

Section methods of  
traditional retail due  
to



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## **Section 1: Introductory Paragraph**

In 1951, during the rise in popularity of the paperback novel, novelist Harvey Swales stated that it could be the start of either an increase in the value of produced material or the inundation of trashy literature into an already polluted ocean of books and novels. Today, publishers are faced with a similar situation wherein the growing popularity of eBooks has become a game changer in the publishing industry.

The reason behind this has been the continued growth of online purchases and transactions wherein consumers have increasingly used E-commerce as their preferred method of purchasing due to its convenience and its ability to empower consumers to conduct multiple transactions within a single session. E-Commerce, an abbreviation of the term electronic commerce, is a way in which business transactions such as the buying and selling of products is conducted over the internet (Fulbright, 48). Due to its widespread proliferation with thousands of users being added to the online browsing population on a daily basis the breadth and depth of the internet is not to be underestimated (Kennedy, 15). With estimates placing the number of users in the hundreds of millions companies have started to capitalize on this trend by moving traditional operations such as advertising and retail to online mediums in order to attract customers to their products. One of the more recent incarnations of this growing trend has been the digitization of various novels and books for online sale and distribution.

The advantage of eBooks over normal books is that consumers can receive the product immediately, it can be purchased at a fraction of the cost and

depending on the type of eBook reader a person possesses they could have possibly hundreds of books stored on a single reader (Ebooks, 25). For eBook sellers such as Amazon. com the advantages of eBook sales range from the fact that they can distribute the books ad infinitum due to the ability of data files to be easily copied and distributed to the fact that eBooks do not take up any inventory space in a warehouse and do not have delivery costs which results in lower operating expenses for the company (Ebooks, 25). Due to their advantages for both consumers and companies alike eBooks represent a growing trend in the publishing industry which has the potential to possibly eclipse and undermine eBook sales in the future.

## **Section 2: Five-Forces Model of Competition**

### **The threat of the entry of new competitors**

Porter states that markets with high returns have a tendency to attract new firms, in the case of the book retail industry this came in the form of Amazon. com E-commerce based strategy of online retail. One of the advantages online retailing has over traditional brick and mortar companies is that they are able to sell to a larger consumer base without having to be isolated to a particular location. These particular companies save on operational expenses in relation to employee salaries, operational and utility costs as well as various other costs associated with methods of traditional retail due to the fact that with most of the inventory being displayed online with various automatic systems dealing with customers there is very little need to actually hire physical employees in the form of store assistants and cashiers.

This results in lower product costs which entices more consumers to purchase from online retailers compared to traditional brick and mortar ones.

### **The threat of substitute products or services**

Porter states that new products that are created which are outside the set boundaries of products for a particular industry actually have the propensity to entice consumers to switch to the alternative products. In this particular case the creation of eBooks presents consumers with a cheaper and more convenient approach to reading new books from their favorite author. Not only are eBooks cheaper than regular books, they are easier to obtain, can be stored by the hundreds on a particular reader and can be brought nearly everywhere.

What this means for the publishing industry is that due to the affordability and convenience of eBooks more consumers would be willing to switch to using eBooks as compared to buying printed books.

### **The bargaining power of customers**

In this case Porter states that the bargaining power of customers is their ability to put a firm under pressure. With the current societal trend of people integrating more of their lives with the internet it comes as no surprise that they would do so with their shopping behavior as well. As a result this has increased the popularity of online E-commerce for various companies as a viable method of reaching consumers in order for them to buy the company's products. This places a certain amount of pressure on companies within various sectors (such as book sellers) to either innovate their sales methods to incorporate online E-commerce platforms or stick to traditional sales methods.

**The bargaining power of suppliers**

Porter states that the bargaining power of suppliers can actually be used as a source of power over companies.

In this particular case the book publishers are the suppliers and book sellers are companies such as Borders. With the growing popularity of eBook purchases publishers are becoming more inclined to produce eBooks rather than printed books since not only is far cheaper to produce eBooks they can be distributed far easier and faster than normal books. As such this could mean reduction in the number of books actually printed increasing the price which as a result would cause more people to opt to use eBooks rather than normal books.

**The intensity of competitive rivalry**

Lastly Porter states that it is the intensity of the rivalry within a particular industry that helps to determine whether a particular industry is competitive.

