge, and opportunity in Indian retail market. It is not just the metros that are fueling the online scene in India the demand supply gap in tier 2-3 cities where there is brand awareness but no availability of products and services is also adding to growth. Online retailing portals such as eBay.in, Snapdeal.com, and Naaptol.com are registering anywhere between 40 and 60% of their sales from rural areas apart from the tier II and III cities. The penetration rate is quite low in comparison to other countries worldwide; however the number of users is significantly high. The present scenarios of e-tailing opportunities, its market, the viabilities and trends etc., have been discussed in this paper.

Keywords: E-tailing, Multichannel, Product Diversity, Service, Strategy.

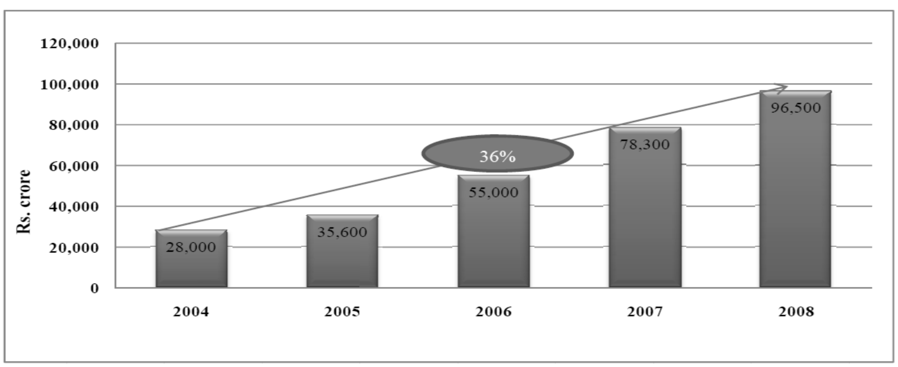
INTRODUCTION:

The Internet has changed the way many consumers shop, not just in the digital domain, but also in the physical world. Imagine a prospective book-buyer who spends an hour or two browsing the aisles of his or her favorite neighborhood bookstore, and who also perhaps spends some money on a coffee at the store. In addition, this prospective customer makes a mental note of interesting titles which he or she might likely buy. Later that evening, this same person gets home, and places an online order for the very same books at an online bookstore. The great advantage of a retail store is that the customer can pay for the item and receive it immediately. Other forms of retailing tried to match this great advantage by offering the convenience of shopping from home. Thus, mail order catalogues emerged, often in conjunction with large retail chains (for example, Sears).

When it was recognized that the mail order catalogue was an effective means of presenting products to customers, televised shopping channels emerged which exploited the medium of television to enhance and convey details of the products to customers. The advent of credit cards also made this process of payment even easier. It also made it possible for the customer to pay for an item, even though the customer did not, at the specific time of the sale, actually have the money in hand to pay for it. Another practice also set the stage for online retailing: cross-border shopping. In the United States, where every state and region may have a different rate of sales tax, it is common for customers to drive across a state line in order to purchase items at a lower sales tax rate. In Europe, the same may apply by crossing national borders to purchase items such as liquor, cigarettes or perfume where tax or duty is lower: customers enjoy tax-free shopping. As soon as online shopping became available, customers immediately recognized the great advantages of being able to ignore state or national boundaries.

The e-tailing industry is expanding rapidly with strong early life cycle growth. In U.S. between 2003 and 2008 industry revenue rose at a CAGR of 20%. Even in 2009, when total retail sales fell 7.2%, online sales grew 4.3%. Despite the recent economic slowdown, the e-tailing sector enjoys continued growth due to increasing worldwide internet penetration and other factors. Long term trends driving increases in online activity remain positive. We expect such trends to support continued expansion by internet companies despite a weak economic environment. Coming to Indian scenario, the organised retailing is showing a tremendous growth in recent years (See Figure 1: Growth of Organised Retailing in India). And proportionately the electronic retail growth of Indian market as estimated by Euro-monitor report stands close to 48% CAGR and in value term it is going to touch INR 27 billion(Rs 2700 crores) by 2010 from INR 4 billion in 2005.

