



International Journal of Technology for Business (IJTB)



Will E-Commerce Dominate Physical Store?

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Abstract

The world of retail is undergoing a phase of unprecedented crisis, due to rise of E-commerce. In order to survive the changes due to E-commerce and the huge digitalization process, retailer stores need to reshape their business idea and their approach at the same time. However, a fairly large number of physical stores have failed. The goal of this article is to determine if E-commerce will dominate physical stores. The scope of this article includes: where does traditional retail hold power? Is the E-commerce world an opportunity or a danger for traditional trade? Will there be physical retail store in the future or not? The research started by analysing the statistics on E-commerce in Italy and Spain, highlighting how societal needs are changing and how physical stores are adopting to these, we identify and examine these trends that will shape the retail landscape in the following 5 – 10 years. The findings of this research indicates that physical stores will not go away for sure rather will work together in a win-win situation.

Keywords: E-Commerce, Physical Retail Stores, Reverse E-Commerce, Business, Technology

Introduction

Nowadays E-commerce is growing popular in economies such as Italy, Spain and in general throughout the European continent. In 2019, there were more than 4 billion internet users around the world. Much of the growth of internet users have been encouraged by more affordable smartphones and mobile data plans. More than 200 million people got their first mobile device in 2017, and two-thirds of the world's 7.6 billion populations now have a mobile phone. As a consequence, more people have access to e-commerce. But can E-commerce dominate physical stores? As we are rapidly stepping towards digitalization, people are becoming more aware for how to

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First Online: 10 June 2020 © The Author(s)

DOI: 10.5281/zenodo.3894442

use the technologies in terms of phones, laptops. People are becoming more aware about the online shopping websites in both urban and rural communities. It is more convenient to purchase an item just sitting at your place, where you are saving time plus money too. To understand how much E-commerce affects physical stores it is necessary to understand that there are 4.3 billion people in 2018 who bought online. The heart of E-commerce is represented by the Asia – Pacific region. In two European countries, Italy and Spain, the number of people that buy through E-commerce channels is constantly growing (Business Insider, 2019).

In Italy E-commerce is lagging behind somewhat. Online consumers are about 38 million (about 62% of the population). However, as E-commerce grows there has also been simultaneous increase in purchases in shopping centres (+39% compared to 2018). The penetration of E-commerce within Italian retail is equal to 5,7% and according to “Confesercenti”, an Italian association that represented Italian retail company. 18,7% of physical retail stores have also established an online sales channel. During the last year the companies that work and sell exclusively via internet were 17,925 (+8,4% more than 2017). According to the statistics Spanish E-commerce is constantly growing; more than 67,4% is an “e – shopper”. E-commerce’s penetration in Spain is worth 27.96 billion of euro last year and the expectation for the next year will be a growth of about 20%, which indicates that E-commerce in Spain will be worth 33.56 billion at the end of 2019 (Casaleggio Associati, 2018).

1.1 Definition of E-commerce

Electronic commerce or e-commerce refers to a wide range of online business activities for products and services (Rosen, 2000). It is also pertaining to any form of business transaction in which the parties interact electronically rather than by physical exchanges. Other than buying and selling, many people use internet as a source of information to compare prices or look at the latest products on offer before making a purchase online or at a traditional store. E-commerce is the means of doing business electronically. (Lindsay, 2002; Dobbs et al., 2013). But this latter definition is not comprehensive enough to capture recent developments. A more complex and exhaustive definition is the following “E-commerce is the use of electronic communications and digital information processing technology in business transactions to create, transform, and redefine relationship for value creation between or among organizations, and between organizations and individuals” (Lallana, Quimbo & Andaman, 2000).

Electronic commerce is a "business methodology that lends itself to users, and organizations to reduce costs, improve the quality of products, services and services and at the same time reduce delivery times". If seen in this light electronic commerce is the system for finding information in response to any and in support of any managerial or corporate decision (Rosen, 2002).

