

Problems facing e-tailers when they choose to enter the market of e-commerce



With the growth in the popularity of the internet and the associated rise in e-commerce it is not surprising that many organisations, including Harrods, Tesco, Waterstone's, Blackwell's and Iceland to name but a few are actively choosing to set up their own internet operations and become e-tailers.

However, many problems are facing e-tailers when they choose to enter the market of e-commerce. Firstly, the e-tailer has to design and build a customer friendly fully functional website.

The site has to persuade consumers to buy to ensure its initial and continued success. The internet technologies used in building and maintaining the company website are important because they affect so many aspects of an organisations information systems. Customers fear the security of their transaction and so many refuse to shop via the internet because of their security fears. It is therefore imperative that the e-tailer has good security so as not to prevent paranoid customers from using the site. Attracting people to the site is one of the biggest problems facing internet retailers. Whilst this does not pose a large problem for well established heavily branded organisations such as Tesco's it is a significant problem for many of the entrepreneurial organisations which choose to set up internet operations.

Added costs to the purchase price of goods sold over the internet, such as shipping and delivery, mean that some customers do not shop on line, as they would rather pay the bus fare or the taxi fare and go out to the shops and enjoy the traditional shopping experience. Organisations face a problem here, do they increase prices and add no charge for delivery or do they keep retail prices static and charge for delivery? As delivery charges are

unpopular with some customers, some internet retailers such as Iceland only

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charge for delivery if the value of the goods bought is less than a pre-determined threshold. The nature of the market structure for internet businesses poses a problem because it is perfectly competitive. The market form of perfect competition provides avenues for a large number of firms, no barriers to entry or exit to the market, perfect knowledge, and virtually identical products. Retailers who choose to set up their internet operations are therefore entering a highly competitive market which forces them to maximise efficiency in order to compete and this may pose a problem for inefficient organisations. Iceland, Sainsburys, Somerfield, Asda and Tesco's all have e-commerce sites, and they are all in competition with Morrisons, the firm that recently took over Safeway.

Morrisons do not yet have an internet home shopping service and their turnover grew 14% from 2002 to 2003, proving that there is a future for firms who are not e-tailers. It is therefore noted that e-tailers do not only face competition from other e-tailers but also from traditional shops. Foreign competition faces e-tailers because the internet is a global phenomenon. For the first time in their life cycle many organisations are being dropped into a highly competitive global market and struggling to survive. K-mart in the USA recently filed for bankruptcy following an unsuccessful attempt to turn it into an e-business.

Another American firm, a prominent e-grocer, Webvan Group Inc, is now bankrupt after a year of successful trading. The future is uncertain and knowledge of the future is limited and many more firms could find themselves failing as e-tailers. Delivery also poses a problem for internet retailers. Customer relationships will be damaged if the delivery is not when <https://assignbuster.com/problems-facing-e-tailers-when-they-choose-to-enter-the-market-of-e-commerce/>

the company say it will be. Furthermore, if the internet retailer decides to hire out or contract the delivery then the company will have to use more complex information systems which run from business to business as well as from business to consumer. It will also have to pass on the added delivery cost to the consumer unless the company is to make losses.

Creating customer loyalty is a problem for e-tailers, because the location of the store no longer plays a part in the buyer decision-making process. 80% of users fail to return to a site ([http://: www. kamcity. com/library/articles/shopping.](http://www.kamcity.com/library/articles/shopping.html)

[html](http://www.kamcity.com/library/articles/shopping.html), accessed 19/04/2004) and many users abandon the shopping experience whilst still on line, and it is estimated that \$63 billion of abandoned purchases exist on the internet ([http://: www. clickz. com/stats/markets/retailing/article. php/6061_3299081](http://www.clickz.com/stats/markets/retailing/article.php/6061_3299081), accessed 19/04/2004).

The information systems, which are used to set the sites up, have to be reliable and work 24 hours a day, seven days a week. Problems with missed orders due to sites crashing half way through the shopping and sites crashing because of the volume of customers on line need to be rectified and the systems used need to be adequately tested before they are allowed to become operational. Digitally enabling an organisation can pose problems for management, and the move often requires a re-think about the organisational structure. Also, a successful internet business model has to be sought so that the e-tailer can learn from a competitor which has managed to get the balance right and has become a success. E-tailers face more

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problems than a traditional retailer when a customer wishes to return a product, and they have to know, sometimes more so than a traditional retailer, how to keep the customer happy, because they see the customer a lot less than a traditional retailer. One company that has made itself a prominent internet success story is that of the supermarket chain, Tesco's.

