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Internet retailing: the past, the present and the future

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Abstract

Purpose – The primary aim of this paper is to critically review the literature that explicitly addresses the adoption, application and impact of Internet technologies, by retailers, for the promotion and sale of merchanidise. In particular, this study seeks to: 1) present a holistic and critical review of the early predictions, with regard to the uptake and impact of Internet retailing; 2) critically reappraise these claims in light of current trends in Internet retailing; and 3) explore where e-tailing may be heading in the coming years.

Design / Methodology /Approach – The study adopts an extensive and critical review of the literature, with regard to the adoption, uptake and impact of Internet retailing, as published in the academic literature over the past twenty years.

Findings – In hindsight it can be seen that many of the original predictions, made at the dawn of the Internet era, have not become a reality: retailers aren't cannibalising their own custom, virtual merchants aren't dominating the market-place, and the high-street hasn't, as yet, been put out of business. By contrast other predications have come to pass: electronic intermediaries are playing an increasingly important role, 'one-to-one' marketing has become a reality, prices are more competitive, and perhaps most importantly the consumer has become more powerful.

Research limitations / implications – Providing a brief review of the past, present and future of on-line retailing is an extremely ambitious undertaking, especially given the vast amount of literature that has been published in this area. In attempting to provide an overall impression of the broad themes, and most important findings, to emerge from this important body of literature, it is inevitable that we will have either missed or underplayed many important pieces of work. Consequently, there is a need for follow-up studies that aim to provide deeper and richer reviews of more narrowly defined elements of this vast landscape.

Originality / value - This study presents one of the first and most thorough reappraisals of the initial literature with regard to the likely development, implications and impact of Internet retailing. Moreover the paper seeks to break new ground by attempting to use the current literature to help predict future directions and trends for on-line shopping.

1. Introduction

It is now widely recognised that the Internet's power, scope and interactivity provide retailers with the potential to transform their customers' shopping experience [Evanschitzky et al, 2004; Wolfinbarger and Gilly, 2003], and in so doing, strengthen their own competitive positions [Doherty & Ellis-Chadwick, 2009; Levenburg, 2005]. The Internet's capacity to provide information, facilitate two-way communication with customers, collect market research data, promote goods and services and ultimately to support the online ordering of merchandise, provides retailers with an extremely rich and flexible new channel [Basu & Muylle, 2003]. In so doing, the Internet gives retailers a mechanism for: broadening target markets, improving customer communications, extending product lines, improving cost efficiency, enhancing customer relationships and delivering customised offers [Srinivasan et al, 2002]. By and large, consumers have responded enthusiastically to these innovations [Eng & Kim, 2006; Soopramanien & Robertson, 2007], and on-line retail sales have grown significantly over the past fifteen years, and are predicted to continue rising into the future [Ellis-Chadwick & Doherty, 2002; Ho et al, 2007].

Serious attempts to trade on-line started to emerge in the mid 1990s when innovative, technically savvy companies responded to the opportunities and challenges posed by the Internet, to develop sophisticated web-sites to serve customers, in their homes [Rayport & Sviokla, 1994]. However, looking back, nearly two decades, to when this fast-paced electronic business environment was just starting to evolve, its ultimate success must have looked far less certain. There were plenty of predictions, many of them highly optimistic, about the scale, scope and impact of this virtual business world, but there was also a growing recognition that its destiny could only be clearly discerned, when answers were provided to the following questions:

    i.   To what extent will the virtual world change the principles of retailing? Will it displace existing retail formats or serve as a natural complement to current marketing practices [Burke, 1997]?

   ii.   What types of people, in terms of their demographics and attitudes, are most likely to become regular Internet shoppers [Jones & Vijayasarathy, 1998]?

  iii.   How will retailers develop strategies that are appropriate for an on-line environment, in terms of channel co-ordination, segmentation, pricing and promotional strategies [Peterson et al, 1997]?

  iv.   Will Internet retailing eventually replace, or radically reconfigure, the high street [Angelides, 1997]?

