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Retail Therapy

The Growth and the Future of Online Retailing



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The Growth and Future of Online Retailing

“Despite the recession, online retail sales will continue to grow, albeit at a slower rate and at the expense of physical stores.”

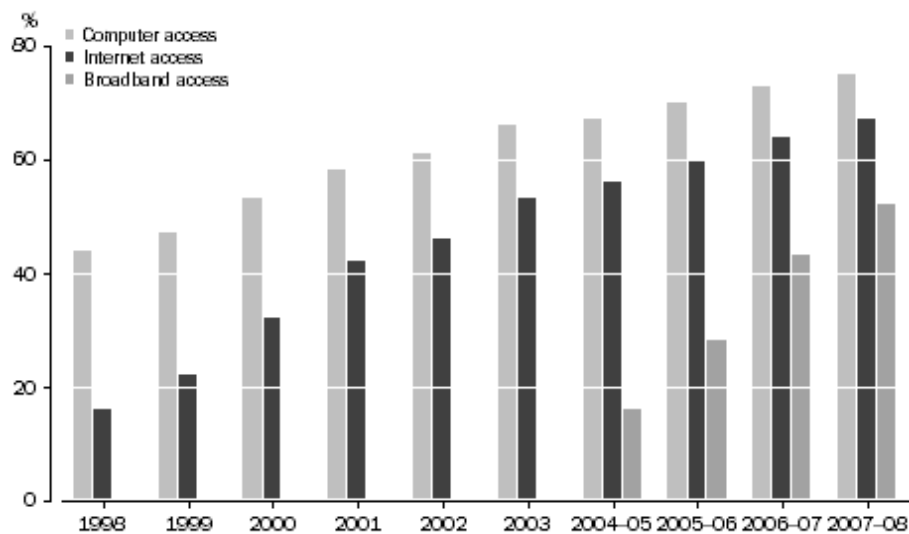
Forrester Research, 2009

Retailing has evolved since time began, and the inception of the Internet as a shopping tool is a change that will increasingly impact the retail industry. Although the retailing world has undergone rapid change since the introduction of online retailing, there are still major advances yet to come. As a shopping medium, in both Australia and internationally, the Internet has grown incredibly over the last decade alone. Average consumers are tuning into the online space to realise the many benefits, including convenience, time saving, discounted prices, and increased business transparency. There are also some perceived risks associated with online retailing such as not being able to see the product prior to purchase, as well as security fears in providing credit card details. However, these risks are currently being acknowledged by retailers and they are working on reassuring customers in all ways possible. It is forecast that in the near future, consumers will feel more comfortable shopping online and as a consequence, regularly mix online and offline purchases.

Growth of Internet usage and online retailing

ABS statistics (2008) indicate a quadrupling of Internet usage in Australian homes between 1998 and 2008, with 2008 reporting 67 percent of Australian households having home Internet access and 75 percent of households having a computer (see Figure 1).

Figure 1. Household Computer or Internet Access



Source: ABS, 2008

In Australia, over the last five years, the online industry has continued to grow both in revenue and in the number of players (see Table 1). The fall in revenue in the 2008-2009 period can be attributed to the world economy crisis that has impacted all forms of retail (IBISWorld, 2009).

Table 1. Online shopping and mail order houses in Australia

Statistic	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Industry Revenue (\$ million)	12,470.6	13,907.4	15,398.8	16,959.7	18,231.4
Industry Revenue (%)	10.4	6.5	6.0	6.3	3.7
Number of Enterprises	1,300	1,420	1,540	1,650	1,710

Source: IBISWorld, 2009

The growing incidence of Internet access is challenging traditional offline retailers, creating a new method of shopping, previously confined to bricks-and-mortar stores and mail-order catalogues (IBISWorld, 2009). Although many consumers initially used the Internet to browse products with very few making a purchase, the unfamiliar nature of making purchases through electronic channels has become less of a concern as technology and consumer confidence have increased. It is important to note that the growth in online retailing has primarily been driven by strong consumer demand and the entry of new players, with consumers aged 25-34 the main buyers of goods and services online (IBISWorld, 2009). This age group is interested in using the Internet to find out about new products, search for product information easily and quickly, and compare and evaluate alternatives.

Due to its technological nature and the rapid change in this space, online retailing as a new retail format has moved very quickly through its life cycle from its introduction in the 1990s. According to ACNielsen (2008), more than 875 million people in the world have shopped online. It has been forecast that by 2010, online retailing will have accounted for US\$316 billion in sales, or 13 percent of overall retail sales globally (Forrester, 2006) and that in Australia, online sales will increase from 4.9 percent to 8.2 percent of total retail sales by 2010 (King, 2007).



