

CYBER RETAILING SCENARIO: THE POTENTIAL ROLE OF THE INTERNET IN RETAILING

Dr. Namita V.

Co-ordinator/Faculty

PG Department of Commerce

BLDEA's Comm, BHS Arts & TGP Science College, Jamkhandi-587 301,

Dist: Bagalkot. State: Karnataka-India.

Email Id: drnamita.math@gmail.com , Contact: 96636 66306.

ABSTRACT

A vast numbers of opinions have been propounded to explain how "cyberspace" can be exploited by commercial organizations. For the most part they are speculative, visionary or promotional. This work seeks to redress the balance by focusing on the utilization of the Internet within the retail sector and examining its potential as a new retail channel. The paper presents an exploratory study using qualitative and quantitative methods: an on-line survey of retail web activities followed by in-depth interviews. This approach provides a framework of current retail usage of the Internet and explores retailers' perceptions of the inhibitors and facilitators to its development. It concludes with an emerging model that explains why current levels of retailing on the Internet are low and provides guidance for retailers wishing to increase their level of Internet activity.

Key Words: Internet, Cyberspace, Retailing, Channel, Retail web activities, Potential.

INTRODUCTION

Many companies have incorporated the Internet into their business practices, but as yet it is a virtual arena of indeterminate commercial value. For most sectors, this new communication medium offers the opportunity to expand global markets, or to enter completely new market areas. While the commercial potential of the Internet has been forecast, there are wildly conflicting estimates about the rate & extent of its adoption. For example, according to Healey & Baker the international real estate consultants “by 1997, 5% of all retail spending in England, Scotland & Wales will be done over the net” (Computing 1996); “By the year 2005 it will capture between 8 & 30% of the UK retail market” (Pavitt 1997) “electronic sales will only represent 1% of all retail spending by 2001”. (Verdict 1998) & “it will be 30 years before 30% of consumer activity takes place online”. (Economist 1997). Despite the optimistic tone of some of these predictions, there is little evidence to suggest many companies have developed on-line trading.

The retail sector provides an obvious route for Internet development. India’s retailers have built up an enviable reputation in retailing and supply chain management, providing the ideal framework in which to apply this new channel. This study seeks to redress this imbalance by critically reviewing retailers’ perceptions of the inhibitors and facilitators to Internet retailing and its potential comparative advantage. As a result, it will recommend possible strategies for managing the integration of the Internet into various retail organisations and within different distribution channels. The second section critically reviews the rapidly growing yet limited literature relating to the Internet, the third section outlines the research method, the fourth presents the result of the research and finally the fifth section discusses the future value of the Internet as a retail channel.

A New Retail Channel?

Traditionally, the term 'channel' described the flow of a product from source to end-user. This definition implies a passive unidirectional system whereby the manufacturer/producer marketed through a wholesaler or retailer to the consumer (Davies 1993). The concept of the retailer as simply the final

distributor has been supported by the emphasis on "buying decisions, operational concerns" & overall "product orientation" (Mulhern 1997). However, recent developments in information technology are changing this orientation by enabling retailers to focus their marketing efforts on managing the customers more effectively (Mulhern 1997). The potential role of the Internet in retailing could involve bringing the customer even closer to the retailer via a combined marketing/distribution channel, in effect an interactive "retail channel". In evaluating the Internet's potential as a retail channel a number of advantages, opportunities and threats have been identified. The reported advantages are:

- **Accessibility:** Given the current rates of domestic PC uptake and the basic desire to communicate (Anderson 1995, Dern 1995, Parker and Gulliford 1996) the use of the Internet is forecasted to expand exponentially.
- **Direct communications:** As an interactive channel for direct communication and data exchange (Verity 1995) the Internet enables focused targeting and segmentation opportunities for retailers who can more closely monitor consumer behaviour.
- **Cost savings:** The Internet could ultimately replace the High Street by satisfying all shopping needs on-line, from home. This could benefit the retailer by substantial transaction cost savings (Hooi-Im Ng et al 1998).
- **New markets:** It is predicted that retailers can gain additional sales, either to existing customers or through attracting new ones via a whole new global marketplace (Cronin 1996). Furthermore, the new communication opportunities of the Internet provide the potential and easy access for brand positioning and diversification into new product areas (McWilliam et al 1997).