Over the past fifteen years such questions have been regularly addressed and revisited, and a significant body of literature has now evolved, which provides us with a far clearer understanding of the role and impact of on-line trading. However, to date, there have been few, if any, concerted attempts to revisit the many original predictions and forecasts, to determine, with the benefit of hindsight, which were prescient, and which were contradictory,

exaggerated, or just plain wrong. Against this backdrop, the broad aim of this paper is to revisit the many predictions proffered at the very outset of the Internet computing revolution, and to critically reappraise them from the standpoint of the recent literature. In so doing, this review presents a timely and comprehensive re-evaluation of the uptake and impact of e-retailing, which is then used as a point of departure for contemplating how retailing might further evolve, and affect the high street, over the next decade. It should be noted that when researching and writing this paper, the terms '*Internet retailing*', '*e-retailing*', '*electronic shopping*', '*Internet shopping*' etc, have all been used interchangeably, because this is how they are employed in the wider literature.

The remainder of this paper is organized as follows. The following section briefly discusses the emergence of Internet retailing, which is then used as a springboard for presenting a critical review of the many predictions that were being made at this time. A discussion section then follows, in which each of these predictions is reappraised, in light of the current literature. The paper concludes by reflecting on the likely future directions of Internet retailing, and then briefly considering the implications of an ever more vibrant and sophisticated Internet marketplace from the perspective of the retailer, the customer and finally, the academic.

2. Emergence of Internet retailing

From the very beginning, the potential of the Internet as a radically different and a highly effective communications channel appeared obvious: global reach; ease of access; enhanced interactivity, flexibility and speed; ability to communicate large amounts of information, cost efficiency and ease of maintenance [Pyle, 1996; Jones & Visayasarthy, 1998]. Such capabilities were soon to be harnessed in a wide variety of sectors, such as defence, banking, manufacturing, healthcare and education. However, it was quickly recognised that it was amongst retailers that the most significant impact of the Internet was likely to be experienced. More specifically, retailers soon realised the Internet's potential to provide information, facilitate two-way communication with customers, collect market research data, promote goods and services and ultimately to support the online ordering of merchandise, provides an extremely rich and flexible new retail channel [Doherty & Ellis-Chadwick, 1999]. According to Pyle (1996), the Internet's *'global connectivity opens up new avenues for business in a manner that traditional commerce conduits cannot match'*.

Although electronic shopping didn't emerge in any organised and substantive way until the mid 1990s, its arrival had been widely heralded for many years, beforehand. Indeed, almost thirty years before it did eventually burst onto the retail scene, Doddy and Davidson [1967] had presented a powerful vision of how the future of retailing lay in consumers directly using computer terminals to order their goods directly from central warehouses. Despite experiencing a lengthy period of gestation, and a significant amount of prior hype, when electronic-commerce did eventually become a reality, its actual arrival still generated a huge amount of interest amongst academics, politicians, industrialists, bankers, managers,

entrepreneurs, and particularly retailers. Ultimately, it was the Internet's unique 'capacity to deliver tangible economic gains' [Vijayasarathy and Tyler, 1997] that was the primary catalyst for the explosion of interest and activity in electronic business. Particularly when it became clear that the Internet could deliver: distribution efficiency; assortments of complementary merchandise; collection and utilisation of customer information; and the ability to offer unique or unusual merchandise [Alba et al, 1997].

Whilst the potential of the Internet as a vehicle for promoting goods and capturing sales was clear, early commentators also recognised that there were many significant barriers and hurdles that would need to be overcome before this state of affairs could be achieved. For example, Cockburn & Wilson, [1996] worked on mapping business use of the Internet and found the lack of security of Internet sites and the absence of suitable online payment systems, coupled with slow connection times and limited access to the Internet by potential customers, were all significantly impeding its commercial development. Jones & Vijayasarathy [1998] agreed that consumers had serious concerns about the security of Internet retailing, but also expressed serious doubts about the legitimacy and longevity of some Internet businesses. To this growing list of concerns, Nath et al [1998] added worries about the legality of transactions, and the lack of reliable information on the effectiveness of this paradigm for conducting business.

Despite these many drawbacks, the general tenor of the literature was broadly positive [e.g. Benjamin & Wigand, 1995; Anderson, 1995; Evans, 1996], and the potential of the Internet as a significant retail channel, was never really seriously questioned. By contrast, there was an extremely vigorous debate over the exact nature and extent of the Internet's impact, in a retail context, and as will be demonstrated in the following section, the original literature was not lacking in predictions, which were sometimes of a wild and contradictory nature.