Benefits of online retailing

The popularity of online shopping can be largely attributed to convenience and the ability to compare brands with minimal effort. One of the main attractions of the Internet is the reduction in time required to shop. In today's society, where "time is money," any time saved is highly valuable. However, it must be noted that time saving is not attractive to all consumers – retirees who do not suffer from a scarcity of time and frequently enjoy the activity of shopping have not accepted in-home shopping as readily as younger generations (Dholakia & Uusitalo, 2002). Convenience is another major factor for online shoppers; by shopping online consumers are freed from the constraints of geographic location, as well as store hours. This can be particularly advantageous for rural consumers who may not have ready access to a wider range of products and services.

The increased prevalence of more accessible and navigable websites, which promote consumer browsing and purchasing online, has also played a part in the growth of online retailing. Furthermore, a major motivational characteristic in shopping online is the opportunity to buy on impulse or in response to an advertisement, further validating the idea that store hours no longer dictate when consumers shop (Paswan, Rajamma & Ganesh, 2007).

Transparency is also increasingly important in consumer buying expressions today. A major benefit associated with purchasing online is the transparency of the online space thanks to electronic word-of-mouth (eWOM), which refers to any positive or negative statement made by potential, actual, or former customers about a product or company, which is made available to a multitude of people and institutions via the Internet (Andreassen & Streukens, 2009). eWOM is largely generated through electronic media such as online discussion forums, electronic bulletin board systems, newsgroups, blogs, review sites, and social networking sites (Cheung, Lee & Rabjohn, 2008).

Shopping online has also allowed consumers to easily and accurately compare products from their home rather than visiting multiple stores. According to Wise Marketer (2007), as many as 89 percent of consumers shop for information about products online – but less than 7 percent of retail sales actually take place online. Additionally, e-shoppers often have an opportunity to purchase products cheaper, as online retailers who are uninhibited by store rent costs, reduced wages and lower overheads as online ordering systems decrease the need for manual tasks pass such cost savings onto consumers (IBISWorld, 2009).

Aside from price and convenience, research has also shown that there is an emotive element to shopping online such as, the joy of finding the right thing at the right price, getting a cheaper deal than expected, beating the offers, finding exactly the right product or getting something unique (Lawrence & Clark, 2007).

Perceived Risks of Shopping Online

Despite the many benefits of online retailing, many consumers still perceive some negative aspects associated with this shopping method such as disclosing personal information, as well as security and product risks. According to a 2007 survey by the University of Southern California's Center for the Digital Future, 60 percent of US adults are "very" or "extremely concerned" about the privacy of personal information when buying online, particularly when making a credit card purchases (Carr, 2008). Although 35 percent of Australian online consumers perceiving security as their main concern, almost three quarters (73 percent) of Internet users are still shopping online (ACNielsen, 2008).

Many online retailers have, for years, had third-party secure websites; however, moving forward security will be more about trusting the brands and retailers to deliver on their promise. Consumers are also concerned about purchasing online because they cannot physically examine the product. Therefore, it is assumed that people may feel a certain degree of risk



when purchasing a product through the Internet, particularly when there is little information known about the product category, the consumer has little self-confidence in evaluating brands, there are variations in quality between brands, or when the price is high. According to IBISWorld (2008), these types of perceived risks can often be combated by:

- Offering a clear description of the goods on offer
- Providing a total price for the goods (including any taxes and freight costs)
- Providing a clear delivery date
- Implementing a refund and return policy
- Clearly explaining how privacy issues will be handled
- Having reliability, trust or privacy seals

Pure online vs. Multi-channel Retailing

The online shopping space is shared by pure players and multi-channel retailers. Pure players are those online retailers that sell solely via the Internet and do not have any physical outlets where customers can purchase their products. On the other hand, multi-channel retailers allow customers to interact with a retail organisation through multiple avenues such as in-store, online and via a catalogue (Xing & Grant, 2006). While both retailing methods involve offering products over the Internet, multi-channel retailers must ensure that they do not cannibalise their own sales across the different channels.

The importance of multi-channel retailing

To counter the growth in online retailing, high street retailers are increasingly adopting multi-channel distribution strategies, in an attempt to target individual consumers via both physical and electronic channels. A recent Google (2009) study found the Internet ranked as the most important information source for in-store purchases because of the ease of comparison it provides. It is not surprising, then, that 43 percent of respondents used the Internet for pre-purchase research. Further, 86 percent of retailers include URLs in catalogues, 80 percent use email to promote store or catalogue sales, and 87 percent accept in-store returns of online purchases (Yantra, 2005). As a result, online retailing has now become an imperative, rather than a differentiation strategy. According to Rosenbloom (2001), such strategies appear highly successful and popular among consumers, to the extent that “Amazon no longer appears set to become the Wal-Mart of the Internet – Wal-Mart will be the Wal-Mart of the Internet!”