The comparative advantages of using the Internet appear compelling but its potential as a retail channel will only be realised if a number of well-documented limitations are successfully addressed. For example technical problems: the complexity of the user interface bandwidth restrictions and access connection speeds and security concerns (Baty & Lee 1995, Cockburn and Wilson 1996, Krol 1994). From a

retailing perspective the Internet also presents a number of problems. Three major issues, however, are likely to threaten the retailer's ability to attain any competitive advantage through the Internet:

1) Logistics: The logistics required to operationalise the channels are perceived to be "the most neglected element of the Value Chain". Establishing a new logistical infrastructure to service the needs of Internet customers may yet prove to be the biggest barrier to its immediate development as a retail channel. It is therefore likely to be the mail order & direct marketing operators who are best positioned to exploit the commercial potential of the Internet, due to being non-store based & having established direct distribution systems (Shi and Salesky, 1994).

2) Disintermediation: Potentially, the Internet could further shorten the channel through Disintermediation by excluding the retailers altogether through the producer marketing direct to the consumer (Ettorre 1996). Suppliers or other members anywhere in the supply chain could potentially interact with consumers & change the channel structure. Potentially, the major retailers should be less at risk from Disintermediation due to their infrastructure, logistics, supplier relationships, brand image & loyalty, compared with the smaller retailers.

3) Virtual Merchants: As a new channel, the Internet has distinct advantages over traditional channels in reducing barriers to entry. However, it has been suggested that by removing the physical protection to the offering may also provide the opportunity for increased competition (Alba et al 1997). New players in the guise of 'virtual merchants' can easily combine commerce software with scheduling and distribution to bypass traditional distributors. The Internet is thus more likely to appeal to the new entrants who have not already invested in a fixed location network (Shi & Salesky, 1994).

RESEARCH OBJECTIVES

- 1) To review and evaluate the current level of application of the Internet as a retail channel .

- 2) To examine retailer perceptions of the relative advantage of the Internet, and the factors which may facilitate or inhibit its growth.
- 3) To explore the potential of the Internet as a retail channel for the retail sector.

RESEARCH METHOD

The research method ultimately adopted was a combined quantitative and qualitative approach, as advocated by Miles & Huberman (1994). The quantitative part of the research comprised of an on-line review of retailer's Web presentations, which helped contextualise the research by forming a framework of Internet usage. The qualitative element comprised a series of in-depth interviews, which explored retailer's perceptions of the Internet's potential as a retail channel.

On-line Survey: The Internet presence of 330 organisations operating in the India retail sector was individually inspected to identify the range of functions & services currently offered to end users. This document was used as the sampling frame, as it claimed to include 'all of the largest retail organisations, as well as those, which are significant because they are perceived as innovative niche market'. A proforma web site assessment form was then created to facilitate accurate & consistent collation of information on the range of features & services offered by each of the targeted retailers.

In-depth Interviews: For this exploratory project it was considered important that the interviewees were encouraged to participate in the creation of a research agenda. Consequently, questions were incorporated into a flexible interview guide, which provided a framework for addressing specific issues while highlighting concerns retailers believed were of significance to the current, future uptake & application of the Internet as a commercial tool. The sampling process target at least one company from each of the major categories of retailing activity. Product type & assortment, size of operation, the nature of retail activity & ownership were also considered in arriving at the final categorisation, as illustrated in Table 1.