Figure 1: Industry size and growth of Organised Retail

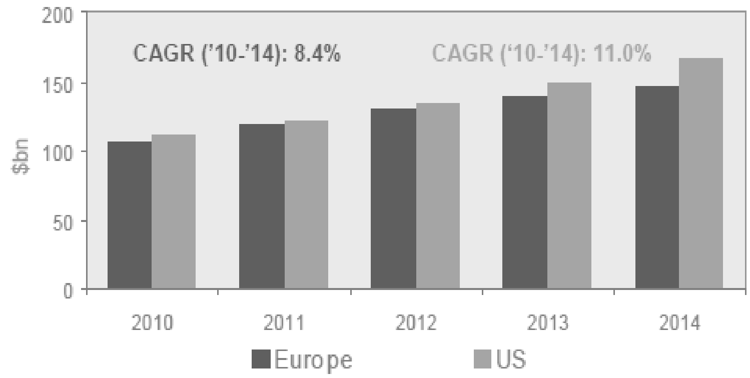


Source: www.nsdcindia.org

Traditional Bricks and Mortar re-tailers (B&M), realizing the importance of online sales and acquiring a Bricks and Clicks (B&C) platform both as a defensive strategy and to access market opportunities. With a 43% share of total Mergers & Acquisitions (M&A) volume between 2005 and 2009, B&M retailers have been the largest category of acquirers. An acquisition of an e-tailer provides B&M retailers with a multi-channel retail format, helping them overcome store location limitations and access a wider consumer base. Existing e-tailers are also important acquirers, with a 32% share of total deal volume over the same period. E-tailing M&A is driven by large e-tailers' aggressive product diversification strategy involving the acquisition of specialty e-tailers to augment product and service offerings. There has been some geographical expansion through M&A, and this is expected to increase.

Most sector companies have consistently outperformed overall economic growth. In the US, the e-tailing sector performed robustly throughout the recent recession with sales increasing 6.4% in 2008 and by an estimated 4.3% in 2009. By comparison, retail sector sales overall fell 1.8% in 2008 and by an estimated 7.2% in 2009. This growth phase is expected to continue; strong forecast growth is shown in Figure 2.

Figure 2: Forecast Growth of e-tailing in U.S. and Europe Regions:



Source: IBSI, World

LITERATURE REVIEW:

According to Turban (2006), e-tailing is defined as retailing conducted online, over the internet. Wang (2002) has provided a broad definition of e-tailing by defining it as the selling of goods and services to the consumer market via the internet. Zeithaml (2002) has defined that the success of e-tailing depends on the efficient web site design, effective shopping and prompt delivery. The other e-store services are delivery on real time, return and replacement process, period of filling out online orders form, speed of response time to e-customers queries. Ratchford (2001) have told that through Internet, consumers can gather information about merchandise and they compare a product across suppliers at a low cost.

Rao (1999), E-commerce offers increased market activity for retailers in the form of growing market access and information and decreased operating and procurement costs. Myerson (1998) expressed that consumers are getting smarter in using e-tailers (and online search engines and agents) for convenience and comparison-shopping. Guttman (1998), describes Several unique elements make online shopping different from the traditional in-store retail model. Besides offering convenience and expanded product variety, the online model also makes it easy for consumers to access and compare data from multiple sources. Meeker (1997), retailers might cry foul, but the new shopping paradigm they have to face is that as premium customers begin to accept the e-tail alternative in larger numbers.

NEED OF THE STUDY – FEW LIVE BYTES:

Retailers are increasingly leveraging their presence across channels of catalogue, web, stores and kiosks, to increase their share of the customer's wallet and expand across consumer segments. Recent studies on consumer shopping behaviour indicate that multichannel shoppers show a significantly higher value and frequency of purchase than single channel shoppers. Thus, the focus of modern retailing shifted to 'e-tailing', one of the most adoptive channel. Few 'Live Bytes' of organised retailers are quoted to emphasize the need of "e-tailing".

NEED OF MULTICHANNEL:

"We are definitely planning to enter the online space this year with Reliance Timeout. Our current mix of merchandise suits the online business. We will start with books and music, followed by electronics and mobile items," says Deepinder Kapany, vice-president & head, books, entertainment and e-commerce business, Reliance Leisure.

STRATEGIC RETAILING:

When 'Bata' decided to develop a new e-commerce platform for the Indian market last year, it was confident of the online model clicking with the consumers who are traditionally more inclined to buy products from stores. Today Bata's online business has grown to become one of its largest stores in terms of transactions and value growing by 25% month on month.

INTERNET PENETRATION:

With increasing internet penetration and flexible payment modes such as cash-on-delivery being used widely nowadays. In the next couple of months bigwigs like Reliance Retail, Aditya Birla Retail and Tata's Croma are looking at entering the R2,050 crore e-retailing market, growing at over 30% annually.

COST BENEFITS:

Manoj Chandra, vice-president, marketing and customer services, Bata India, feels depending on the growth plans, e-commerce revenues can always become an important part of the company's total business as the market is very large. "Our costs are very low, as the system derives huge synergies from existing retail systems. Due to lower operating costs, the online business gives a higher net margin than normal retail," he adds.