One in every eight UK pounds sterling is spent in Tesco's, as the recent annual report showed. The top five selling products on the internet are books, Compact Discs, Videos, Electrical Equipment and flowers. Tesco's sell four out of these five goods and are constantly branching out into new avenues and markets and it remains to be seen whether the on-line Tesco operations will make a venture into the electrical goods market. Tesco, being a giant in the world of retail and the second largest employer in the United Kingdom, was easily able to afford the cost of designing, setting up and maintaining a good reliable website.

Rather than completely change the way the organisation was run to enable internet operations to run alongside the core retail business, Tesco introduced a system which works thus: A customer shops on line. Their order is then electronically input into a picking machine which is given to an internet shopper. This person then walks round the store and picks the order which the machine tells the picker to pick. If an item is not in stock at the time of picking, then a substitute product is placed into the order. The order is then packed, and then it is delivered to the customer in the allocated time which the customer picked when they entered the order on the computer.

Substitute products, which are substituted by the picker when a product is not in stock, are known to upset some customers because they do not get exactly what they wanted, but it is a means to an end and avoids the problem of part picked orders waiting for an item at Tesco's end. As Tesco's stores are mostly open twenty four hours a day, the order can be picked at night or at less busy times by the picker to create less collisions with shopping trolleys. This is a good approach, and it is better to integrate the internet resource onto the existing system, because it is saving the company both time and money by not having to introduce a new system to manage the on-line inventory. To overcome the problem of delivery, Tesco have established their own delivery fleet, usually with two or three delivery vehicles residing at each store. These vehicles deliver the freshly picked shopping to customers, therefore cutting out the need for contracting out deliveries.

Effectively what Tesco have done is build their own internet shopping empire complete with all the necessary pieces of the system to make it run as a stand-alone system operating alongside the store. Tesco have also built their own warehouse to house items that are non-food. This will contain items such as DVDs, CDs, books and videos. By branching into these sections with their internet operations, Tesco have ensured that they have a back-up to the food services which they offer, which will decrease the chances of the business folding. Tesco's internet operations are considerably more well known than any of the other major supermarket chains.

This is due to a clever marketing strategy on Tesco's part and its willingness to set up its internet operations, something which Morrisons' have not yet
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completed. Also the geographical location of Tesco's stores means that it is able to successfully cover virtually the whole country. With the market for supermarket e-tailing being an oligopoly as opposed to the market for e-commerce being perfectly competitive, Tesco has avoided many of the problems faced by a non-specialist internet shopping service. Tesco's have handed off foreign competition by planning to expand quickly into markets in the far east and beyond, and it is unlikely that any British citizen would do their grocery shopping from a French or American organisation because the food may well go bad by the time it gets to them.

Tesco's have managed to create customer loyalty over the internet, which some retailers are finding hard to achieve. They have done this through the use of the clubcard, which is Tesco's loyalty card scheme, which was launched in 1995. Data from the loyalty card is stored in a huge database, split into 800 lifestyle groups. (MMR, 2002, V19, I10, P28) Loyalty cards show Tesco how much money a customer has spent in the store, and, what the customer has spent their money on. The data returns information which is on the till receipt.

The information on how much each customer spends in the store is used to convert the customers monetary outlay into reward vouchers, which can be redeemed in store which encourages customer loyalty and relationship or alternatively redeemed with items such as Air Miles, whom Tesco are in partnership with. Other information gathered by loyalty cards is used in specific marketing to customers. Tesco can see from the data which products a customer buys, and then send a coupon for a similar more profitable product to the customer. If the customer then uses the coupon, Tesco

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increases profitability and if they still additionally buy their old product Tesco increases sales as well. If the customer uses the coupon, the store wins. Also the data collected from loyalty cards can show Tesco whether a product line is worth supplying to the customer.

Does it make a profit? Is there a more profitable alternative which we could supply? Do customers like branded or non-branded products? Do customers like expensive versions of a product or the cheaper substitute alternatives? Tesco can answer all of these questions by using its loyalty card data. Tesco can even use the loyalty card data to plan the store layout. From the data it can tell which products sell more quickly and with more volume, those on the middle shelf, the top shelf or the bottom shelf. Therefore Tesco can plan the store with the products the customer buys most often in the most accessible place. Tesco can use the data to see which products to supply due to the data held on the items profitability. Clubcard data can also save the company money in direct marketing costs because a customer is only sent vouchers relative to their shopping habits and not just a plethora of printed coupons which they will never use. The data collected upon analysis with the supply chain data can show how quickly stock turns over and what to stock, which is especially useful for fresh fruit and vegetables.