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The Retail Stores: Are they still relevant

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Abstract

As the consumers continue to demand sophistication and ease, there is enormous drift from off-line shopping to on-line activities. Taking the stock of the trend, the e-retailers aren't leaving any stone unturned, providing customers the seamless shopping experience. The "Clicks" seem to have majorly replaced the "Bricks", given to the price benefits and diversified assortment available on-line. While e-retailing heads towards its best and even retail giants taking the Omni-channel approach to keep up with the trend, we try to figure out what happens to the store based retailing. Do they still have something different to offer or they have simply fallen prey to the innovative way of shopping on-line. With the help of various studies & researches conducted globally, we try to show if store based retailing is still relevant and appealing to the consumer. The study shall also answer the most prevalent question asked, that's whether physical retailing has any growth opportunities.

Keywords: Retailing, E-retailing, Clicks, Bricks

Introduction

The internet and mobile phone use are fast changing the way people go about shopping. People can order almost anything online and have it delivered in just acceptable time span. The main drivers of this shift in shopping behavior have been the consumers looking for convenience, novelty and value. Which seem to be quite accessible given to the easy access to web, enhanced download speeds, improved shipping and secured online payment methods. Facing the competition & innovation from the e-commerce giants like Alibaba and Amazon, the store based retailers have been forced to think. The stores are now rethinking their marketing strategies and going beyond the traditional set up of delivering the product through physical stores. There has been the drift towards the Omni-channel retailing giving the customer an option to interact with a brand in many different ways.

The physical retailers have fallen prey to the "showrooming", a deceptive activity of consumers wherein they visit the store just to check the product and its specifications and order online at economical prices. This has resulted in physical stores opening their own online versions and to give incentives to the consumers to buy in store, which reduces further the already wafer thin margins they get on sales.

Although internet sales are booming day in and day out, however security concerns are yet to be fully resolved. Many consumers are doubtful about the security of the credit/debit card information they furnish online while shopping. To overcome this hassle, new payment methods are being presented. PayPal is dominating the market with people trusting its alternative web payments. Digital wallets like Google's instant buy reduce the purchase process by blending many payment steps. All this being done to make the e-tailing seamless adding to the worries of the store based retailers.

In this study our focus would be the traditional store based retailing and would try to know where does it stand in comparison to the innovative and convenient version of it, that's e-retailing. The study must shed significant light on the future of the traditional retailing given to their existing strategies to stay relevant. Taking the examples from various case studies on global retail giants, we would answer the question why do people still believe in impulse buying and what do retailers do to expedite this behavior.

Objectives

The study has been undertaken purely to know the current status of the store based retailers. We try to know if they are still relevant to the virtual customer of 21st century.

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The study shall describe their stand in the market by comparing them with e-retailers. In other dimension the study has been undertaken to know what keeps physical stores alive in the market, given to the fact that e-retailing is booming and snatching the fair share of market. By the end of the study one should also be in a position to say where does traditional retailing lag and where does it stay ahead. Taking various readings, case studies and researches published in renowned journals and books under consideration, our objective would be to know what store based retailers can do to capitalize in the market and beat the threat of going irrelevant.