1.2 Main differences between E-commerce and Traditional Retail

In order to evaluate if E-commerce will be an enemy for every traditional retail store it is useful to understand the impact of E-commerce in society and in the world of trade. To some E-commerce is like an “equalizer” able to connect start-up, small and medium sized firms, that are geographically dispersed but connected via computer networks, with the whole world. An online shop is able to give a wide choice of product compared to physical shop. The former is able to conduct a more strategic target marketing but above all it is able to reduce its costs. According to the statistics of Institute for Local Self – Reliance if a physical store expends 49 employees per each 10 million of sales, an E-commerce shop expends only 23 employees for the same amount of sales.

In addition, an E-commerce shop requires less capital investment and operation costs make online shopping sites more profitable. Hence, they can provide more services to customers than a physical store. By contrast, even if the growth of online stores is faster, 90% of the sales is being done through physical stores. Let’s try to explain the reason behind this trend. In consumer’s point of view, the biggest advantages are the facility to touch and try

products, even if finding things in online stores is much easier. Secondly physical stores allow to have a stronger and interpersonal relations among customers and retailers (Deloitte. 2018; Forbes, 2019). By contrast E-commerce enable each of us to make more appropriate purchasing decisions because it makes information on products ever available and accessible and increases price transparency. It is convenient, more profitable and time saving for consumers because; you can buy any product even if you live in a remote area. If you ordered something online a few years ago, it would take at least a few days to arrive. Today, the normal delivery time has become 2-day. However, innovators like Amazon has talked about half an hour delivery which might revolutionize the existing model. With that short delivery times, shopping online can becoming more convenient, and it will increase the future demand. For people living in rural areas, small towns, the products they want aren't available near their locations, hence e-commerce is the best method of shopping for them. Among the weaknesses of E-commerce are returning and exchanging products in online stores. A customer needs one hour to go to the shop and change her/his product but for E-commerce a customer might need 2 – 4 days. Furthermore, another strength E-commerce is CRM tools (Customer Relationship Manager), that help and support the collection of customer data in order to profile each of them. As a consequence any online store is able to know and involve purchase preferences and almost every aspect of consumer behavior. As the latest E-commerce statistics show, the world's commerce continues to move online at steady rate (Figure 1), supported by several factors (Fredricksen, 2013; Nielson. 2019).

- The total value of global retail E-commerce sales will reach \$3.45T in 2019.
- E-commerce retail sales are expected to account for 13.7% of global retail sales in 2019.
- By 2040, around 95% of all purchases are expected to be via E-commerce.
- There are between 12M to 24M E-commerce sites in the world.
- On average, only 2.86% of E-commerce website visits convert into a purchase.
- 85% of consumers conduct online research before making a purchase online.

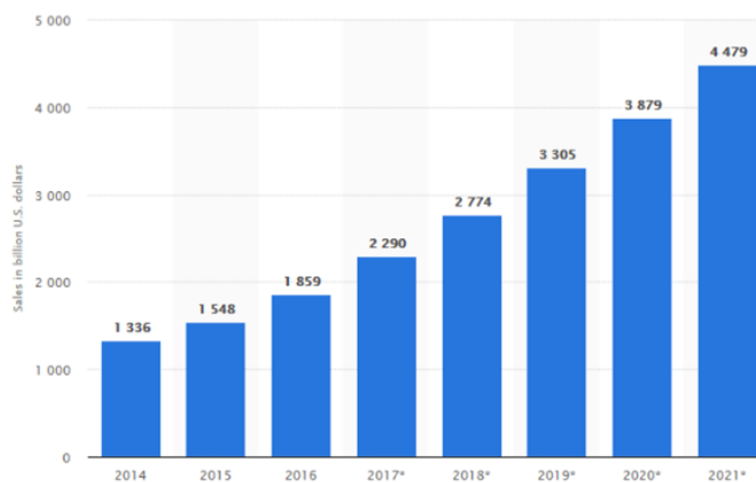


Figure 1. Retail E-commerce sales worldwide from 2014 to 2021 in billion USD (Edi2xml, 2019)

At the moment, more than 60% of the world's population is not connected to internet. Once they connect to online, e-commerce's growth will further increase and its expansion will be unstoppable. If we analyze the retail sector and its mainly players, namely shopping centers and street retailers, we can observe that the revenues of shopping centers and street retail have dropped from a maximum of 6.4% to 5% to a minimum of 5% to 3% (approximately). In addition, so far this year retailers have announced over 8,600 store closures. In the next 10-20 years this trend will probably continue to worsen for the retail sector. The world of retail is going through a phase of unprecedented crisis, due to the rise of E-commerce. The situation could worsen to

a point of no return, in which customers move away from in-store shopping experience for many product categories.

