E-business versus traditional retailing

Abstract

As the Internet access becomes widespread, both businesses and consumers worldwide used web as a main tool for marketing and shopping. As a result, the impact on retailers and consumers are relatively significant with the rise of the E-business. This project looks into the advantages and disadvantages of E-business and traditional retail stores, and then by comparing the two different business modes concludes an integrated business, which is more adapted by public. Further, an analysis of Amazon. com and Wal-Mart also support the notion that multi-channel retail seems to be more satisfy the need and want of retailer and consumers.

Introduction

The origin of e-business was 20 years ago. In the 1990s, the definition of e-business was used by one of the first supplier, IBM, in its advertising campaign. It was defined as " the transformation of key business processes through the use of Internet technologies". (Li , 2007: 9) Today, the meaning of e-business is much broader. According to Cunningham (2002) E-business refers to " the transactions, processes, and systems that support the act of doing business through electronic networks."

Businesses in industries such as banks, automobiles, travel, and many others are undergoing a significant transformation. In the past, traditional retail stores were constrained by geography, location, and size; on the other hands, in the age of information, these are not important anymore. Although the Internet has a great influence on the growth of E-retail, there is one thing of concern, it also presents with threat and opportunity.

The aim of this project is to compare and contrast E-Business and traditional business in retailing across a variety of criteria from customer's and retailer's perspectives, and then to analyze the two biggest retailers in the world in terms of E-retailer and physical retailer and then conclude which business is better adapted to e-commerce. Firstly, the project will consider advantages and disadvantages of E-business from retailer's and consumers' view, then analyses Amazon. com and Wal-Mart by the means of SWOT analysis (which can be defined as Strengths, Weakness, Opportunities, and Threats) and finally will forecast future retail developments.

E-Business Versus Traditional Retailing

There are numerous opportunities for businesses to reach new markets on the Internet across nations, lower costs, and relationship-build with customers.

For most businesses, opening a virtual retail seems like to be filled with opportunities as well as challenges. The rest of this project will address these opportunities and challenges.

The opportunities in E-Business Market

There are a number of advantages for e-business. First, with regard to the location, it is clear that online business have the opportunity to access farther than physical stores. According to Dennis and Harris (2002), the three most important elements in retail are ' location, location and location'. Without constraint on geography, the Internet has provided the e-retailer with a store in every home all over the world. Almost every product and service on the Internet has an opening to be sold globally. In other words, e-business sells equally well to anywhere in the country and even overseas, compared to traditional stores. Since building a business online does not need to lease a building on a specific place, which saves a great deal of money on rent. Compared to the existing stores, running a business need to situate on one street, town and country, which is the most expensive part due to paying high-priced rent monthly as well as tax. In addition to location, another factor needs to concern is size. In the past, size of stores was principal when competing with other stores. A large store has the capacity to stock as many products as it can; however, there is a limitation of quantity for those small stores. Thanks to the invention of the Internet, even a small e-business has the chance to vie with large traditional stores.

Secondly, as far as the number of consumers and opening time are concerned, online business can reach a larger number of consumers than the traditional stores. Without boundary on the Internet, everyone in the world have equal chances purchasing online. Especially for overseas shoppers, could easily reach web sites in which they are interested. Additionally, with fewer barriers in both time and limitation of consumers, online businesses have a better opportunity to market their product on the Internet. In other words, the problems of time difference between nations and nations have been solved. In contrary, it is difficult for traditional stores to sell further, when considering the limitation of time and geography. In the past few existing stores are opened 24 hours a day, 365 days a year. However, since online business is on the web all the time, consumers with different shopping habits do not have to worry about the opening and closing hours of physical stores.