Table 1: A classification of On-line Retail Activity

1	<u>Food & Consumables:</u>	Grocery including supermarkets and hyper-markets
2		Convenience stores
3		Specialists food retailers e.g. bakers and confectioners
4		Alcohol Retailers including off-licences
5	<u>Clothing & Accessories:</u>	Clothing Retailers including female, male and children
6		Footwear Retailers including fashion and work wear
7		Jewellery Retailers including accessories
8	<u>Home:</u>	Furnishings Retailers including hard & soft furnishings & textiles
9		Electrical Goods including brown and white goods and computers
10		DIY including gardening
11	<u>Leisure & Entertainment:</u>	Sports Retailers including sportswear and equipment
12		Toys Retailers including games, hobbies and crafts
13		Books, Music, Stationery and Videos Retailers
14		News including newsagents and CTN's
15	<u>Health & Beauty:</u>	Health & Beauty including chemist and opticians
16	<u>Home Shopping:</u>	Home Shopping including catalogues & mail order directories
17	<u>Mixed Stores:</u>	Mixed Stores including department stores & variety retailers

RESEARCH RESULTS

The investigation into the retail use of the Internet has yielded some highly interesting results. Significant variations have been observed in the extent of the uptake, and perceptions about the role and impact, of the Internet. The most important results of the research have been summarised in a series of tables, supported by complementary evidence, quotes and examples.

The Current Uptake and Utilisation of the Internet

The results of the on-line survey summarise the current uptake of the Internet by retailers in the India. The survey identified that while nearly half of the retail organisations (49%) surveyed had a registered Uniform Resource Locator (URL), the number who had an active web site offering end-users a range of services, facilities and information sources, was surprisingly small (20%). The number of retailers who were actively offering a transactional service supporting direct sales was a mere 5% & in many cases this service was restricted in terms of product and geographical range. The physical survey of web sites

however, identified a wide range of other on-line activities including on-line marketing, public relations, debating forums, on-line payment competitions and interactive advertisements.

In particular, the groceries, electrical goods & home shopping sectors have a high proportion of active web sites, whilst there has been little activity, as yet, in the specialist foods, footwear & jewellery sectors. Web sites also showed marked differences in the quality of design & clarity of information. Other sites merely present lists of products & store locations, which invites neither interaction nor communication most notably from the fashion sectors. These variations raise questions about issues, which are not answered by the on-line survey alone. Further understanding may be gained from exploring the retailers' perceptions of the Internet's potential & examining the firm's approach to the adoption of the Internet.

Retailers' Perceptions of the Internet

The key issues relating to Internet adoption were addressed through the programme of interviews. Retailers were specifically questioned about the factors that affected their utilisation of the Internet as a retail channel. This strategy generated a rich source of data containing details of the Internet adoption approach of twenty leading India retailers. Having interpreted the textual transcripts using 'in-vivo' codes, and their associated frequencies, it was possible to organise these into a taxonomy of the factors affecting Internet adoption. To enhance the understanding of the results a the structure of the taxonomy, and some key definitions, have been presented in Table 2.

Table 2: Taxonomy of Factors Affecting the Development of the Internet as a Retail Channel

Major Categories	Internal Factors	Environmental Factors	Relative Advantages
Definitions	Factors resulting from or belonging to a process, activity or personnel over which the company has complete control	Factors resulting from or belonging to a process, activity or personnel over which the company doesn't have direct control.	Circumstances where Internet retailing offers a comparative advantage / disadvantage, in comparison with traditional retailing methods.
Sub Categories	Internal Factors	Environmental Factors	Relative Advantages
	<ul style="list-style-type: none"> ▪ Appropriate Product ▪ Resource availability ▪ Strategic vision ▪ Assessment strategy 	<ul style="list-style-type: none"> ▪ Market for Internet trade ▪ Competitive position ▪ Technological considerations 	<ul style="list-style-type: none"> ▪ Market Development Opportunities ▪ Technological Capabilities ▪ Financial Potential ▪ Marketing Opportunities ▪ Ethical considerations

Internal facilitators and Inhibitors.

The internal factors affecting the use of the Internet as a retail channel have been presented in table 4. The importance of issues contributing to the evolution of a clear and coherent *strategic vision*, guiding Internet adoption, was frequently raised. Many retailers identified the disposition of the senior management as important. Eleven stated that they had a management team committed to the project. Nine had a management team who lacked commitment. “I believe that the company’s product range is strong enough to do some selling over the Internet but the boardroom has its own opinions”.