1.3 Where does traditional retail hold power?

Even if physical stores still dominate, at least for now, researching and buying of most product categories are done online by many customers. Customers check products online and only few of them buy, as a consequence the conversion rates is low. But in the case of physical stores, conversion rates is high. Despite the huge quantity of articles and research findings warning about the death of Traditional Retail stores, it is clear that for some product categories, a physical store will likely remain the preferred way of shopping for some time. But which categories? According to the Global Consumer Survey product categories that are most likely to be searched for and/or purchased online, and those for which the brick-and-mortar store remains the dominant channel are divided into four different types namely (Zhou, Dai & Zhang, 2007; KPMG, 2018; Walkowska, 2019):

- Established: this product categories are predominantly bought and searched for online.
- Restrained: this category includes products that are researched for online but are less likely to be purchased over the internet. An example of products included in this category is household appliances.
- Brick-and-mortar: as the name makes clear, are those products for which the internet does not yet dominate the research or buying process. Within this category there are: food and drinks, sporting goods or furniture and household goods.
- Emerging: the last quadrant represents goods that are that bought online but not usually researched online

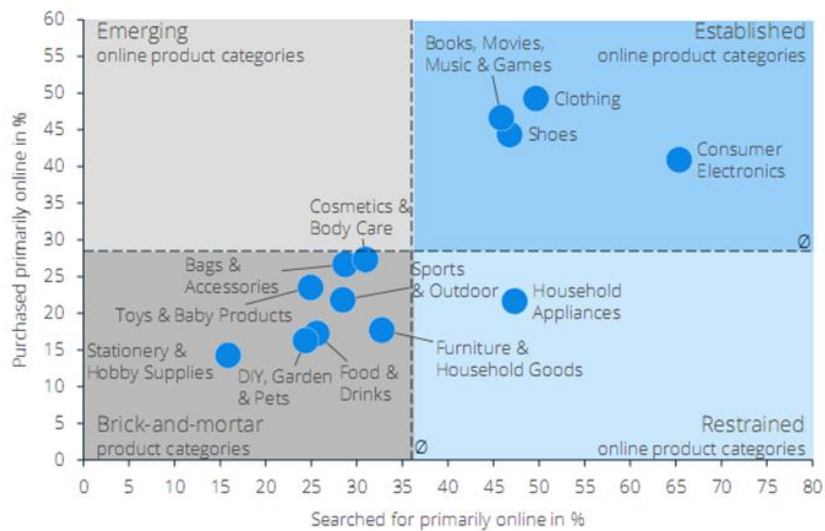


Figure 2. Product categories by online purchase and research behavior (Open Bravo, 2019)

Figure 2 gives us a snapshot of just how far E-commerce has penetrated certain product categories. But we don't know if the future is inevitably going to be bleak for every brick-and-mortar retailer. If we analyzed clothing, within the category there are some exceptions. For example, Primark, the Irish retailer specializes in value fashion, it has 350 stores in 11 countries and notably does not sell online. Primark in the next financial year, plans to open another 14 stores. So, for Primark - as for many others retailer - the advantages of brick-and-mortar retailing are sufficient that it does not feel the need to embrace E-commerce. There is no doubt, physical experience can build customer loyalty more effectively as a consequence, many among the biggest online retailers are trying to enter and attract their customers by building large physical stores. The term "Dry to Store" indicate the tendency of many online retailers, such as Amazon, to encourage and attract customers in a physical retail store. More and

more retailers allow customers to make purchases by introducing a new technological method called Click & collect. This mechanism allows customers to buy any type of product and pick it up personally to avoid delivery costs and delays. This kind of approach is very much appreciated by consumers.

Amazon opened its first Amazon Go physical retail store in Seattle, USA and expects to open more than 400 of such stores in the following years. There are six main reasons to this new trend of online stores. Partly it is to increase brand awareness; in addition, there is a scope for sales increase.