In the case of the book retail industry competition has not always been intense, the market has always been dominated by large chains such as Borders or Barnes and Noble which effectively crowd out smaller bookstores within a particular area and cause them to go out of business. In the case of online retailing and traditional brick and mortar stores history appears to be repeating itself once again as a crowding out effect can be seen with online retailers of books and eBooks effectively crowd out traditional brick and mortar stores due to their lower prices.

### **Section 3: Value Chain of OR (Online Retailer)**

As mentioned earlier one of the advantages online retailers have over traditional brick and mortar enterprises is the fact that since most of its operations are online this reduces the need to hire more employees to attend to customers since most of the functions are largely automatic. In terms of operational capacity online retailers can reduce or expand rather easily through changes on their online website whereas traditional brick and mortar enterprises require significant capital investments.

In this particular case the inbound flow of products for the eBook retail industry is different as compared to traditional retail methods since most of the products are primarily digitized. As such delivery, storage and sale of the product are completely done through an online automated process that enabled both product and consumer to be instantly connected resulting in immediate consumer satisfaction. Marketing for particular eBooks are conducted through online ad providers such as Google Ads which immediately target specific consumers that are most likely to purchase that particular eBook based on search queries and Google's proprietary advertising algorithm. Sales in this particular case are conducted over an online E-commerce platform that enables thousand of transactions at any given time resulting in stores such as Amazon. com to be able to service a lot more customers at any given period as compared to traditional book store outlets. Maintenance in this particular is a rather simple due to the fact that it merely consists of checking site content to make sure everything is working the way it should.

## **Section 4: Value Chain of the BAM (Brick and Mortar/ Traditional Retailing)**

For brick and mortar industries the value chain takes the form of inbound logistics consisting of determining which particular books will entice what particular customers and determining methods of purchase, delivery and storage. Unlike the inbound logistical structure of online retailers inbound logistics for normal book retailers involves significant cost and limitations due to storage limits and the fact that only a set number of books can be bought at any one time as compared to the online retailing of eBooks where a potentially unlimited source of revenue can come from a single eBook that is replicated over and over again. In terms of its operational structure most brick and mortar book sellers utilize various forms of personnel such as floor assistants, cashiers and managers which are added operational expenses as compared to online retailers where the automated process makes the hiring of such individuals largely redundant. Outbound logistics in this particular case involves ensuring a particular book is available for purchase resulting in the inevitable sale. This also takes into account customer relations, store ambience and overall method of sale in order to properly sell off stock. Marketing for traditional book sellers takes the form of normal advertising campaigns such as fliers and TV ads while sales in this particular instance involves the traditional method of retail involving direct consumer interaction.

## **Section 5: IT Innovation of OR (Online Retailer)**

Traditionally the buying and selling of products and services has always occurred either through a face to face transaction, a letter of intent or even a

simple phone call where a person places an order and pays upon delivery. Due to advances in technology where the scale and scope of the retail industry has come to encompass a global market place the traditional processes by which this industry has always followed has started to change (Fulbright, 48).

The internet has brought an unprecedented level of interconnectivity on a global scale through which more and more transactions such as banking and even retail are conducted online. Sites such as Amazon. com, Ebay, Craigslist and numerous other online retail suppliers are able to sell items such as computers, books, desks, clothing and even furniture online all of which are growing indicators of a shift in consumer preferences from buying their wants and needs through traditional stores to picking the convenience of the internet for all their shopping needs (Fulbright, 48). As a result numerous companies have shifted various levels of their retail operations to online stores in order to compete with their rivals and take advantage of this growing trend.

When dealing with online retail operations it must be noted that such methods of selling to customers does not suffer from the regular limitations that normally affects in-store selling (Fram & McCarthy, 25) . One aspect of regular retail stores and outlets is that they require employees in the form of cashiers, stock clerks, baggers, store managers and an assortment of other personnel within the store that enables a store to operate and give a customer a pleasant shopping experience. With an online store a company is able to save money on employee salaries, benefits and bonuses since the entire process has been automated using computers resulting in the

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potential for a greater product to profit ratio due to the lower costs involved in operations (Fram & McCarthy, 25). In fact most online retail stores employ skeleton crews of website editors, procurement specialists and online marketers which enable the company to run a website with fewer employees needed yet are able to display their products in a much more efficient and attractive way than in a store and are able reach a much larger market due to online marketing campaigns (Fram & McCarthy, 25).

