An Empirical study of E-retailer’s impact on the brick and mortar retail stores in South Goa

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ARTICLE DETAILS

ABSTRACT

E-retail is a part of a huge domain called E-commerce which conducts business over the internet. With the revolution of information technology, information can be accessed and transmitted at an incredible speed. E-retailers have developed many new innovations to attract customers to buy their products, due to which the online market is growing at a fast pace. On the other hand we also have the traditional stores which sell their products to customers in a physical shop. The brick and mortar stores enhance the face to face impression with their customers. This study aims to study the various business models adopted by the E-retailers and their impact on the brick and mortar retail stores in South Goa. Data interpretation in the study has been done using simple statistical tools.

1. Introduction

Today the E-retail is a part of a huge domain called E-commerce which conducts business over the internet and so, people have made every aspect of their daily life as easy as a click of a mouse and the touch of a finger. Technology has advanced so much so that with these touches and clicks products reach the doorstep of many homes. This in turn has fuelled the internet economy, thus bringing in the E-retail stores. On the other hand, we have the brick and mortar stores. These are the traditional stores which sell their products to customers in a physical shop. The brick and mortar stores enhance the face to face impression with their customers. It has been defined that “Brick and Mortar store establishments are physical locations that execute business operations through a constructed storefront. These stores also embrace the in-person customer experience, offering company associates and accessible inventories”. With the popularity and growth of the online market, brick and mortar stores have also entered the E-retailing market as a defence strategy. The acquisition of e-tailing gives brick and mortar stores a multi-retailer channel format and helps them overcome the boundaries of a physical store.

2. Objective

1. To study the Business models adopted by E-retailer’s in India.
2. To analyze the impact of E-retail stores on the brick and mortar retailers (using a sample of South Goa).

3. Research Methodology And Data Sources

The methodology used for obtaining data for this study is convenient sampling method. A structured questionnaire was distributed to the sample population. The samples were selected using the method of convenient sampling. For the sample of brick and mortar retailers:

Streets in (Margao, Colva, Benaulim, and Navelim) were surveyed and 50 retailers were selected at the researchers convenience. The primary data collected was analyzed using simple statistical methods. Secondary data was sourced from newspaper articles, books, e-journals and websites.

4. Review Of Literature

P. Sathish Chandra and Dr. G. Sunita (2012), their study focuses on growth of the e-retailing and how the retailers have shifted to the e-retailing market and increased their presence online in order to attract more customers. It was found that large e-retailers have adopted strategies in which they increase product and service offerings in their existing portfolio and achieve economies of scale. It was found that E-retailers were trying to avoid margin pressure by focusing on differentiation in products and services provided (e.g., through product ratings, product descriptions and pictures, payment options and shipping).

Dalal, M (2015) talks about how the discounts provided by the e-retailers have created a huge loss for them and that they may not be able to profit till 2020. The report says that an online retail sale has been boosted due to the explosive growth in smartphone penetration that enables access to huge number of untapped shoppers. E-commerce sites such as Flipkart, Amazon and Snapdeal have reported sales growth of more than 100%, which has been said to be driven by persistent advertising and deep discounts leading to a huge loss.

Mishra, D (2015) his article revolves around the idea that deep discounts should not be a long term strategy for e-tailers. A survey on retail industry conducted by PwC India, suggested that E-retailers need to adopt a new long term business strategy that does not involve deep discount. Despite huge funding from investors, majority of the e-retail companies are reported to be running a loss causing investors to pressurize them to cut down on discounts and concentrate on making profits. The study also suggests a strategy that involves customer data analytics and customized consumer enhancement tools for the long run.
5. Business Models Followed by the E-Retailers

1. Inventory Owned Retail Model.
   According to this model the retailer has control over the product. That is having physical inventory. This enables a superior post-purchase consumer experience. This model assures that the stock level is visible; the exact location of the product and it makes it easier to pick, pack and ship the product to its customers. Although this model is cost ineffective, it helps the e-retailers to build trust and credibility of their consumers. This kind of model enables e-retailers to deliver faster and with higher accuracy.