2. Case study: Traditional Retail vs E-commerce in Spain

Thirty years ago, traditional shops accounted for 66% of high-consumption outlets. Let us clarify before that when we speak of traditional shops, we mean those stores of reduced surface, not more than 200 square meters with service assistance, small and deep assortment and with a relatively high price level. They were usually family-run commercial establishments and are located in close proximity to the consumer. According to the consultancy firm Nielsen, the Spanish population currently makes purchases in supermarkets and hypermarkets, which represent 45% of the places where they execute the purchase. During the last 30 years, traditional trade has declined considerably in favor of supermarkets, which have increased their presence tenfold, as well as hypermarkets, which have grown by 500 per cent since 1985. We all know what a supermarket is, it is an establishment with more surface than a traditional shop, occupying up to 2,500 square meters. There are several chain establishments. Its assortment includes some 2,000 consumer references, mainly focusing on food, personal hygiene and household cleaning products. They have manufacturer brands and distributor brand products. Some products are sold in an assisted manner but have self-service (Futures Platform, 2019; Forbes, 2018). The price level is relatively lower than that of a traditional trade because they have the capacity to negotiate and because they have a lot of brand distributors. Unlike traditional shops, they allow online home shopping.

In the case of hypermarkets, they have large surfaces area of more than 2,500 square meters, the assortment is much wider. If we said before that a supermarket offered about 2,000 references, in a large hypermarket this multiplies by seven times. We can find a bit of everything (apart from what we find in a supermarket) as for example textile, shoe store, appliances, electronics, there is a lot of distributor brands and a lot of main brand. During the last three decades we have seen that the brand of the distributor has gone from 8% of sales to 38% of what is sold annually in the consumer market. The price of products is quite low for the same reasons discussed earlier with supermarkets. The location is not close to the consumer, normally a car shift is required.

At present in Spain, large online consumer sales represent not even 1% of the total market, but the forecasts of the General Manager of Nielsen Iberia are positive as there are more than 20 million potential buyers. About five years ago Ulabox was born, an online supermarket where you can save time and money by shopping through its website. A few days ago, the company launched its first ad campaign based on the concept of "The Super Is Dead". The Grey Barcelona agency has been in charge of the campaign. Likewise, the famous American e-commerce company Amazon, has launched in Spain an online store for Food and Home Cleaning competing with the large distribution companies that sell online such as Carrefour, Mercadona or El Corte Inglés and with online supermarkets like Tu Despensa or the previously commented Ulabox.

3. Results and Discussion

We can say that the fundamental advantage of electronic commerce over traditional commerce is the possibility of exponentially increasing sales (international and national) through a much more limited investment in resources. In this way, with the same investment, companies manage to have a brand presence before a wider, more international public, without being subject to the conditions of the premises of their own physical stores. Another advantage is that customers, both online and offline, has increased thanks to the high visibility that

characterizes the internet, and therefore, the disappearance of geographical barriers. In addition, online websites can have more information about the products, customers can compare prices and features with others, have a wider range of products, and have more discounts throughout the year. In terms of disadvantages, we find that in the online business the competition is much greater. Also, there are many consumers who prefer to see the product and still distrust online payment. Regarding loyalty, this is much more difficult because its promotion requires more work than a physical store. We have dealt with the current panorama related to E-commerce, mentioning Spain, for example, and in this way we see that online commerce is making its way into the global market. The differences among online shops and physical retailers are becoming increasingly subtle and imperceptible.

4. Conclusions

In conclusion, both digital and physical stores continue to play important, if not always equal, roles in the shopping journey of modern consumers. Physical store will not go away for sure. Instead the present trend indicates that physical stores and E-commerce sector will work together in a win-win situation. Why is that? First, because the internet gives you a lot of information about your clients and it would be a pity if you didn't take advantage of it face-to-face to advise them and offer them exactly what they are looking for. The future is to identify the consumer and record their steps in both businesses. Secondly, there is no major difference between the online and offline consumer. The same person can come to physical establishment, try on a coat, go up to the subway and buy it online from his/her mobile phone. One has to assume that the real and virtual world are more connected than ever.

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