There are many other advantages regarding to online business. Usually, building a traditional store need to concern the expenditure of ongoing costs, including renting, tax, electricity. In addition, for those traditional stores reaching consumers either face to face or by telephone, have to pay for a significant additional cost. On the other hand, for those businesses that open e-shops could save a great deal of money on the wages costs of face-to-face salespeople and the costs of premises. Furthermore, a virtual store may save budget on all the other needless expenses, such as additional training requirements. Many studies have shown that many online stores in the existing marketing making a big profit on account of reduced costs and increased sales. Furthermore,

The Challenges in E-Business Market

Generally speaking, although there are many advantages for e-business, considering about disadvantages is also needed. First of all, online business is less powerful than face-to-face selling in many ways. In the traditional stores, salesperson with high skill of convincing shopping can be a part of reasons influencing consumers to shop. For example, when going shopping we are always easy to be persuaded by people around us who support for purchasing. On the other hands, due to fewer impulse of salesperson online, it is easier to say “ no” to a computer. Consumers are totally decide “ buy or not to buy”. Moreover, e-Selling is also less powerful than face-to -face selling. For example, for certain products, it is difficulties with products not sold by touch, feel, and smell. E-businesses are lack of theses advantageous positions.

A further disadvantage is that consumers have a perception of lower prices online. They expect online prices to be lower than prices in traditional stores. This puts pressure on margins for online business, and can lead to shoppers expecting consistent how prices in store. Looking for low prices online is one of major factors affecting consumers to shop on the Internet. However, such a perception across all product categories may be unwarranted. Only in some areas such as airline tickets and books can find much lower prices on the Internet. Also, there is a limitation for selling products online. Not everything could be selling on the Internet, such as daily products and fragile items, which limit consumers' product selection.

In addition, cost in Internet customer contact and maintaining technology could be expensive. Although a beneficial thing for e-business is save the costs of wages of salesperson and rent, the system requires regular maintenance to ensure customer satisfaction. Compared with traditional stores, they do not have to pay the extra maintenance fee on system due to most of they are lack a sophisticated computer system.

Finally, after-care can be difficult, especially if the shopper is overseas. It is always not easy to collect those unwanted products which have been return by online shoppers. When ever any of products have technique problems, it is a trouble to return it back to e-shop, especially for those overseas customers. Because not only consumers require to pay the delivery fee but also the online shop, which is a burden for both consumers and e-retailer.

Drivers of Consumers' Adoption

There are considerable potential benefits for consumers to shop online. The main reason for consumers to buy online is to save money. In some given products categories, online prices are significantly cheaper than existing stores. On the Internet, shoppers could always get good value of bargains. Furthermore, consumers could also save the cost of traveling to the existing stores, the cost of finding a parking space, parking, walking through the mall to the stores, finding the item in the store, waiting in line at the checkout, Internet shopping provides in-home access 24 hours a day, seven days a week, which enhances convenience by minimizing many of these costs.

The other advantage for online shopping is the convenience of shopping at any time of day. On the Internet, the stores are opened 24 hours a day, 365 days a year. Consumers could never worry about missing the open hours of the exiting stores. The other good thing about e-shopping is that the webs offer older consumers, those with disabilities, and those live in remote areas to access to information and services. The other motivation for people to accept shopping online is that consumers could make a purchase at home instead of leaving from house. In addition to convenience, consumers could not only save more time on the travel time, but also save the time on walking through all the stores to find what they want, especially when at the height of the holiday. Whether on booking a ticket for an event, purchasing a book, or registering and paying for a fee, the Internet saves time.

With regard to breadth and depth of products, consumers could find a great variety of products on the Internet than in any one single store or mall. Rare items can be purchase easily by simply click a mouse; the web sites can take shoppers from one online store to another. The benefit of online shopping is even greater when purchasing foreign-made products.

Many traditional businesses will shift a significant part of their operations and selling to the Internet. Growth in the consumer segment is likely to be slower. Security concerns regarding online transactions and the difficulty of modifying consumer behavior can explain the slower pace of growth in the business-to-consumer marketplace.