Selling through more than one channel is a fact of life for 84 percent of American retailers, according to a survey conducted by The Aberdeen Group (Aberdeen, 2007). According to a



recent PayPal UK Online Retail Report, two thirds of online shoppers would like their favourite brands to do more to combine their online and offline services and 72 percent of female online shoppers reported that being able to combine online and instore services will always be important (McLean, 2009). Strong levels of growth are expected in the near future as increasing consumer expenditure and

the growing number of Internet users combine to drive revenue expansion (Euromonitor, 2009).

This is consistent with what is currently being witnessed in the Australian retail landscape.

For the retailer, multi-channel retailing is an opportunity to provide customers with a single, convenient and loyalty-building experience across a number of channels. A multi-channel strategy also offers synergies, which can result in an increased customer base, added revenue and higher market share (Berman & Thelen, 2004). It also enables firms to build lasting customer relationships by simultaneously offering information, products and support. By successfully synchronising channels, retailers can create superior channel service experiences, giving consumers fewer reasons to switch because of inconvenient channel access or inconsistent experiences. In its ideal state, multi-channel retailing allows retailers to obtain a single view of customers across multiple channels, enabling them to track customer behaviour and provide a better understanding of customers' decision making processes with the aim of improving retention and better catering to individual segments (Rangaswamy & van Bruggen, 2005).

A big problem for traditional retailers is that consumers' expectations have been set artificially high by instant online service, and convenient e-retail buying processes. As a result, consumers are now much less willing to stand in queues and be presented with limited choices of products in-store. Multi-channel consumers want the range of products and transaction speeds they see online throughout bricks-and-mortar stores they patron (The Wise Marketer,

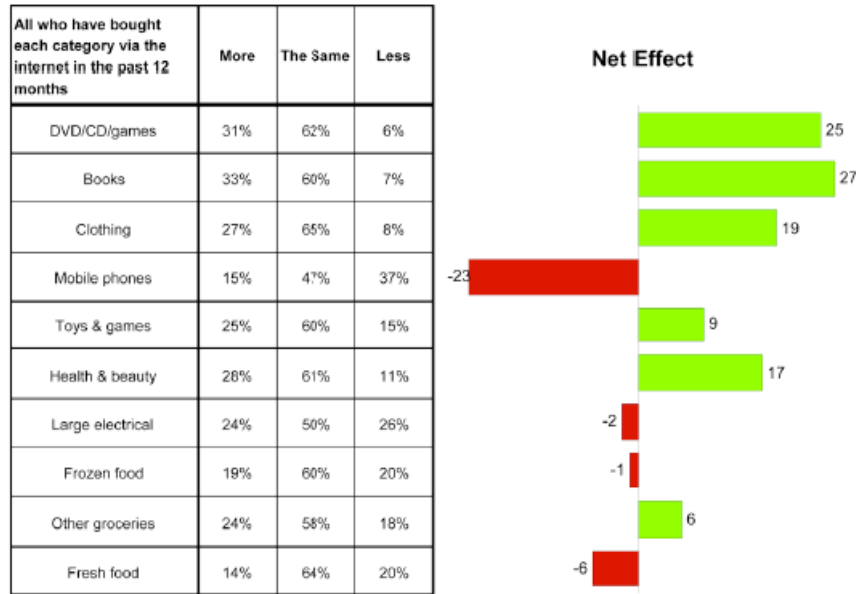


2007). This change in behaviour is incongruent with the typical in-store experience. This provides for a convincing argument for the implementation of instant gratification in-store through self-service technologies such as kiosks. With the increasing expectations that consumers have regarding speed of service and product availability, retailers have been turning to technology as a way to deliver this within the traditional store environment. As a result, interest in self-service technologies has increased as companies try to minimise loss of customers to the Internet, while aiming to boost sales and service options and cutting costs within the store (Quatse, 2007). In simple terms, kiosks are interactive, stand-alone units programmed to enable users to 'serve themselves' (Murphy, 2007).

Looking closely at where multi-channel growth will likely come from, it is expected to result from increasing access to and a willingness to use the Internet. Internet use not only increases consumers' acceptance and comfort with other technologies such as kiosks (Murphy, 2007), but facilitates the ease with which retailers can implement their new technologies. Growth in terms of online sales by category was researched in a study by Ipsos involving more than 14,000 consumers across the world (Burgess and Goller, 2007).

The findings suggest that most product categories are likely to see an increase in sales, with the exception of mobile phone sales, large electrical sales and food, which are likely to see a decrease. See Figure 3 below for details of the main findings of this study.

