

Impact of online grocery sales to the retail sector

[Business](#), [Company](#)



1. Introduction Grocery shopping has been regarded as stressful and as a chore (Aylott and Mitchell, 1998). This fact suggests that it would be reasonable to expect consumers to eagerly embrace the convenience brought by online grocery retailing. Surprisingly, however, the uptake of online grocery services has been slower than anticipated. In the UK, online consumer expenditure accounted for only 0.4% of the whole £95 billion UK grocery market (Peppers and Rogers, 2001). Even for Tesco, the most successful online grocery retailer, the internet division represents only less than 2% of its total group sales (Rigby, 2005). So why is this the case? This report will seek to evaluate the impact of online sales within the grocery sector, using examples of both successful and unsuccessful supermarkets to support the conclusions made. It will analyse the different fulfilment models of online supermarkets, the adoption models they can use, the barriers they face, the impact on employees, the advantages and disadvantages of adopting e-commerce, the change in supermarkets relationships with their customers and suppliers and finally, the industry wide effects on competition. It will then present some management recommendations, outlining what decisions a store needs to make when deciding whether to extend their business plan to cover electronic commerce.

1.1 Fulfilment models

A key element of online supermarkets is how fulfilment is handled. There are 3 models available (Boyer et al, 2003):

1. 'In-store picking'. This involves using stores owned by the online supermarket itself or its partner(s).
2. Serve the online supermarkets customers by building a dedicated picking centre. A company can serve a wider area and reduce the cost of picking, but this requires a significant upfront investment.
3. Hybrid

model. This is an operational option between in-store picking and a dedicated fulfilment centre (Yrjola, H, 2001) which is created by incorporating local distribution centres into the traditional grocery supply chains. It requires the redesign of the supply chain for various product groups. The overall supply chain costs can be reduced by bypassing some stages for the picking for online customers (Tariskanen et al, 2002) The problem of home delivery represents a major challenge for any B2C e-commerce (Punakivi and Saranen, 2001) . An important aspect is the delivery time window offered to customers. Tesco, the largest home delivery grocer in the world, has store proximity to 96% of the UK's population (Boyer et al., 2004). Employees use special carts called ' picking trolleys' mounted with screen guides and ' shelf identifier' software constructing them to where to pick the items in a list (Scott et al., 2006; Hays et al., 2004; Hoyt 2001). After a study undertaken by Feng and Yousept in 2004, where they interviewed senior managers of two global supermarket retailers, they found out that there has been a noticeable change towards ' Martini' Style Shopping: Anytime, Anywhere and Anyhow. The business scope of most supermarkets has been expanding rapidly, often in goods/services that have never been thought of previously, such as utilities, telecoms, financial services and even travel. Supermarkets are utilising their online arms to create a new bundle of products/services to offer life-style solutions. This is referred to as ' grocerification', convenience with a high value for money (Feng and Yousept, 2004). This in turn makes it possible for supermarkets to provide a personal service to different customers. 1. 2 Adoption models Feng and Yousept (2004) have also identified 3 adoption models of online

supermarkets: 1. Virtual pure plays. These are non-supermarkets that come to the online supermarket arena with an online-only offering e. g. TheFoodFerry 2. Baby e-supermarkets. Those online-only subsidiaries of existing supermarkets with their own brand name; the parent supermarket can continue to operate in existing ways. (Christensen and Raynor, 2003) argued that such a model ensures adequate resources and attention to the new venture. However, it is important to recognise that the baby e-supermarket will need to build a customer base from scratch e. g. Ocado from Waitrose. 3. Hybrid models. This is the most widely adopted model. Existing players extend their offline operations to include online offerings under the same brand name. The bulk of their business still comes from the traditional channels. Nevertheless, they seek growth from online customers e. g. Asda@Home, Sainsbury's To You, Iceland. com, Tesco. com and WaitroseDeliver. 1. 3 Barriers to entry Moving on to look at the barriers to online supermarkets, we can see that Jackson et al, 2003 have identified three measures supermarkets will have to make when considering incorporating electronic commerce into their business. Firstly, security and performance are vital. They will need to be continuously perfected, and players must change their customers' mindset to confidently adopt virtual shopping. Secondly, the supermarket will need to fully develop their infrastructure. Integration between their online shopping systems and the back end processes is crucial. Finally, it is important for the store to accelerate their strategic learning and optimise their processes (Torsilien and Lucier, 2000). Players need to fully eliminate problems in deliveries and product picking and minimise customers' complaints. 1. 4 Impact on