2. Market Place Model
   The marketplace model is an online marketplace which is a secure and transactional website wherein third party sellers sell their goods and services to customers. The transactions made by the buyers are processed by a marketplace operator and is often delivered by the supplier. These suppliers could be individual traders, large-scale manufacturers or anything in between. Different from conventional websites, the marketplace model shifts the burden of maintaining logistics, inventories, product descriptions and pricing to the seller. This marketplace model uses an order booking mechanism. Under the marketplace model, the goods are displayed, the orders and payments are collected, the orders are sent to the sellers, the delivery is tracked and finally the sellers are paid after deducting a fee. One of the reason that e-retailers are shifting to this model is because India does not allow FDI in e-retail sites that sell products directly to the consumers. This model allows FDIs in an e-retail marketplace which acts as a platform for other companies to sell their products.

3. Hybrid Model
   There is a huge gap between e-retail stores and brick and mortar stores. The hybrid model, which is the fusion of offline and online retailing, is now being used by e-retailers to close the gap. Thus the hybrid model involves the retailers who sell their goods and services online as well as offline. This means most business transactions use both the mediums for sale. Retailers using the hybrid model are those whose traditional businesses often are combined with an internet front-end and the brick and mortar back-end. The hybrid model is used as a way to split the risks of advertisers and publishers.

4. Deep Discounting Model
   Deep discounts actually mean a higher discount than the normal discounts. Deep discounting is a strategy wherein high discounts are provided to customers in order to attract more buyers. This strategy is used by e-retailers to sell low priced products in large quantities. Many e-retailers are able to demand price discounts from their suppliers and accordingly make this deep discounting strategy effective. This strategy could also backfire and turn harmful for the retailers since it could negatively affect profits. This strategy was widely used by many e-retailers as their aim was to increase sales and widen their consumer base. However recently many sites are adopting other strategies and curtailing discounts in order to make profits.

   Some of the marketing models used by the E-retailers
   The Inventory model was popular in the past with big e-retailers like Myntra, Flipkart, Amazon using it, however these sites have either replaced or used a hybrid business models.
   Flipkart and Amazon follows a combination of marketplace model and hybrid model.
   Snapdeal and EBay follow a pure marketplace model. The hybrid business model is used by several websites like Lenskart, Healthkart, Cartrade, Caratlane, Firstcry, Craftsvilla, Bluegape and now even Amazon are a few e-retail sites that follow this model. The deep discounting model was widely used by many e-retailers like Flipkart, Amazon, Myntra, and Snapdeal. However this year many of the e-retail sites are reported to be shifting to other models and decreasing the discounts they offer.

6. Tabular Representation of the data:

<table>
<thead>
<tr>
<th>Variables</th>
<th>Alternatives</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.5A. Classification of Retailers according to the Type of Store</td>
<td>Specialized</td>
<td>80%</td>
</tr>
<tr>
<td></td>
<td>Department</td>
<td>8%</td>
</tr>
<tr>
<td></td>
<td>General</td>
<td>12%</td>
</tr>
<tr>
<td>1.5B. Classification of Retailers according to Products Sold</td>
<td>Clothes</td>
<td>46%</td>
</tr>
<tr>
<td></td>
<td>Electronics</td>
<td>4%</td>
</tr>
<tr>
<td></td>
<td>Groceries</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>Sports &amp; fitness</td>
<td>4%</td>
</tr>
<tr>
<td></td>
<td>Home décor &amp; furniture</td>
<td>4%</td>
</tr>
<tr>
<td></td>
<td>Books &amp; magazines</td>
<td>4%</td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td>38%</td>
</tr>
<tr>
<td>1.5C. Classification of Retailers according to Sales Performance</td>
<td>Increased</td>
<td>36%</td>
</tr>
<tr>
<td></td>
<td>Decreased</td>
<td>12%</td>
</tr>
</tbody>
</table>
In the above given table 1.5A. Majority of the retailers interviewed have a specialized store i.e. 80%, followed by general store with 12% and lastly department which is just 8%. In 1.5B. Most of the retailers surveyed sold clothes i.e. 46%, followed by other, which comprises of gift and toys, with 38%. A few of them sold electronics, sports and fitness products, home décor and furniture and books and magazine i.e. 4%. None of the retailers sold groceries. In 1.5C. 52% of the retailer said that their sales have been relatively stable for these past few years. 36% of the retailers said that their sales have increased over the past few years and the remaining 12% said that their sales have decreased over the past few years. In 1.5D. All the retailers said that they knew about online shopping. In 1.5E. a whopping 92% of the retailers have said that they are not already a part of the e-retail supply chain. Whereas a relatively tiny portion (8%) revealed that they are not part of the e-retail supply chain. In 1.5F. Majority of the retailers (60%) felt that the concept of brick and mortar and e-retail will change over time, while 40% of the retailers felt that the concept of brick and mortar and e-retail will not change over time. In 1.5G. From the list of strategies provided in the options of the questionnaire, 40% of the retailers chose an improvement in their presentation. 30% chose to provide more discounts. 17% chose advertisements. 10% selected other strategies. Just 3% chose to sell through other mediums.