3. Early predictions

Arguably, the commercial liberation of the Internet networks in 1989, started the gold rush era of the Internet [Brown, 1995] and it was suggested that the Internet, could potentially reshape the commercial world. Subsequently, there was a great deal of hyperbole issuing from media articles, consultant reports and management journals suggesting that the online trading environment offered opportunity for new virtual businesses to dominate existing businesses in established trading environments [Benjamin & Wigand, 1995; Anderson, 1995; Ettorre, 1996]. As excitement grew about this radically different retail environment, free from the traditional restrictions of time and space [Jones and Biasiotto, 1999, Field, 1996], speculation increased that it would ultimately be able to achieve a position of dominance in global markets [Evans, 1996; Van Tassel & Weitz, 1997].

At the dawn of the electronic commerce era, Peterson et al [1997] made the point that as the Internet represented such a significant and fast moving '*market discontinuity*', its impacts would be extremely difficult to predict. This view was echoed by Deignton [1997] who noted that due to its dynamically evolving nature, it would be very difficult to forecast the Internet's impact on the practice of marketing. However, such reservations weren't universally shared, and there were plenty of market observers and academics who were prepared to put their heads above the parapet, and give their considered opinions on the Internet's likely trajectory and impacts. The aim of the remainder of this section is to explore some of the more common predictions being made, at this time of great change and opportunity, so that we can later distinguish, in retrospect, the reality from the rhetoric.

The high-street under threat

At its outset, there was much speculation that on-line retailing would have a massive impact on, and might even eventually replace, the high street. This perception was based upon the early mood of unbridled optimism about the Internet's potential, coupled with the positive predictions about the growth of Internet sales. According to Healy & Baker (Computing, 1996), the international real estate consultants: '*by 1997 5 per cent of all retail spending in England, Scotland and Wales will be done over the net*'. Academics tended to agree that shopping via the Internet would have a very significant impact on future retail sales, with Pavitt (1997) suggesting that: '*by the year 2005 it would capture between 8 and 30 per cent of the UK retail market*', and Angelides [1997] suggesting that '*high street stores face an estimated loss of 20% of their business to electronic shopping*'. The Internet's threat to the high street was perceived to be coming from the following three sources:

   i. **The demise of the '*middleman*':** '*Disintermediation*' was the word on many commentators' lips, in the early days of Internet retailing, when it was envisaged that manufacturers could simply target their consumers directly, and in so doing, cut the retailer, as '*middle man*', out of the equation [Malone et al, 1997]. By interacting directly with customers, via the Internet, manufacturers would have the opportunity to dramatically change the structure and dynamic of retail channels [Ettorre, 1996], and in so doing, allow both producers and customers to benefit from a more direct form of contact [Benjamin & Wigand, 1995]. It was envisaged that this form of '*pirating the value chain*' [Ghosh, 1998] could ultimately change the balance of power within electronic retail channels. Indeed, Alba et al [1998] suggested that '*disintermediation*' might be the '*the most important structural change brought about by interactive home selling*'. However, other commentators, such as Sarker *et al.* [1996], struck a note of caution, when suggesting that this particular threat to retailers might be slight, as many producers lacked the managerial and technical capabilities required to sell direct to the end consumers.

   ii. **The '*virtual merchant*' as a new breed of '*middleman*':** It was envisaged that completely new players - '*virtual merchants*' or '*pure play*' retailers - with no established high-street presence could easily combine electronic commerce software with scheduling and distribution capabilities, to bypass traditional distributors [Doherty et al,

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1999]. The Internet could therefore present a threat to established retailers, by fundamentally changing the distribution channels for consumer products [Stern and Weitz, 1998], The argument was that a lower-cost channel structure resulting from the elimination of middlemen such as distributors, wholesalers and bricks-and-mortar retailers could reward new intermediaries, such as internet-only retailers, with fatter margins [Rayport, 1999], and in so doing, it would enable such *'firms to rewrite the rules of competition'* [Kotha, 1998]. Indeed, it was argued that the Internet might very well appeal more to the new entrants who have not already invested in a fixed location network [Shi and Salesky, 1994]. However, it was noted that competitive success would depend on how well these virtual merchants could '*use their first mover advantage as new entrants to gain a head start on the incumbents, and then leverage these strategies for longer term gains*' [Chircu, & Kauffman, 1999].

iii. **Retailers cannibalising their own custom:** Given the threat to traditional retailers posed by disintermediation of the supply chain and virtual merchants, it was widely recognised that retailers would have to quickly develop a presence on the web, to protect their market share. However, even this strategy was seen to pose a significant threat to the high street, as concerns were raised that in becoming a '*bricks and clicks*' enterprise, the traditional retailer might simply '*cannibalise*' its existing offline operations [Enders & Jelassi, 2000]. Moreover, it was argued that in serving its customers through two channels, the retailer would simply inflate its cost base, which would have a negative impact on profits [Alba et al. 1997].