employees When we consider the impact on employees in incorporating virtual shopping into the company, we have to recognise that there is a danger, as with any kind of e-Business, that the technology is regarded as both the primary ends and the means. Many companies have underestimated the impact of the 'people factor' and appear to be rather slow in addressing HRM issues. As a result, many employees could feel dissatisfied, undervalued and disgruntled. (Jackson et al, 2003). According to Ulrich (1989) companies need to pay far more attention to selection, including e-skills, and development, i. e. employees should have the desire and expectation that they will continuously acquire new skills and learn. Getting close to the customer is often proclaimed as one of the key objectives of e-Business, therefore HRM approaches need to help to facilitate knowledge sharing and good internal employee relations, as well informed, well trained, competent and satisfied employees are more likely to deliver 'authentic' service. (Jackson et al, 2003)

1. 5 Advantages and Disadvantages

The advantage of online grocery shopping for consumers includes convenience and higher quality fresher food (Boyer et al., 2004; Fishman, 2005; Laseter et al., 2003; Tanskanen et al., 2002). Although the first time online order takes about an hour, consumers save time by reusing their shopping lists, resulting in subsequent orders averaging only 20 minutes (Boyer et al., 2004; Ellis, 2003; Fishman, 2005). Other online conveniences offer the ability to: add to the saved shopping list over several days, e-mail lists to other family members, comment on items, receive personalised coupons, sort items by calorie count or nutritional information such as sodium content, order the ingredients for 'one click meals' automatically

from online recipes (Entrikin, 2002, Fishman, 2005, Internet Retailer, 2004). Furthermore, food is fresher and of higher quality when processed under strict temperature control and shorter supply chain in online grocers' distribution centres. Marketing cost reductions occur because the cost of retaining loyal customers is considerably less than the cost of acquiring new customers, and also because the costs of servicing the needs of experienced customers typically declines as the life cycle of the relationship with the customer progresses and as their confidence and knowledge grows. Developing customer loyalty is arguably particularly important in the food-retailing sector, as grocery shopping is typically a repeat purchase activity. (Rafiq et al, 2005). The downside for customers is that they cannot physically handle the products, and have to wait for them to be delivered. (Varley and Rafiq, 2004). Consumers often have to buy in bulk to offset the costs of delivery (Pavitt, 1997). If consumers are disappointed in their online experience they may stay away indefinitely and also discourage others from trying online grocery shopping. (Scott et al, 2006). In the grocery market one of the biggest costs is that of putting a customer's order together. This is a labour-intensive process and has prevented many would-be internet retailers from entering this market. Special refrigerated transport is required because of the perishable nature of some of the merchandise. This is in addition to the cost of delivery and ensuring that the customer is at home when the order is delivered. Another major cost for non-store based retailers is the high rate of returns, which can be as high as 30-40%, therefore internet retailers need to build this into their cost structures. (Varley and Rafiq, 2004). This also relates to substitution for items out of stock which is a

problem online since the picker does not know what would satisfy the customer. For example, non-delivery of an item needed in a recipe will annoy customers, but substituting a different brand may also result in dissatisfaction (Scott et al, 2006).

1. 6 Critical decisions

The first decision a retailer has to make is whether to use an information-only site or a full transaction site. A full transaction site may not be appropriate because it does not fit well with existing operations or with the needs of target customers. For example, Aldi would find it difficult to maintain their low cost base with the additional costs of maintaining a transactional internet site and a new delivery system. Also, Aldi's value-conscious customers are less likely to be able or willing to pay the additional cost of delivery. In addition to the cost of building and maintaining the site, delivery systems and secure online credit payment systems have to be put in place. (Varley and Rafiq, 2004)

Other retailers, however, have successfully integrated their online stores with their existing stores. E. g. Iceland Frozen Foods transmits online orders to the nearest store to the customer where the orders are picked and packed and then delivered the following day to the customer. Other stores such as Sainsbury's view the online store as a new channel of distribution that requires its own systems. Some retailers, like Wal-Mart for example, have gone even further and organised its online business as a separate unit. This allows them to take advantage of the internet and offer a much larger range of merchandise than the conventional stores. Logistics take on a new importance because of the need to develop home delivery systems, and mass sales order-processing requires new systems and skills. Due to this, it may be the case that there is a need for recruitment from the supermarket

in order to meet customer demand e. g. the recruitment of drivers to deliver the ordered items to the customer and office staff to monitor the frequency of online orders made in order to manage logistics efficiently and effectively.