Figure 2: Purchase intentions for those people who have bought online before



Source: Ipos i-omnibus, 2006

The future of online retail

IBISWorld (2009) anticipates that consumers will become more accepting of the Internet as a shopping medium due to online retailers gaining more experience in supplying goods and services in this way. In addition, it is forecast that as consumers become more familiar with purchasing online, they will overcome fears associated with purchasing something without physically touching or seeing it, as well as the apprehension felt in providing personal information and credit card details. IBISWorld (2009) predicts a 2.5 percent increase per annum in the number of new operators entering the industry over the next five years.

According to UK retail consultancy firm, Verdict, British consumers bought £18.4 billion worth of goods online during 2008 and this is predicted to grow 13.3 percent to £20.9 billion in 2009. In Australia, Internet sales are expected to see a 7 percent increase, reaching \$2.4 billion in 2013 (Euromonitor, 2009). Verdict (2009) suggests that the popularity of online shopping among more affluent consumers helps explain why it can continue to grow during the economic downturn, with middle-class and upper-middle-class consumers accounting for 56.8 percent of online spending in the UK. This group, in particular, continue to appreciate the Internet for its convenience, making the channel doubly resilient to the downturn.

While some lower-income consumers are moving away from the Internet to take advantage of deals at bricks-and-mortar discount stores, this is being more than outweighed by increases in bargain hunters looking for larger, branded items and the loyalty of financially comfortable consumers who continue to value convenience over price. With its clear price advantage over the traditional bricks-and-mortar channel, online will become even more attractive to recession-hit shoppers as they venture back to buying big-ticket items (Internet Retailer, 2009).

According to a recent Capgemini e-Retail Sales Index report by leading industry body for global e-tailing, IMRG, shoppers are heading to the Internet to beat the credit crunch, with online sales during March up 19 percent compared to 2008 (IMRG/Capgemini, 2009). However, despite the rise, the Index revealed that the annual growth of 19 percent was lower than previous years, indicating that online retailers are not immune to the downturn. The most resilient age group purchasing online has proven to be consumers aged 25 to 34 years old (IBISWorld, 2009). However, truly “tech-savvy” consumers aged 18 to 24, who have grown up with computers and the Internet, will soon have more disposable income and therefore are projected to become the most profitable segment for the online shopping industry (Euromonitor, 2008).

Increasing competition will also influence sales volumes as more bricks-and-mortar retailers enter the online space. IBISWorld (2009) projects that there will be a trend toward lower priced products and cheaper delivery costs, as well as online retailers increasing their level of after sales service in an attempt to keep customers coming back to their site in the future. It is also important to note that international competition will increase in the future as greater amounts of retailers take advantage of global opportunities (IBISWorld, 2009). This will



mean that local retailers will be competing in a much larger market, and if they fail to keep up with the trends, they will soon find themselves struggling to keep profitable. Therefore, the growth in enterprise numbers is expected to continue over the next five years to 2014, fuelled by a continued expansion in the range of products and services offered online and also the entry of traditional brick-and-mortar stores into the industry (IBISWorld, 2009).

Conclusion – ‘Bricks-and-Clicks’

Based on the literature and current industry forecasts, it appears as though the future of retail lies in ‘bricks-and-clicks’. A multi-channel approach is necessary, whereby retailers utilise many avenues to reach consumers. Online retail is clearly an integral part of retail’s future, but it has been widely suggested that traditional stores need to provide good service and be more creative to encourage customers to visit (Nicholson, 2007). Shopping is one of the most popular forms of leisure and it is therefore inconceivable that the future of retail would be solely online. People will always want interaction and therefore “the future is brightest for retailers that can operate in a multi-channel environment in which consumers will shop in different ways depending on their needs” (Hervey and Bidwell, 2006).



However, the multi-channel approach has not been favoured by everyone. Despite the advantages that multi-channel retailers enjoy over pure players, the success of firms like Amazon demonstrates that pure players do have a bright future. Looking ahead, Euromotior (2009) argues that successful online retailers will begin opening their own real world stores in order to further build their brand presence, although such outlets are expected to involve very different concepts to those of traditional retail stores.

It has also been found that prices by pure play Internet retailers are significantly lower than prices by online multi-channel retailers by an average of US\$3.27 or 14 percent. The evidence suggests that domination of multi-channel retailing format may diminish the pricing efficiency of the Internet (Xing and Tang, 2001). Despite this, it has been forecast that in the long term, there may not be any pure play Internet retailers, as they will come under tremendous pressure from bricks-and-mortar firms who move into the online space to become multi-channel retailers. This points to a future of multi-channel retailing; however, time will be the only source that can truly reveal the truth in these predictions.

About the author

Lani Barmakov is a student at Monash University and is in her final year of completing a Bachelor Business (Marketing and Management). Her strong background in retail and fascination with the online space recently led her to undertake an internship with online retailer, Kogan Technologies. The internship allowed her to gain a greater understanding of online retailing and as a result, she decided to research current and future trends of online retail.

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