Another problem attached with in-store retail is the fact that utilities such as electricity and rent come into play when taking into account the cost of running such an establishment. With online retailing most of the framework of a site is either run off servers which requires much less electricity than a retail outlet and there is no rent involved (Fram & McCarthy, 25). The only cost involved in such a venture would have to be the cost of the domain name or in the case of rented online capacity the cost of cyberspace which is actually negligible considering the fact that the cost of putting up an online retail store today is equivalent to only a quarter of a single employees salary in most retail outlets in the U.

S. Finally and one of the most important factors is that a website unlike a store never closes, it is open 24 hours a day 7 days a week and is capable of catering to a global consumer base unlike an ordinary corporate retail store that can only accommodate customers within the immediate area.

## **Section 6: Impact of OR's IT innovation on the industry**

This particular situation is not without precedent, evidence of this shift into online retail transactions can also be seen in online movie rental companies such as Netflix.

Netflix.com which started in the late 1990's and currently dominates the movie rental company in the U. S. which was previously monopolized by movie rental giant Blockbuster. While companies at turn of the 21st century were reluctant to change their business models from that of traditional retail services to online transactions due to the uncertainty of the technology at the time the eventual collapse of Blockbuster's market share in movie rentals as well as the growing market share of sites such as Amazon.com and Audible.

The billions of dollars provided enough impetus for companies to enact changes in their marketing strategies and methods of sale. For publishers and book sellers the impact of online retail can be seen in the growing proliferation of eBook readers and online eBook purchases with eBooks climbing to \$441 million in total sales for 2010 alone (Kho, 30). Various studies examining the use of E-commerce platforms reveal that the amount of users utilizing E-commerce as a primary method of retail continues to grow on a yearly basis with more products continuously being available online (Kho, 30). As such it can be expected that within the upcoming years eBook sales will eclipse book sales due to the affordability and convenience that they provide to customers.

## **Section 7: Competitor's Reaction and Forecast**

It must be noted that the bankruptcy of Borders cannot be wholly attributed to the proliferation of eBooks but rather its negligence in following trends in online retail purchases. Before eBooks became a growing part of the publishing industry online retail stores such as Amazon. com enabled users to browse through various online selections of books, read excerpts, user reviews and provided customers with the convenience of next day delivery (Farwell, 36).

This level of dynamic interactivity and convenience not present in bookstore chains such as Borders appealed to the publishing industry's main consumer base which as a result lowered the amount of consumers patronizing various Borders chain stores (Farwell, 36). It was a combination of the neglect on the part of Borders in following purchasing trends, the growing popularity of E-commerce utilization and the convenience and affordability that eBooks provided that directly contributed to the bankruptcy of the chain itself. It must be noted that other bookstore chains such as Barnes and Noble have attempted to stay afloat by placing more of their content online in the form of NookBooks and having their own eBook reader. Such a strategy has actually enabled them to become marginally successful in the eBook industry however Amazon. com is still the leader in online sales (Kennedy, 15). One factor to consider in all of this is that despite the growing popularity of eBooks within the U. S., Canada, Europe and Australia printed materials are still widely popular in developing countries such as those in South America and the South East Asian nations (Kennedy, 15).

Bookstore chains such as PowerBooks in the Philippines have shown robust sales with few consumers within such countries actually opting to purchase online readers or make their purchases online. While it can be considered that this is merely a case of technological catch up the fact remains that developing and newly industrialized countries seem to be prime locations for bookstore chains that do not want to directly compete against the sales platforms utilized by online retailers such as Amazon. com

### **Section 8: Concluding Paragraph**

The findings of this research paper show that due to the current trend in online sales and purchasing behavior it can be expected that the growth of eBook sales will eclipse that of traditional printed books within the coming years. It can already be seen in various instances that eBook sales are no longer being limited to just novels but are encompassing textbooks as well which is indicative of this particular type of published material as being the modern day replacement for books. There are two possible solutions in this particular case for traditional bookstore chains to continue to remain in business.

The first solution would be to try and rival the online sales of eBooks by sites such as Amazon. com. The inherent problem with this particular solution is that Amazon.

com already has a significant share of the online consumer market and as such it would be difficult to be in direct competition with them. Another possibility would be for bookstore chains to shift their operations away from locations such as the U. S. and Europe where eBook usage is prevalent and

instead setup operations in developing and newly industrialized countries where the use of eBooks is not as prevalent. This way these chains continue to remain viable without having to directly compete against online retailers such as Amazon.

com.

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