

Question 1: Mega-stores and non-store retailing fall at opposite ends of a theoretical spectrum. Explain what is meant by the "theoretical spectrum."

Retailing spans a range that includes physical stores, and non-store retailers. At one end of the spectrum are the big-box (over 10,000 sq ft) superstores, including category killers such as PetsMart, that dominate a particular product group by offering many options in a particular category, and discount stores, such as Wal-Mart, that offer low prices on a wide range of goods.

The opposite end of the spectrum are nonstore retailers that include mail order firms, automatic vendors, telemarketers, door-to-door sales, electronic catalogs, cybermalls, interactive kiosks, and e-commerce websites.

The middle of the spectrum includes the vast majority of traditional retail stores, such as department stores, grocery, and the small-box (less that 10,000 sq ft) boutique shops that carry a particular type of product, such as florists, shoe shops, and jewelers, for example.

Question 2: Why are the companies in the middle of the spectrum not as successful?

Relationship management is the heart of sustaining a retail advantage with busy, time-compressed consumers, and the Internet provides customer relationship advantages not readily available to stores in the middle of the retail spectrum.

Research firm Jupiter Communications released a study in August 2006 (Evans, 2006) showing that consumers are likely to spend $630 billion annually in traditional retail channels as a direct result of researching products on the Internet . In other words, traditional sales are likely to boom from the Web's influence, so middle-spectrum retailers should seek to combine traditional and electronic retailing methods. A company needs to tap into that market in order to stay ahead; for all practical purposes, if a retailer does not have an Internet presence, the retailer does not exist for a growing number of consumers.

"Skeptical retailers … are often blind to the most important issue - specifically, the degree to which their online efforts will affect their off-line business," Ken Cassar (Ibid), a senior analyst with Jupiter said. "Online consumers are a very powerful audience and tend to be channel-agnostic. And as consumers increase their use of the Internet, the opportunity for the Web to influence their online and off-line shopping behavior grows. Simply put, businesses must integrate across channels."

Question 3: Give examples of traditional retailers that are successful and explain why.

There are three ways in which traditional retailers are enjoying success: Creating new, alternative strategies; embracing the e-commerce model; and, fully exploiting their core competencies.

Alternative Competitive Strategies

Traditional retailers must look to explore alternative strategies, such as exploiting areas of weakness in on-line shopping. As an example, there are plans to develop retail mega-sites into theme-park leisure complexes with sports facilities and cinema complexes, with the objective of making shopping part of a day-out with the family. Metreon, recently opened in San Francisco, could be a model for retail stores of the future. Developed in combination with Sony, the store is described as “A Sony Entertainment Centre”. It claims to offer an “interactive entertainment experience”, consisting of a range of interactive shops, 15 state-of-the-art movie theatres, a SONY·IMAX® theatre, restaurants and a number of interactive attractions for all the family. This is more than just a place to purchase. It is a completely new shopping experience (Godfrey and Walsh, 1999).

Getting On Board With e-Commerce

Competition from pure-play e-tailers, catalogs and large national chains building an e-commerce presence give traditional retailers little choice but to build their own e-commerce capabilities (Gilbert, 2000). Establishing an e-commerce presence is a competitive necessity to reach new and existing customers, and to gain greater customer loyalty. “Conventional shopkeepers”, says Michael Silverstein of the Boston Consulting Group, “are starting to recognize that their most profitable customers...find the convenience of an online offering complementary to an in-store experience.” (BCG, 2001)

Websites run by conventional retailers—once considered dinosaurs of the bricks-and-mortar age—are growing the fastest. “Bricks and clicks” is a business strategy or business model in e-commerce by which a company attempts to integrate both online and physical presences. It is also known as click-and-mortar or clicks-and-bricks. Some of the leading bricks-and-clicks retailers include Cabela’s, Wal-Mart, Target, Circuit City and Best Buy.

- On August 1, 2006 Cisco Systems announced a benchmark study (Conroy, Maddox and Parker) that reveals new trends in online shopping sites. Cabela's, known well to the outdoor community, came out as a clear leader, providing a strong online look, feel and brand image consistent with store and catalog experiences. At the same time, the company performed well in back-office processes such as shipping and returns processing.
- The rise online of Wal-Mart, the world's biggest retailer, is being closely followed by its chief supermarket rival, Target, which now operates the fourth-most-popular retail website in America (Economist, 2005). Far from wrecking retailers' businesses, the web plays to their strengths. Besides attracting an online purchase, the Web is also used by ordinary retailers as a relatively cheap way to advertise and attract consumers to their

physical stores. Both Wal-Mart and Target also use the web to test the market for certain products before they send them to their stores (Ibid).

- Circuit City was a pioneer of the “pick-up in-store” option, which is proving increasingly popular with internet shoppers. Around half the customers buying goods online from Circuit City collect their purchases at a shop (Ibid).
- John Walden, president and chief executive officer of bestbuy.com, says that its merchandise -- stereos, CD and DVD players -- translate well to Internet shopping. "Success to Best Buy is not measured by revenue. It's measured by how many consumers have experiences that are favorable, and that they are able to make a purchase on the telephone, Internet or catalog," Walden said (Chartier, 2000). Best Buy established bestbuy.com as a separately managed company and hired people such as Walden, who have experience with both traditional retail and so-called "pure-play" Internet-only companies. The way to make it work, Walden said, is to integrate e-commerce with traditional retail. An example he pointed to was placing Internet kiosks in the stores so that if a customer can't find that Busta Rhymes CD in the store, they can walk over to the kiosk and order it online (Ibid).

Core Competencies

Whether or not a traditional retailer implements an e-commerce strategy, either by integrating it into its current business model, or by developing it as a separate marketing channel, it must not abandon its core advantages and assets, which include (Frank, Mihas, Narasimhan, and Rauch, 2003):

1. Existing supplier networks.
2. Existing distribution channels.

3. Brand equity.
4. Stability. People trust them more than pure on-line firms. This is particularly true in financial services.
5. Existing customer base. Because existing firms already have a base of sales, they can more easily obtain economies of scale in promotion, purchasing and production; economies of scope in distribution and promotion; reduced overhead allocation per unit; and shorter break even times.
6. A lower cost of capital.
7. Learning curve advantages.

Conclusion:

Whichever strategy a retailer chooses, it must mobilize its organization into thinking and acting differently. The Internet has changed the retail environment. The balance of power has shifted. The customer reigns. "Leading retailers understand that 'customer experience' is the next competitive battleground," said Mohsen Moazami, vice president of retail IBSG, Cisco's business consulting group (Conroy, Maddox and Parker, 2006). Thus, as predicted by the Aberdeen Group (2005): "…traditional retailers must respond to these changes or they are in danger of becoming extinct."

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