Barriers to Consumers' Adoption

Although shopping online can by easy, there are a variety of reasons related to security deters online shoppers from making a purchase. Dennis indicated that " Security fears as the number one barrier to more consumers shopping online" (Dennis et al. 2002). Safety of credit card and other private information are key issues that discourage many consumers e-shopping. A study sponsored by the Better business Bureaus Online found that over 80 percent of users had some concern about security online. (Better Business bureaus, 2005) Most web sites today require users to create personal accounts and provide a lot of personal information. Some consumers are afraid that personal information may be broken in by website hackers or be access by unauthorized organization; moreover, personal accounts provided to online vendors may have a risk to be rejected due to service attacks and human error. Therefore, security of credit card information is quite negative for online consumer.

The inability to talk to a live salesperson is another concern for consumers. Even though the Internet brings the world into our homes, customer may still wish to speak to someone to seek advice on the product when shopping online. Also, for older consumers, and those who are relatively new to Internet shopping, exceptionally need a live salesperson to get information they are interested in. However, many of online business have not provided customer service for online shoppers reached by phone, live chat. A report by Data Monitor (www. datamonitor. com) found that “ only 8 percent of the over 60000 call centers in the US were Web-enabled, and only 1 percent of Web sites currently offer live customer assistance” (Venkat, 2001: 307).

Additionally, the difficulty in returning products is major reason for a large number of consumers not shopping online. BizRate. com, a company that measures post-purchase satisfaction found that in a survey of 9800 consumers, 89 percent said that return policies influence their decision to purchase online. (ibid: 2001: 304) Above all, the reason why returns sometimes are difficult may say is because of the lack of face to face negotiations.

In addition to returning, the cost of shipping is another concern for consumers. A survey by Greenfield Online revealed that 32percent of consumers’ surveyed mentioned high shipping costs at the reason for not shopping online (Greenfield, 2002)

Most consumers perceive online prices to be lower than prices in conventional stores. It is true; however, sometimes shipping costs can negate other price advantages. Although various products sell at a discount online, when adding into the shipping rate, the consumer may end up paying more than traditional store.

Many consumers are still uneasy with online shopping because they prefer to see and touch the goods. Plus, some products are difficult to buy on the Internet.

Take clothing for example, it is impossible for online shoppers to feel the fabric. When buying clothes, most people still like to try them on. Online shopping provides a lower sensory stimulation (through smell, touch, music, in-store decorations, etc.) than does offline shopping. (Fernie, J. 2005: 106). People incline to use five senses in developing beliefs and bias towards various products. However, on the Internet, only three of these senses can be used.

Case Study of Amazon. com and Wal-Mart

There are a range of criteria of SWOT Analysis about Amazon. com and Wal-Mart, and this paper will only focus on the areas related to the above sections based on current developments and future developments in how e-retail and traditional retail adapt to e-commerce.

SWOT Analysis of Amazon. com

With regards to strengths, according to Harris and Dennis (2002: 258), Amazon as a US-based multinational e-business company, is the biggest online retailer all over the world. Over the years since it opened its online bookstore in 1995, has established a customer around 30 million people. Besides books, now has launched various products including electronics, computer software, toys, video games and home improvements, apparel, furniture, and food. In addition, Amazon has created different website pages in the USA, the UK, Europe and Far East. It also provides international shipping to certain countries for some of its products.

The major weakness for the company is that it heavily depends on external delivery companies, which may tackle a major problem. Due to the rising fuel and vehicle taxation, a potential increase costs should be concerned. As a consequence, the increasing shipping fee may lead consumers rather to visit a local retailer than purchasing online.

It is realistic that the rise of Amazon. com has had a profound influence on virtually every sector of business in the world. There are many opportunities for Amazon. com to expand further. One of the priorities is to open exiting stores to solve the disadvantages of E-business.

As far as threats are concerned, it is easy to attract competition on the Internet.

Since Amazon. com markets similar products as physical retail, it pose a negative impact on Amazon. com within the price competition between e-business and traditional stores.

