

ONLINE STORES AND THEIR DEVELOPMENT STRATEGIES

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ABSTRACT

The Internet provides retailers with potentially powerful opportunities to boost sales, increase market share, and generate new business through new services. One of the challenging questions that retailers are facing in that respect is how to organize the logistic fulfillment processes during and after the transaction has taken place. Based on a survey of 55 online retailers (both traditional and Internet-only) this paper investigates the distribution strategies of these different retailer types. This includes the use of infrastructure not particularly designed for delivery to Internet customers like stores and store warehouses, the logistics outsourcing strategy and the company’s choice of delivery area. The independent variables studied are the delivery lead times offered to customers, the assortment choice, the number of Internet customer orders and the company type (traditional retailer or not). It is argued and demonstrated that the distribution channel for Internet customers should be integrated with existing operations, but for larger Internet order volumes, traditional retailers should switch to direct-delivery distribution centers. The outsourcing and delivery area decision appear to be mainly determined by the complexity of the assortment. Index Terms— Distribution, e-commerce, empirical research, retail, strategy.

THE INTERNET

Is becoming increasingly important as a new sales channel. Currently, the Internet is only responsible for a minor segment of the \$2.2 trillion retail market. This segment is, however, projected to grow 50 times faster than in-store shopping. In May 2000, The Gartner Group stated that consumer purchases via the Internet were worth \$20 billion in 1999 and predicted a rise to \$147 billion retail in 2003. The predictions of

the different marketing research organizations are, however, far apart. One year earlier, Forrester Research, for example, estimated business-to-consumer (BtC) Internet sales much lower and predicted a worldwide turnover of \$3.2 billion via the Internet in 2003. What they have in common is the prediction of the fast growth of BtC e-commerce transactions. According to a Taylor Nelson Sofres study of 32 000 people in 27 industrialized countries, about 27% of the people are online. Ten percent of the net surfers shop online in a month. Four types of companies that sell online to consumers can be distinguished. 1) Product manufacturers, such as Dell (computers), Unilever (cosmetics, products with high added value), Numico (food additives), BOL (books, media). Direct sales to customers, without using stock-keeping intermediaries, are still not very common for manufacturers. In order to investigate good potential choices for an Internet company 's distribution strategy, we will work out the research model presented in Section II in more detail. The dependent variable in the research model is the distribution strategy, which is split in three different subconstructs—distribution channel, outsourcing strategy, and delivery area. One indicator only measures the subconstruct “distribution channel,” namely the use of one or more direct delivery warehouse. It has value 0 if no such warehouse is used and 1 if one or more such warehouses are used for picking and distributing orders to Internet customers. The indicator “transport in-house” (0=transport outsourced, 1=transport in-house) measures the outsourcing strategy. Delivery area is measured by one binary indicator, namely local/regional shipment (delivery area=0), and national/international shipment (delivery area=1). From this overview, we see that most online retail companies in the sample can be found in the U.S., U.K., The Netherlands, and Germany. Most companies are active in “food” (i.e., supermarket-like products). Traditional and web-only retailers are both represented well within the sample, as well as both distribution channel types.

CONCLUSION

In this paper, we have formulated a research model for the relation between the customer service, the company 's internal organizational complexity and the existence

of a traditional distribution channel on one hand and choices for the company's distribution strategy on the other hand. Three indicators for three different subconstructs (the distribution channel, the outsourcing strategy, and the delivery area) measure the distribution strategy. In order to investigate the validity of the model sketched in Fig. 1, hypotheses were formulated, which were tested on a small sample of 55 online retailers. For the independent constructs Service level, Internal operational complexity and Existence of a traditional distribution channel, 5 binary indicators were used, four of which appeared to have significant association with the dependent variables. Also the dependent indicators were measured as binary variables. We can conclude that a positive association between service level, internal operational complexity, existence of a traditional distribution channel and the distribution strategy could be established. This means that companies with complex assortments tend to keep the transport planning in-house [hypothesis 1(a)] and deliver on a local/regional scale [hypothesis 1(b)]. In case the online retailers have short delivery lead-times, they also mostly deliver locally.

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