Four respondents thought that their Internet development was being guided by a clearly defined vision for Internet retailing. However, 8 interviewees identified the absence of a clear vision as inhibiting the Internet adoption process. Equal numbers of respondents acknowledged the importance of, or the lack of

an Internet strategic development plan. "Internet activities have to be well thought out and properly introduced otherwise negative attitudes will prevail". If you look at some India's retail Web sites I'm sure they've had very *little planning*.

Most of the retailers identified the need for **assessment strategies** because the level of "uncertainty" involved in using the Internet reportedly inhibited the development of strategic plans. Lack of knowledge about how it will develop, its impact on trade and the perception that it is an unproven domain are reported to be constraining retail investment in on-line operations. Current on-line trials leave retailers struggling to evaluate the effectiveness of their Web operations.

Table: 3: Internal Factors

	Facilitators No. of respondents	Inhibitors No. of respondents
Strategic Vision		
1) Management Disposition	11	9
2) Vision of the Internet in retailing	4	8
3) Internet development plan	7	7
Assessment Strategy		
1) Difficulty in assessing the impact of the Internet (uncertainty of the potential / complexity of assessment process)		17
Resource availability		
1) Logistical infrastructure	11	9
2) Technological infrastructure	7	
3) Internet development skills	8	12
4) Human resources	5	7
5) Financial resources	10	5
Appropriate Product		
1) Product suitability for on-line retailing	13	8
2) Legal and trading restrictions relating to the product		8

The *availability of resources* influenced Internet adoption according to a number of retailers. The need for a fulfillment infrastructure to support the logistics of Internet retailing was noted as significant. 11 respondents thought their operation was capable of supporting this method while 9 said that no such facility currently existed. 7 felt that they had the IT infrastructure capable of supporting Internet activities,

however, none of the others indicated that its absence was important. Internal web development skills and expertise were seen as factors which also impact on a company's readiness to trade in "Cyber Space".

A retailer's perception of the importance of the Internet is also influenced by how *appropriate a product* is for the on-line world. Product features were described as both inhibitors and facilitators. Suitable on-line products were perceived to be familiar, specialised or "information rich" items: wines, books and computer products. Unsuitable on-line products are those needing very precise visual representation, such as fashion items, or those which are too valuable to transport, such as jewellery.

Environmental facilitators and inhibitors

In Table 4 the retailers' perceptions about environmental factors point to significant obstacles to the Internet adoption process. The *market for Internet trade* will be affected by the retailer's current customers' propensity to shop on-line. Their sex, age, interests, socio-economic grouping & computer literacy, according to 14 retailers will influence the likelihood of them buying on-line. 3 out of the 4 respondents who felt that their customers are suited to on-line retailing operated in markets where consumers are typically young, affluent & well educated. Consumer awareness & receptiveness towards using the Internet was quoted as important. However, the reporting of security issues & free access was seen as raising potential end user resistance & therefore created unfavourable customer awareness.

Table 4: Environmental Factors

	Facilitators No. of respondents	Inhibitors No. of respondents
Market for Internet trade		
1) Likelihood of current customers using the Internet	4	14
2) Customer awareness	11	15
3) Size Maturity of retail market on the Internet		12
4) On-line shopping experience	3	13
Competitive pressures		
1) Peer pressure	10	
2) Web site failures		9
Technical considerations		
1) Reliability of the Internet		5
2) Functionality of the Internet		10
3) Outsourcing of Web development	10	5
4) Access to the Internet through digital Television	4	

Competitive pressures influenced retailer's behaviour. Peer pressure had encouraged the development of web sites according to half the respondents. However, the pressure to develop a more successful Web site was hampered by the failure of many existing retail sites. This factor was seen to be constraining the allocation of resources and limiting the functions of sites.

Technical considerations such as the reliability of networks raised fears for some retailers who expressed concerns about the effect of a network failure on their customers. They felt that working with a system that could fail may damage their image. 10 retailers suggested that restricted bandwidth meant slow download speeds & disruptions to on-line services. Web consultants prepared to act as designers & hosts for Web sites were seen by half to facilitate them.