SWOT Analysis of Wal-Mart

Wal-Mart is the largest retailer in the world. It is famous for its convenience

and a wide range of products all in one store. The retailing giant has annual revenues of over $ 100 billion. According to Grant (2002) the Fortune 500 ranking list, published in 2002, showed that Wal-Mart was the world’s largest public corporation by revenue. These years, Wal-mart has experienced global expansion to 3, 600 stores and more than 750, 000employees worldwide.

Although Wal-Mart stores, Inc. has expanded to the global market, they have a presence in a relatively small number of countries Worldwide. They only focus on the market in the UK, but their competitors are grown in the other countries. Besides, Wal-Mart has a risk in the location of their stores.

Since Wal-Mart is the leading physical retailer in the USA, it has a magnificent opportunity to become the largest retailer in the world. Therefore, international expansion will be a huge opportunity for Wal-Mart. Although the stores are currently only trade in relatively few overseas there are many opportunities for future business in expanding consumer markets online.

A major threat to Wal-Mart is the intense price competition with online business. Being a leading retailer also represents being the target of competition locally and globally. How to compete with e-retail in the international market will be a major question for Wal-Mart.

Evaluation

From the SWOT Analysis, it is clear that both mazon. com and Wal-mart have its

specific strengths and weaknesses. This evaluation concluded that, based on the

criteria mentioned above, the e-retail has competitive advantages over e-retail stores while physical retail stores have advantages over e-retail.

With regard to disadvantages, online retail faces many difficulties compared to existing stores. For online retailers, the major challenges are face-to-face interaction and immediate delivery, and this is an area where traditional stores have an advantage. On the other hand, online retail also affects opportunities of traditional retail to certain extents. Take location and opening hour, for example, E-retail outweighs traditional retail stores.

Many consumers are willing to select products on the Internet, but would not want to wait for delivery. Due to the need of consumers, it stimulated the boom of multi-channel retail (physical stores plus e-retail) becoming dominant, which has both e-retail and physical retail stores components, provides consumers with a higher degree of satisfaction. Thus, more and more e-shoppers find online shopping and in-store pickup more attractive than pure E-railing and traditional retail stores. According to Harris and Dennis (2002: 258), " the proportion of e-shoppers preferring to shop from e-sites run by physical retail stores rather than Internet-only is soaring 9 up from 22 percent in October 2000 to 33 percent in April 2001."

As a result, many E- businesses are attempted to establish physical stores, and just as traditional stores are also creating online business. That competition is not about E-business versus traditional business. Gandy (2000: 122) claim " It's about integrating both-pulling together the best of what is available through the physical distribution with the best of the Web world." As traditional companies begin to provide multi-channel services to combine online business and it would make sense for pure online businesses to offer services of physical stores. The example of Amazon. com and Wal-mart also support it. According to ‘ The Sunday Times’, Amazon. com had planed to open existing stores to support its growing website. (Mashable, 2009) Similarly, Wal-Mart stores Inc. has continually increased the integration of its physical stores with its Internet business, in order to respond with the growing web-based stores. (Reuven, 2000)

Conclusion

Both e-business and traditional stores has its advantages and disadvantages in many criteria. Physical stores has the edge on criteria such as after-sell service and face-to-face selling, while e-business is beneficial on the wide-range of products,

time saving and convenience. The project presented a comparative business channel to evaluate the two types of retails and concluded that whether e-retail or traditional retail stores is not in perfection, multi-channel retail stores which combine the best of e-retail and traditional retail may be more adaptable to the business environment in the future. The analysis of Amazon. com and Wal-Mart has also been highlighted, particularly with regard to integrating e-retail with existing physical stores. These can be summarized as multi-channel retail is becoming a dominant.

In 1999, Andy Grove, Chairman and CEO of Intel, once have noted that all companies will be Internet companies or they will be dead. (Venkat, 2001)

However, even though e-business is able to provide consumer greater service and choice in a variety of the product, the consumers’ adoption toward the Internet need to be concerned. It should be noted that a detailed examination of multi-channel retail lies outside the areas of this project and further work could be done in this area, which would be of particular interest to those business involved in this area.