Literature review

As a sophisticated and interactive medium, the internet accessed by personal computer is showing every sign of being accepted as a mainstream shopping mode by an increasingly computer-literate society. Using the internet to access information has been accepted as part of everyday life for many sectors of society, and in the process of shopping it has become very useful to customers as a way of accumulating information about retailer's product and service offerings in a relatively fast and convenient manner (Rosemary, Rafiq). Suddenly the debate is no longer about organized retail versus unorganized retail but between traditional retail and e-retail. E-retail has grown at an exponential rate; for instance, Amazon registered 500% growth in India. Almost mirroring "Veni, vidi, vici", ("I came; I saw; I conquered"), online retail proclaims its triumph citing phenomenal increase in revenues and how the present \$5 billion market of Indian online retail is set to jump ten times to \$50 billion by 2020 (Prashant Singh, 2015) [4]. With the popularity of online shopping, someone with an idea for a new retail business no longer has to open a storefront. That does not mean, however, that there is no longer a need for retail stores or that all business ideas work well online. If you are looking to open a store, you must consider your product, the consumer and your overall business goals when decided whether a retail storefront or online store will work best for your small business (Stacy Zeiger). In December (2011) issue of HBR, Darell K. Rigby in his article, "The Future of Shopping", while speaking about the transition of shopping behavior from physical Stores to virtual stores, says, Each wave of change doesn't eliminate what came before it, but it reshapes the landscape and redefines consumer expectations, often beyond recognition. Retailers relying on earlier formats either adapt or die out as the new ones pull volume from their stores and make the remaining volume less profitable. Speaking further in the article about the growth of the e-retailing, Darell writes that the research firm Forrester estimates that e-commerce is now approaching \$200 billion in revenue in the United States alone and accounts for 9% of total retail sales, up from 5% five years ago. The corresponding figure is about 10% in the United Kingdom, 3% in Asia-Pacific, and 2% in Latin America. Globally, digital retailing is probably headed toward 15% to 20% of total sales, though the proportion will vary significantly by sector. Moreover, much digital retailing is now highly profitable. Amazon's five-year average return on investment, for example, is 17%, whereas traditional discount and department stores average 6.5%. Shelly Banjo and Paul Ziobro in their article "Shoppers are fleeing physical stores" published in Wall Street Journal on Aug. 5 (2014), write that the pressure on

traditional stores comes as consumer tastes are changing. Instead of wandering through stores and making impulse purchases, shoppers use their mobile phones and computers to research prices and cherry-pick promotions, sticking to shopping lists rather than splurging on unneeded items. Even discount retailers are finding it harder to boost sales by lowering prices as many low-income consumers struggle to afford the basics regardless of the price. Countering this article, Darell K. Rigby in another article "E-Commerce is not Eating Retail" published on Aug. 14 (2014) in HBR, says, "Regrettably, the scary articles completely miss the real story. Though the e-commerce growth rate is attractive, it has slowed from about 30% per year in the early 2000s to less than half that rate today. If the trend continues, e-commerce sales will increase from 11% of Forrester's top 30 categories to about 18% by 2030—higher in some (such as music) and lower in others (such as food). While 18% is a significant number, it does not exactly spell the end of physical stores.

Bricks & mortar-still a game

In his article "E-tailers won't be able to push brick-and-mortar businesses towards irrelevance", Sunil Gupta (A faculty chair, General Management Program) from Harvard Business School, writes, "While it is true that online stores can afford to sell products at discounted prices- as their infrastructural costs are only a fraction of what retail stores incur-it's unlikely that the e-tailers will push the brick-and-mortar business towards irrelevance". As he says, people would most definitely miss the in-store experience, if they cease to exist. And this is also going to affect the manufacturers who use the physical stores to showcase their product. The manufacturers would also then have to set up their own stores, which is certainly going to be an expensive proposition.

Further while proposing how stores can stay relevant, he says, it would just be reasonable for retailers to charge manufacturers a fee to showcase their product and if this Pay-For-Space system is established, stores could even match the online price for many product categories.

There is however a strong limitation to the application of this concept. The pay-for-space concept may just work fine with retailing giants like Wal-Mart, Sainsbury's. However, the small and medium scale retailers may not just do good on this given to the fact that manufacturers do exercise control on their business and in-store operations. We speak of the administered Vertical Marketing System (VMS) here, where an established brand manufacturer can even dictate the shelf-space inside a retail store.