A radically different market-place

In addition to debating the extent to which the point of purchase might be shifted from the '*physical market place*' to the '*virtual market space'* [Rayport & Sviokla, 1994], there was also a great deal of discussion about how this new electronic market-place might operate, and in so doing, transform our shopping habits. Common predictions about the nature of the Internet-marketplace included:

i. **The transformation of marketing:** Although many commentators concentrated on its potential as a channel for directly generating sales, others, such as Rowley [1996] were more cautious and saw the Internet primarily as a great tool for marketing. *As* Hoffman & Novak [1996] noted, the Internet presented a '*phenomenal marketing opportunity'*. However, exactly what opportunities the Internet might provide was interpreted in a number of different ways. Herbig & Hale [1997] envisaged that the Internet might play an important, yet fairly passive, marketing role, by deploying clear, interesting and up to date web pages to attract customers. Others foresaw a rather more proactive role for the Internet in which it enabled '*one-to-one marketing*' [Peppers and Rogers, 1993], by facilitating communication with customers on an individualized, rather than a mass marketing [one-to-many], basis [Hoffman & Novak, 1997]. In terms of how Internet-enabled one to one communications might be enabled two alternative models were presented: the personalisation of web-page content [Luedi, 1997] or through the customisation of electronic mail [Gillenson et al, 1999].

ii. **Perfect competition but less than perfect margins:** In the very early days of online shopping, a number of researchers propositioned that the Internet would facilitate a move towards more perfect forms of competition [Bakos, 1997]. The contention was that the Internet would make it far easier for the consumer to search for information which would, in theory, allow them to objectively compare offers, and ultimately choose the most competitive. The implication of this would be that no retailer would be in a position to sell any particular product at a higher price than its competitors. As Friedman [1999] noted, a company, based anywhere in the world, could now launch a web-site to compete on a global basis, as long as its product is easily transportable or downloadable.

iii. **The levelling of the playing field:** The Internet was very different to most prior information technologies, in that it did not inherently favour the larger organisation, as it did not require a massive investment in physical resources or skills. It was recognised that the web *'possesses very low entry and exit barriers for firms'* [Charterjee & Narasimhan, 1994]; and therefore allows for *'relatively easy and low-cost entrance to the market-place'*, [Rowley, 1996; p. 85]. Many early commentators therefore predicted that the Internet would present a golden opportunity for the small business, typically operating in highly localised or specialised markets, to extend their reach [Hsieh & Lin, 1998]. However, even at the time, it was being recognised that such benefits could only be realised by organisations that were able to readily develop the new competencies that were necessary for effective electronic trading [O'Keefe et al, 1998].

iv. **The 'electronic intermediary' as a new class of '*middleman*'**: While some commentators focused their attention on a new breed of '*Internet-only retailer*' [Kotha, 1998] that sought to sell its products directly to the consumer, others were more interested in the potential offered by a new breed of intermediary that sought to trade in information, rather than tangible merchandise [Bailey & Bakos, 1997]. In particular, it was recognised that such '*electronic intermediaries*' might play an important role in areas such as matching buyers and sellers, providing product information to buyers and marketing information to sellers, negotiating prices between buyers and sellers, and managing / guaranteeing financial transactions [Bakos, 1998]. Hagel and Rayport [1997] have coined the expression '*infomediary*' to describe this important new entrant to the supply chain.