<table>
<thead>
<tr>
<th>Classification of Retailers according to the Strategies that they would adopt to counter the impact of e-retailers</th>
<th>Relatively stable</th>
<th>52%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling through other mediums</td>
<td>Yes</td>
<td>3%</td>
</tr>
<tr>
<td>Advertisements</td>
<td>No</td>
<td>17%</td>
</tr>
<tr>
<td>Provide more discounts</td>
<td>Yes</td>
<td>30%</td>
</tr>
<tr>
<td>Improvement in presentation</td>
<td>No</td>
<td>40%</td>
</tr>
<tr>
<td>Other</td>
<td>No</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: Primary data.

The above figure 1.6A. Shows us that majority of the retailers (40%) ranked product quality as the first rank, which means that they feel that the highest advantage that they have over e-retailers is their product quality. A small majority of the retailers (36%) ranked direct interaction with the customer as the second rank. Instant delivery was selected as the third rank by most of the retailers. 40% of the retailers selected the after sales service or guarantee as the fourth rank. 32% of the
retailers have selected product quality as the fifth rank. Equal number of retailers (4%) have selected after sales services or guarantee and product quality as the sixth rank.

The above figure 1.6B. shows us that most of the retailers i.e. 40% chose lower prices as the first rank which is the highest advantage that they feel that the e-retailers have over them. A little more than half of the retailers (52%) selected the all-time shopping accessibility as the second rank. A little less than half of the retailers (48%) ranked ease of price and quality comparison as the third rank. Wider variety and payment security were both ranked at number four by a small majority of the retailers (28%). A little less than half of the retailers have ranked payment security as the fifth rank.

In the above figure 1.6C. Almost half the retailers (51%) answered that they would provide good services to their customers to gain their loyalty. A little less than quarter of the retailers (21%) said that they would provide after sales services, whereas a few of the retailers (18%) said that they would offer special discounts to gain their customers loyalty. Even fewer retailers (5%) said that they would start a loyalty system or other strategies to their customers.

7. Key Findings

In this study the Author(s) have found out that, Initially e-retailers had started of with the inventory-owned business model. However, due to the cost ineffective nature of the model, e-retailers had to adopt more innovative models. One of them being the marketplace model, where the e-retail sites acted as an interface that allowed only third party sellers to sell their goods and services. One of the main reasons for adopting this model is that India only allows FDI in an e-retail marketplace which acts as a platform for other companies to sell their products. The latest model that has emerged is the hybrid model which is the fusion of offline and online retailing. This model is being used to counterweigh the limitations of brick and mortar stores. In the past the deep discounting model was popular among the e-retailers, however, due to the losses made e-retailers have chosen alternative methods to make profits. All the retailers that were interviewed were aware of the
presence of e-retailers. The retailers said that their product quality and direct interactions with the customers offered them an advantage over the e-retailers. Whereas, the lower prices (discounts) and all time shopping accessibility offered e-retailers an advantage over them. The retailers also said that they would improve their presentation or provide more discounts to counter the impact of e-retailers. Majority of the retailers say that e-retailers will not replace brick and mortar stores. Due to such reasons, many of the e-retailers are setting up brick and mortar stores. Majority of the retailers are not part of the e-retail supply chain and have not considered collaborating with the e-retailers.

8. Conclusion

The E-retailers have been using various business models some of the most common ones are the marketplace model and the hybrid model. The brick and mortar retailers hold an advantage over the E-retailers in terms of product quality and direct interactions with the end customers. Greater part of the retailers speculates that the concept of brick and mortar and e-retail will change over time.

9. Suggestions for Brick and Mortar Retailers

Brick and mortar stores could adopt an Omni-channel approach and sell their products through many mediums. They can also improve their in-store experience by upgrading their customer service and strategies by using customer feedback data that is available.

References