The hidden stuff

Retail industry has been completely transformed by the digital technology. The consumer finds it easy to discover, purchase, use and return the products through these digital devices. There is no doubt that more and more customer transactions are taking place online and e-commerce sales have grown to almost 6% of the total retail sales. But one should know that about half of these online sales belong to store based retailers. Many large store based retailers like Macy's have adopted multiple channel approach and are growing their e-commerce sales faster than even Amazon. Many projections about the e-commerce growth are ambiguous and it gets difficult to differentiate the online sale from its traditional version. If a customer goes to the

Tata's Croma store, learning that Laptop he wanted to buy is out of stock, uses the Smartphone to order the product from another Croma store which delivers the product to him on the same day. We need to be fair enough to decide whether this is e-commerce sale or physical one.

The lower price and economic advantages are often ascribed to the e-retailers. However, after analyzing the profitability of e-retailing giants like Amazon, research has found that price advantage comes from lower profit margins not the lower costs. The costs that e-retailers incur in shipping & distribution, information technology, order and return processing can actually go as high as running physical stores.

E-retailing-a compliment to physical retail

The e-commerce doesn't annihilate the store based business, rather they act as compliments. The multiple channel approach to customer interaction doesn't need the stores to have enormous foot falls. The significant percentage of their sales coming from online orders keeps them valuable. This is primarily the reason why many companies that originally began as e-retailers (Atheleta, Flipkart, and Bonobos) have added physical stores. The definite blend of physical and digital innovation is created by the retailers to outperform both store only retailers and internet only retailers. This strategy is paying them off and no company can afford to ignore it.

The gap between the Bricks and Clicks is narrowing down and it won't be any wrong to call them the "Briclicks" stores. Omni-channel retailing is intensifying as retailers strive to create seamless shopping, whereby consumers could access their brands anywhere & anytime. By using same product assortment, prices and promotions across all channels simultaneously helps retailers gain consumer insights and develop a better profile of their needs and preferences.

The online and offline retailing are just two facets of global retailing: conflicting yet complimentary.

Offline shopping is not just shopping

While most of the researchers and experts ascribe economic and time saving advantage to the online retailing, they regrettably ignore the social and aesthetic aspect of it. They see shopping from just the need basis, which is however not true. For significant percentage of global customers, shopping is not just an act of buying, it rather an opportunity to get along with people, it is time to break apart from their busy life schedules and hectic work life and spare this time for their own self.

The online shopping won't do it for a traditional Indian housewife, who has been busy in home making all throughout the week, waiting for her husband's weekly off from the office. Neither would it do for her husband, who is desperately waiting for weekend with his family, nor for the kids. An evening out to the mall with thousands of people from different backgrounds, races, colors & languages in sight, interaction with sales person & fellow customers, exposure to wide different assortment of products that they have possibly never seen before, experiencing the merchandise through their "bare hands and naked eyes" than through the laptop screens, smiles and dirty looks from people around – is actually what creates their shopping experience, not the buying experience.

As Rew Sheivachman in his article, "people are still key to successful retailing" quotes Adam Pressman (Principal-A.T. Kearney) saying, "Technology will play a greater role than before, but I don't think it will take the place of person-to-person interaction. About 80% of transactions are still taking place in a brick and mortar environment."

Conclusion

We conclude our discussion by saying that although e-commerce industry is growing leaps and bounds, it is still infant and in flux. Except few of the big players like Amazon, market is still fragmented and won't be able to push the physical retailers out of business. Further, the physical retailers are themselves adapting to the changing consumer preferences and are now the Omni-channel retailers integrating the best of both digital and physical worlds to provide seamless customer shopping experience. These "Briclicks" stores are likely to enjoy significant advantages over other retailers that try to pursue either Clicks or Bricks alone or both independently. For these multiple channel retailers as Darell (2014) ^[1] says, websites and mobile apps are not just e-commerce ordering vehicles; they are rather front doors to the stores. Also the Stores are not just showrooms, they are digitally-enabled inspiration sites, testing labs, purchase points, instantaneous pickup places, help desks, shipping centers, and return locations.

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