Leaders and laggards in the electronic market-place

As we have seen, many broad generalisations were being made about the nature of the electronic market-place, and how the balance of power might shift between different segments of the supply chain. However, as it was clear that neither retailers nor consumers were all likely to enter the Internet market-place simultaneously, there was a great deal of interest in who were likely to be the leaders and the laggards in the Internet revolution. This question took on a heightened importance, given the well documented barriers to Internet adoption facing both the potential on-line retailer [Cockburn & Wilson, 1996] and the '*would*

be' consumer [Jones & Vijayasarathy, 1998]. Consequently, as discussed below, an important body of literature evolved which sought to explore who might be in the vanguard, when it came to both the opening and patronising the Internet shop:

i. **Who's opening an Internet shop?** Doherty *at al* [1999] suggested that the Internet adoption might not be a viable strategy for all retailers, as the likelihood of an organisation succeeding in their investment decision would be dependent upon the retailer's specific internal and environmental inhibitors and facilitators. More specifically, it was argued that only those organisations with an appropriate blend of technological and organisational capabilities and an appropriate product offering, which were operating in Internet-friendly market-place, should contemplate Internet retailing, at least until the market and technology were more mature. Moreover, it was suggested that certain products categories were likely to have the greatest growth potential and opportunity to create competitive advantage: books, music, computers, and airline tickets were viewed as potential winners, whilst clothing and fashion goods were tipped as losers [de Figueiredo, 2000].

ii. **Who's going Internet shopping?** As well as a significant level of debate and many predictions about how on-line retailing might affect market structures, and which types of organisations, were likely to be the winners and losers in this rapidly changing environment, there was also some, fairly limited discussion of who were most likely to be enthusiastic users of this new medium. For example, Auger & Gallaugher [1997] envisaged that the typical Internet consumer would be better educated and more affluent than the average shopper. Burke [1997] suggested that Internet shopping might be most appealing to those consumers who didn't have much time or desire to go shopping. Other authors predicted that in an Internet world, the balance of power may shift to the consumer [Bakos, 1991; Hagel & Armstrong, 1997], and in so doing, this would make Internet shopping appeal to those who wanted to get the best value from their retail spend [McWilliam et al, 1997]. However, compared to retailer oriented studies, this particular stream of research was extremely thin.

Finally, an interesting point to note from revisiting this initial literature, about the likely uptake and impact of on-line retailing, is how little of it sought to explicitly address the likely roles and reactions of the consumer. Most of the early commentary and predictions adopted a supply-side orientation, addressing the uptake of electronic commerce by retailers, and its impact upon market structures, but relatively few studies explicitly explored the likely characteristics and behaviours of on-line shoppers. However, the issue of who was likely to be going shopping was particularly important, in the early days of on-line retailing, because the growth of a vibrant Internet market-place was predicated upon a rapid alignment of supply and demand. As Hoffman et al, [1996] noted, the firms most likely to succeed would be those who customers had a profile that was closely aligned with those of the Internet users.

4. Internet retailing: where are we now?

Since its inception, in the mid 1990s, a very significant body of research has been generated which has sought to investigate and track, in very great detail, the growth, nature and impacts of Internet retailing. Consequently, having reviewed and summarised the key predictions that were being proffered at the birth of Internet retailing, it is now interesting, with the benefit of hindsight, to critically review the extent to which each has come to pass. The remainder of this section takes each of the three broad areas in which predictions were made, in turn, and then uses the recent literature to explore the extent to which each has been proved to have been well-founded.

A threat to the high street?

It is relatively easy to provide a critical update on the extent to which the Internet's predicted threat to the high street has materialised, because significant numbers of academics and commercial researchers have sought to monitor the Intrenet's growth [Ellis-Chadwick & Doherty, 2002; Ho et al, 2007], and investigate its impact on traditional retailing [e.g. Burt and Sparks, 2003; Ring and Tigert, 2001, Weltevreden, 2007]. Indeed, one area in which early commentators have been, by and large, proved right, is with respect to the dramatic growth of Internet retailing. Although the growth rates might not have been as dramatic as some of the more bullish pundits had predicted, it can still be classified as significant and sustained. Online shopping is now estimated to be the fastest growing area of Internet usage [Forsythe & Shi, 2003], and its growth rates, over the past decade, have continued to rise, and have far exceeded those achieved though traditional channels[1]. The remainder of this section seeks to explore the extent to which the early predictions that much of this growth would be driven by manufacturers, cutting out the middleman, and by virtual merchants, acting as a new breed of middleman, have been realised, before assessing the response of the established retailers.