The Internet's comparative advantage

The results of the investigation of the retailers' perceptions of the Internet's comparative advantage are presented in table 5. Retailers unanimously agreed that the Internet provided *market development opportunities* through the range of services offered to customers. However the on-line survey showed

very few retailers were actively participating. According to thirteen retailers the Internet was potentially a new retail channel enabling access to wider markets, both global and niche.

Table 5: Relative Advantage

	Advantages No of respondents	Disadvantages No of respondents
Development opportunity		
1) Opportunity to extend the range of customer services which can be offered via the Internet	20	
2) Opportunity to expand access to a wider market place: global and niche markets	13	
Technical capabilities		
1) Speed flexibility and interactiveness of the Internet	8	
2) Mediums inability to portray some types of sensual information: touch, smell/taste and sight		11
Financial Potential		
1) Cost of duality: the supporting of two methods of retailing		11
2) Low cost trading	5	
3) Low cost trialability	5	
4) Opportunity for reduction of future fixed location development costs	9	
Marketing opportunities		
1) Promotional opportunities	7	
2) Access to market research data	4	
Ethical concerns		
1) Social isolation of end users		4

The technical capabilities of the Internet, such as speed of communication and flexibility of the end-user interfaces, were seen as facilitating its adoption. However, over half of the retailers were concerned about the Internet's inability to appeal to a wide range of senses.

The financial potential of the Internet exposed a number of issues. The cost of duality i.e. supporting 2 methods of retail distribution was a perceived disadvantage & raised concerns with 55% of retailers. Investment in the existing fixed location inhibited the adoption process. The opportunity to make future significant savings on investment in a fixed location infrastructure was cited by almost half as important.

The Internet was considered to offer *marketing opportunities*. Its early adoption had allowed 7 respondents to enjoy extended media coverage of their on-line activities. Another aspect detailed as

important by a fifth of interviewees was the opportunity to collect market research data from end-users by capturing data through registration forms & competition. *Ethical concerns* were limited to the consideration of long term social isolation of end-users.

DISCUSSION: THE FUTURE OF CYBER RETAILING

In the analysis and discussion of the qualitative data, presented in the previous section, three dominant and interacting themes have been identified and reviewed, namely: the internal inhibitors and facilitators; the environmental inhibitors and facilitators and the Internet's comparative advantage over existing retail channels. It is suggested that the retailers' current low levels of Internet activity will only be significantly increased if their perceptions about the readiness of the environment, the readiness of their organisation and the relative advantages of the Internet as a retail channel become more positive. This proposition has been encapsulated in the model of the factors affecting the future development of the Internet, as illustrated graphically in Figure 1. This section critically assesses the degree of positiveness associated with each theme and the resultant likelihood of significant growth in Internet retailing, in the near future.