OBJECTIVES OF THE STUDY:

- To draw out, the driving factors for growth of the e-tailing.
- To elucidate the strategic role of e-tailing in achieving the retail organization objectives.

THE FACT FILE:

Seeing huge potential in the e-tailing market, early entrants like Shoppers' Stop, Globus, Gitanjali and Futurebazaar are looking at expanding their online presence. Shoppers' Stop is also looking at increasing its reach to more delivery locations, convenient payment methods, and better integration with its stores. Vivek Mathur, vice-president, corporate planning and e-commerce, Shoppers' Stop, says, "We are working on plans to grow this channel more actively over the next few months, including large additions to the product range in terms of the brands and options available to the customer. And also continually working to streamline and improve the user experience and service levels. We are actively engaging with customers on various social media platforms and essentially working towards making a truly integrated multichannel experience."

GROWTH DRIVERS OF E-TAILING:

The key global e-tailing drivers includes, increasing broadband penetration Expansion in e-tailing services is closely correlated with an increase in broadband penetration. Continuing growth in broadband uptake, as well as faster connection speeds, provides support for growth at internet companies. Continuing increased broadband penetration will remain a key factor in the ability of e-tailers to acquire market share at the expense of general retailers.

BETTER TECHNOLOGY = BETTER SERVICES:

Increased internet connectivity and lower costs of computer processing power are making the mechanics of conducting an e-tailing business easier. The advent of sophisticated software and supporting hardware has allowed e-tailers to study consumer behavior more efficiently, facilitating targeted sales and increased product cross-selling. This gives e-tailers a major and increasing competitive advantage compared to their B&M competitors. Extensive product search, instant product comparison, wide scope of brand selection, easy transacting, and free shipment and flexible sale return policies (within 1-3 weeks time) are more petals of this service flower.

INCREASED PRODUCT DIVERSITY:

With e-tailers better understanding customer requirements, online shopping has responded by providing a greater diversity of products and services, include more specific, niche offerings. In the case of a number of very small specialist markets, regarded as either too small or specific for traditional retail outlet viability, the development of online retailing has improved their commercial feasibility, increasing the range of products available online.

MORE CONFIDENCE IN PAYMENT OPTIONS:

Another crucial driver has been improvements in processing payments for transactions. For example, Amazon allows payment using either credit cards or electronic funds transfer. eBay has implemented PayPal, through which shoppers run a personal online account, enabling them to shop online without disclosing their financial details to retailers. Credit card providers have made advances in security, and increasing consumer familiarity has also improved confidence.

REDUCING THE INCREMENTAL MARK-UP:

Majority of Intermediaries are feeling the pinch from manufacturers as the Internet threatens, disintermediation in channel networks allowing the manufacturers to sell direct to the consumers. It is possible to enjoy the cost advantages of direct selling while still maintaining an effective and economic customer service without passing the expense for either on to the consumer. Such a business model sounds too good to be true yet its configuration is simple. The manufacturer initiates a web strategy allowing it to sell direct to the customer reducing the incremental mark-up at intermediate levels.

Recession: A Key Driver:

The protracted weakness in consumer spending has continued to threaten B&M retailers with significant numbers having filed for bankruptcy. Recent B&M bankruptcies are expected to drive more consumers towards e-tailers. According to the Centre for Retail Research, UK consumers spent £38bn online in 2009, a record high 10% of total retail sales. We expect this share to continue to increase, both in the UK and globally. The mobile revolution Smart phones are fast emerging as an alternative computing platform. According to Morgan Stanley, global mobile data users will increase at a CAGR of 29%, reaching 1.1 bn by 2013. This trend could change the dynamics of the e-tailing sector, while there is no consensus on the exact impact.

THE ROLE OF SOCIAL SITES IN SHOPPING RESEARCH:

Today's shopper is savvy with almost black belt certification in researching product and pricing. There is a method to their madness where they are willing to make a significant investment in time when the reward reaped is finding the right product at the right price. Concept of research via social sites and given their continued influence and time spent by consumers in these communities, it appears to be a divide between community and commerce as just significant number of customers take advantage of social sites for research.

DISCUSSION AND RECOMMENDATIONS:

Large e-tailers have adopted an aggressive M&A strategy in which they acquire specialty e-tailers in order to increase product and service offerings in their existing portfolio and achieve economies of scale. As a result, such companies are able to offer an integrated product portfolio to consumers and increase market penetration. Over the past five years, pure play e-tailers comprised 32% of total deal volume in the e-tailing sector.