With regard to the early predictions that the market positioning of the established retailers would be under threat from the disintermediation of the supply-chain, most commentators now believe that the early concerns were rather overblown [e.g. Rosenbloom, 2002; Hurt, 2007]. By and large, the high street has weathered the storm, and the global economy has been left with the reality that the impact of retail disintermediation has been fairly modest [Wrigley & Currah, 2006]. Although in overall terms, disintermediation may not have had a marked impact on the high street, there are particular segments, such as music, entertainment, printing/publishing and traditional travel agents, in which its impact has already been highly significant [Constantinides, 2008]. In particular, when it comes to the purchase of computer equipment, very large numbers of consumers are now heading straight for web-sites such as: Apple.com, HP.com or Dell.com, to satisfy their requirements.

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[1] As can be seen from a review of the trade news, over the past decade or more, as published on web-sites such as: www.internetretailer.com, www.emarketer.com, www.computerweekly.com, www.internetretailing.net, and www.reuters.com

By contrast, in the early days of Internet retailing, the primary threat to the high-street was coming from the virtual retailers, who tended to dominate the business to consumer market-place, at this time. By contrast, most established retailers were reluctant to commit themselves to this challenging new environment because of fears about cannibalisation, security and the Internet's longevity, as a retail channel [Weltevrenden & Boschma, 2008]. Indeed, many Internet businesses achieved massive stock market valuations on the basis of ideas and potential, rather than actual performance, and a rapidly expanding dot.com bubble was created. Unfortunately, it soon became obvious that many of these companies lacked the business skills and commercial acumen to translate their vision and technical know-how into a reliable income stream [Razi et al, 2004]. When the 'dot.com bubble' inevitably burst in 2001, many of the electronic market-place's pioneering 'pure plays' were driven into insolvency, due to their unrealistic business models [Thornton & Marche, 2003]. Although there is still plenty of room in the market-place for innovative and well run virtual merchants, such as Amazon and eBay, in the Internet's second and more sustainable period of growth, it is the established retailers, rather than the 'pure-plays' who are playing the more dominant role [Min & Wolfinbarger, 2005].

So how did the established retailer community respond to the threat to their market position, posed by virtual merchants and manufactures, hungry to cut out the middleman? It must be said that the initial response of many could be characterised as slow, or even timid, but fifteen years later, the Internet is now a significant element in their competitive armoury [Weltevreden & Boschma, 2008]. Indeed, many retailers now explicitly offer their customers the opportunity to shop via multiple channels, such as offering a combination of physical stores, catalogues, call centres, and e-commerce sites [Rangaswamy and van Bruggen 2005]. Not only has selling through more than one channel become commonplace for many retailers [Lovett and Anand 2007], recent research also suggests that it is potentially an extremely rewarding strategy. As Weltevrenden and Boschma [2008] have recently found, established high-street retailers that have ventured on-line tend to enjoy an increased footfall, improved customer relationships and enhanced promotional exposure. Moreover, they suggest that it is those leading edge retailers that have developed the most sophisticated web-site that will enjoy the greatest comparative advantage from their on-line ventures [Weltevrenden & Boschma, 2008]. This important conclusion was echoed by Wolk & Skiera [2009] who found that a retailer's overall financial and strategic performance could be positively affected by the addition of Internet channel. Although there has been much positive discussion of the virtues of multi-channel retailing, there are still some dissenting voices that believe retailers still have quite some way to go before they: 'actually get it right', [Noble et al, 2009]. The issue of which specific types of retailer have most enthusiastically and most successfully embraced e-commerce, is addressed in a later section of this paper.

Against this backdrop, many academic studies are beginning to play down the chances of the Internet having a significant destabilising affect on the viability of the high street. As Keen *et al* (2004) suggest that *"fears that the Internet will take over the* [traditional] *retail arena*

seem, at least at this point in time, overblown and exaggerated". More recently, Weltevreden [2007] has presented results which suggest that, although consumers often consult the Internet before going shopping, it is unlikely, at least in the short term, to have a significant effect on demand levels, in city centre stores. As noted earlier, the consensus view is that an effective and well aligned Internet channel enhances the performance of retailers, and in so doing, it helps to protect their place on the high street [Wolk & Skiera, 2009]. As Tse [2007] notes the strength of the '*clicks and mortar*' strategy is that it allows established retailers '*to leverage their existing physical assets and brand*', whilst also allowing customers to enjoy the personal and sensual pleasures of going shopping.