1. 7 Effects on competition As we continue to look at the industry wide effects on competition, we can see that many store-based retailers have realised that a dual-channel approach is essential in the new competitive environment as it gives a competitive edge over store-based-only retailers and entirely-virtual retailers. Virtual retailers encounter far more intense competition as customers have access to any number of virtual retailers on the Internet, therefore a strong brand image is of the utmost importance. This is one of the reasons why virtual retailers spend up to 25% of their revenues on advertising compared with 3-5% for conventional stores (Varley and Rafiq, 2004). A strong brand provides assurance to potential customers of the trustworthiness of the retailer, the quality of its products, and reliability of delivery and after sales service. This is important given that potential internet shoppers are very concerned about credit-card security. Offering unique merchandise allows retailers to differentiate themselves from competitors, builds customer loyalty and makes it difficult for shoppers to make price comparisons. Traditional retailers with online trading sites who already have well-developed own brands have a distinct advantage in this area. (Varley and Rafiq, 2004). 2 Conclusions A majority of consumers still seem reluctant to use, or regularly use, the internet for their grocery shopping (Huang and Oppewal, 2006) Retailers in the UK who have ventured into the online business have shown mixed results. Tesco was the first grocery retailer in the UK to enter the online business and is now the biggest

online supermarket operator in the world. It has been in profit since 2001. It delivers groceries from local stores, and non-grocery items from its warehouses (Rowley, 2003). Its innovation of an online community (iVillage), and an online interactive magazine targeted at parents and parents-to-be (You and Your Child) are seen as initiatives to replace and exceed social interactions in-store (Rowley, 2003). However, Tesco ran into trouble with Web-site availability. The Web servers were occasionally jammed with traffic and with orders for out-of-stock items. The grocer responded by expanding the Web infrastructure and integrating it with inventory systems, so that customers seeking out-of-stock merchandise were informed immediately, not after their orders were already placed. (Scheraga, 2000) From the financial point, there is yet to be seen a significant business benefit case for online supermarkets when compared to the overall supermarket retail business (Jackson et al, 2003). The overall conclusion would be that this is a rapidly evolving area with a lot of uncertainties, therefore further studies are needed.

3 Management Recommendations

It is important to note that if a store decides that they would like to set up an online sales environment, they will have to be willing to take a risk and begin to market their products online as well as in the physical store. This can expand their customer base and achieve a high level of customer satisfaction with greater attention and service. I would recommend that stores such as Morrisons, who do not currently have an online presence, should firstly ensure that they are able to make the initial investment needed in order to set up the website, and also address consumers' expectations in designing it. Once the site has been established, it is vital that the store ensures financial security of its online

transactions as customers are increasingly aware of how important this is. It may also be a good idea to run a pilot scheme whereby the company sets up an online sales environment which covers a small area of the country. In this way, they will be able to evaluate how well they met their key deliverables and resolve any issues which may have been raised. Once these have been resolved, the company could then expand the geographical area they cover, raising greater customer awareness and loyalty. One of the reasons for the low uptake of shopping online seems to be the delivery fee that grocery retailers charge. A survey conducted by PriceWaterHouse Coopers (Clarke, 2000) indicated that 46% of internet users cited free delivery of large orders as the factor that most likely will entice them to use an online grocery service in the future. New entrants to the online sales environment could therefore consider the possibility of offering free delivery on orders exceeding a certain amount. I would also recommend that the company incorporate training schemes into their HRM approaches. For example, employees who have been hired as drivers will need to ensure that they understand the processes involved i. e. time windows in which they will need to deliver orders. It will also be necessary for them to make sure they know the current market well and ensure that they can 'beat the competition' when it comes to promotions, delivery charges, staff morale and customer loyalty.