The sector is competitive, with a number of larger companies offering similar products. Although price competition (both with B&C and with B&M) is an important element, e-tailers are trying to avoid margin pressure by focusing on differentiation by products and services provided (e.g. through product ratings, product descriptions and pictures, payment options and shipping). For these reasons, e-tailers have become keen to acquire companies which either provide them with new and differentiated product lines or enhance the service they can offer. The leading example, of course, is Amazon.com, which began operations in 1995 as a relatively small online bookseller before growing rapidly to become a multinational e-tailer with a highly diverse and extensive product portfolio. Based on revenue, Amazon.com is now the largest e-tailer in the world, with growth also reflecting the acquisition of multiple e-tailers to expand both geographical penetration (e.g. joyo.com, enabling access to China) and product portfolios (e.g. netflix.com, providing entry to the lucrative DVD rental market and online video services).

HOW SHOULD TRADITIONAL RETAILERS RESPOND?

It is argued that traditional retailers have to critically consider the migration to a digital domain, and address challenges that might impede a smooth transition. Conversely, e-tailers have much to learn from their counterparts in the physical world. First, retailers need to make a Go / No-Go decision on whether they should have an e-tail storefront. If they go ahead with establishing an online presence, the main challenges will be for operations and marketing. Initial research suggests that the addition of an e-tail channel might be relatively easy if the company also had cataloging experience. Traditional catalogers like L.L. Bean have had tremendous success in adding an online channel. Such businesses also have well-established and integrated linkages with third-party logistics intermediaries like FedEx, a factor which is critical to e-tail success.

Second, retailers can use their e-tail storefronts to capture valuable customer demand data, and conduct pricing and promotional experiments. Consumers are often willing to spend significant time in personalizing their experience, and this clear opportunity to 'hear the voice' of the customer is greatly facilitated by several off-the shelf tools that capture and analyze data from online visits. These tools are also being provided by web-store hosting services like Yahoo!Store and iCAT Such data can provide a good basis for forecasting future demand patterns and customer preferences. In a typical retail environment, such data is available but extremely hard to distill and analyze, and several leading retailers are faced with challenges in handling the data glut. Third, retailers can significantly enhance the in-store experience throughout the retail network to attract customers.

Through carefully managed convergence, e-tail storefronts and catalogs can be innovatively deployed to increase awareness and drive customer demand.

As the costs of advertising on the Web increase (leading to an increase in customer acquisition and retention costs), several innovative retailers have also begun to use direct marketing and traditional media channels to get their online presence across to customers. Thus a lot of synergies can be achieved by combining some of the core retailer strengths with an online business channel. Only time will tell if these strategies succeed in exploiting the possibilities of e-tail without losing out on the richness and inherent advantages of in-store retail.

WHAT E-TAILERS CAN LEARN FROM THEIR COUNTERPARTS?

Traditional retailers have several competencies which a pure e-tailer can be hard pressed to match, but which are equally important when competing in a digital format. Two such skills that can prove extremely important to retail success are outlined below:

A) MERCHANDISING SKILLS AND ASSORTMENT PLANNING:

One of the core strengths of a good retailer is the ability to plan merchandise assortments based on early detection of customer trends and to source products through a network of trusted suppliers. An efficient supply chain plus the ability to allocate adequate resources to merchandising needs in a timely fashion add to the ability to stay on top of competition.

B) FORECASTING AND DEMAND MANAGEMENT:

Although many retailers would like to get an accurate handle on future customer demand, only a few have succeeded in harnessing information technology to solve this problem. Matching supply to demand remains one of the most pressing problems for any retail organization. Harnessing the power of information technology through large and accurate data warehouses, and using focused data mining solutions should help both retailers and e-tailers reduce stockouts, manage inventory and respond accurately to customer demand. E-tailers are finding that the process of data collection is more dynamic in a digital environment, but not necessarily easier to analyze or act upon. They have to address problems which have been around in retail operations for a long time, and which critically impact success at the end of the day.

CONCLUSION:

There are several important lessons to be learnt in the transition from bricks and mortar retail to the digital e-tail world. While skills like speed, differentiation, and branding are equally if not more important in the digital world, it is the ability to transform core operations and practices to this new medium which might make the difference between success and failure. Retailers need to examine the viability of such a transition, and look into the synergies of using the new channel of e-tail. E-tailers, on the other hand, need to revisit some basic retail functions, and develop further competencies in the areas of merchandising and demand forecasting, then, it can be a new success mantra of any retailer.

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