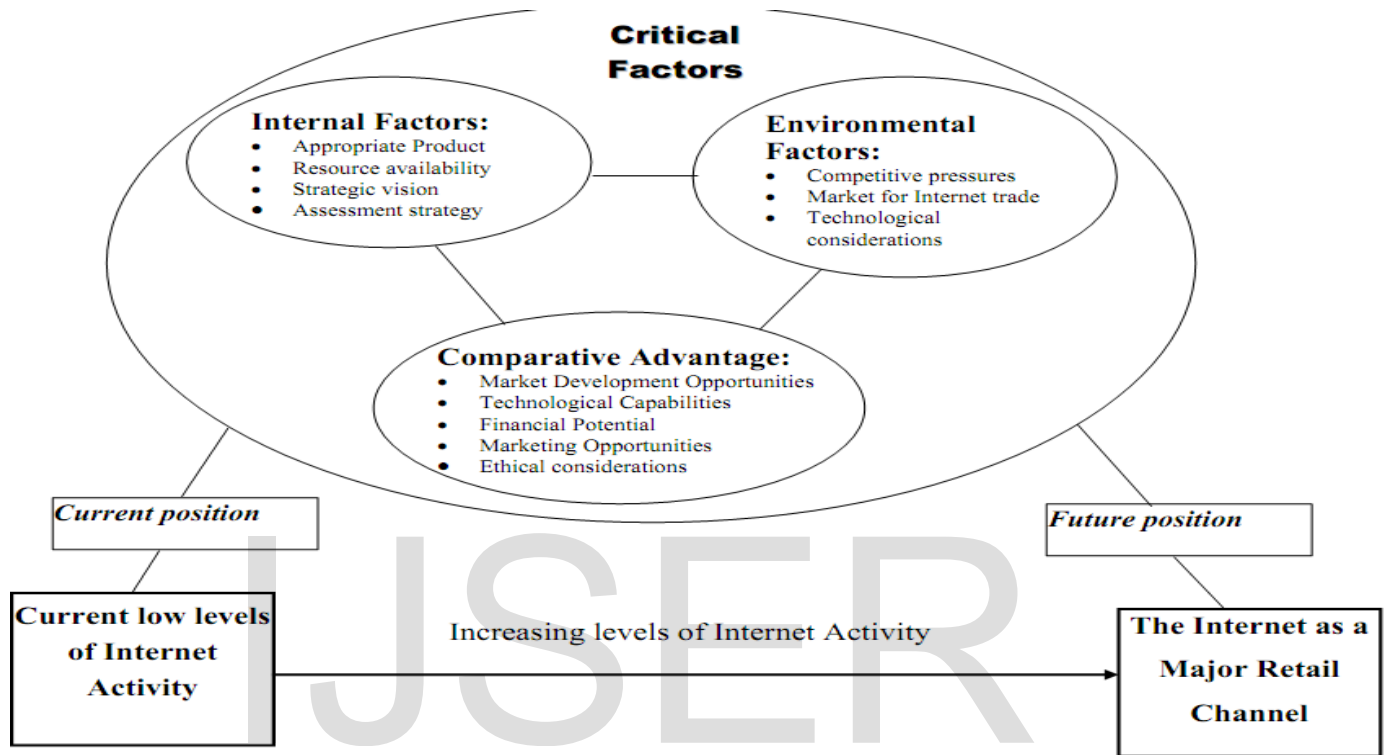
Internal Factors: The results in Table 3 suggest that the overall balance between the internal inhibitors & facilitators is marginally skewed in favour of the inhibitors. The most significant internal inhibitor is the concern about assessment strategies, with most interviewees perceiving that it will be extremely risky to invest large sums of money in the development of the Internet as a retail channel until they have better ways of evaluating its potential.

Environmental Factors: The results in table 4 clearly indicate that there are some serious doubts about the readiness of consumers to use the Internet & the technical ability of the Internet to support transactions. It can also be seen that the media is having a dual impact; on the one hand generating much awareness about the Internet, but at the same time emphasising concerns about its capabilities & impact.

The Internet's Comparative Advantage: The results presented in table 5 suggest that the retailers have positive perceptions about the Internet's potential to deliver a comparative advantage over traditional

retail channels. This potential is seen most clearly with regard to the range of services that can be offered, and the size of the market that can be targeted.

Figure 1: Factors Affecting the Uptake & Application of the Internet as a channel for Direct Sales



CONCLUSIONS AND CONTRIBUTION

In conclusion, it has been found that the current levels of Internet activity within the retail sector are low & what is being done is experimentation. Whilst retailers appear to value the Internet's potential they also expressed concerns about the high costs & risks of failure. This situation leaves most retailers in limbo, whereby they are aware of the importance of the Internet but have no strategic vision as to how it can best be exploited. This is a dangerous position, as there are plenty of others, such as 'virtual merchants' & producers wishing to 'dis-intermediate', who may be well placed to benefit from the retailers' inactivity.

The primary value of this research is to clearly identify the need for retailers to evaluate their competitive position & to develop coherent Internet strategies. This research has indicated that the challenges &

opportunities are likely to be very different for retailers within each sector. A final value of this study lies in its foundation for future research; having identified the critical dimensions of retailer Internet development, the next stage is to test the findings & measure the relationship between each area.

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