The transformation of the market-place

As detailed previously, in the early days of electronic commerce, it was envisaged that a radically different type of market-place would evolve. Perhaps one of the most obvious manifestations of this transformation is that, in electronic markets, marketing is now routinely practiced on a one-to-one, rather than a one-to-many, basis [Simmons, 2008]. Effective one-to-one marketing requires the capture of significant quantities of customer-oriented information, so that their needs and preferences can be inferred, and then elements of the marketing mix can be specifically tailored to these requirements [Arora et al, 2008]. In practice, this process has typically been enabled by integrating customer-facing, retail web-sites with CRM software, to create e-CRM applications [Dussart, 2001; Lee-Kelley et al, 2003]. On-line retailing is now providing retailers with the rich source of individualized customer data, that allows them to undertake effective one-to-one marketing [Frow & Payne, 2009] and in so doing make a very real contribution to improved organizational performance [Gurau et al, 2003; Schoder & Madeja, 2004; Warrington et al, 2007]. However, many other commentators strike a more cautionary note [Fjermestad & Romano, 2003; Kennedy, 2006], as there still many challenges to be faced - such as data integration, building trust, system usability and customer retention - before the full potential of electronic CRM can be realised.

In recent years, a significant strand of research has sought to explore the economic impact of online markets, and how internet-based electronic marketplaces have affected pricing and competition [Wood *et al,* 2005, Zhao, and Cao, 2004; Tang and Xing, 2001]. As yet, there has been very little evidence to suggest perfect competition has taken hold within the Internet market-place. Even though Internet prices are now typically somewhat lower than their off-line counterparts, there is plenty of evidence that on-line prices, for the same product, still vary greatly [Brynjolfsson and Smith, 2000]. In short, perfect competition conditions have simply failed to materialise. In theory, as Reibstein [2002] notes consumers must be in a position to access and more importantly utilise all the relevant information, with respect to a particular purchase decision, if perfect markets are to evolve. However, in practice consumers don't have the time, confidence, desire, and most importantly knowledge, to always make optimal decisions [Kauffman and Wood 2007], as too often, consumers are now simply '*spoilt for choice*' [Earl & Mandeville, 2009]. Moreover, it can be argued that the early predictors of perfect competition failed to take into account the importance of '*first*

mover advantage', and the very significant 'fixed costs' associated with setting up a successful on-line business [Earl & Mandeville, 2009].

Although we may not be seeing any obvious move towards '*perfect competition*', there is growing evidence that power, in the electronic market-place has shifted towards the consumer [Brynjolfsson and Smith, 2000; Priluck, 2001]. As Kucuk and Krishnamurthy [2007] note, the digital revolution is to consumers, what the industrial revolution was to manufacturers, with a very significant redistribution of power in favour of the consumer. More specifically, it can be argued that the Internet increases consumer power by: decreasing information asymmetries; promoting market transparency; enabling consumers to group together; and allowing consumers to exert more influence on products and prices [Rezabakhsh et al, 2006]. Not only does this significantly influence the way in which electronic markets perform, but it will ultimately also have a very significant affect on the way in which the retailers market their products and communicate with their customer base [Kucuk and Krishnamurthy, 2007]. In particular, as discussed later, it would be dangerous for retailers to assume that the effective application of Internet-enabled one-to-one marketing strategies will be a sufficient response to the challenges posed by Internet retailing.

It is also interesting to look back, with the benefit of hindsight, to explore the extent to which the playing field has, as predicted [Charterjee & Narasimhan, 1994; Rowley, 1996], been levelled. As noted previously, in our discussion of perfect markets, a successful Internet business must always be able to cover its '*fixed costs*', and may often benefit greatly from having a '*first mover advantage*' [Earl & Mandeville, 2009]. Whilst the nimbleness of smaller businesses often allows them to gain a first mover advantage, many struggled to cover the very considerable fixed costs associated with developing a high quality web-site and getting it effectively promoted. Indeed, there has been much evidence to suggest that the Internet favours the larger retailer as it allows them to improve their '*business efficiencies*', and in so doing, offer even lower prices [Burt & Sparks, 2003]. However, despite this imbalance of power and opportunity, there is much evidence that the majority of SMEs view the Internet positively, and are still keen to harness its potential [Vidgen et al, 2004; Piercy, 2009].

Whilst the '*virtual merchants*' and '*pure plays*' may not have played the dominant role in on-line retailing [Min & Wolfinbarger, 2005] that many had originally envisaged [Kotha, 1998], there is much evidence that electronic intermediaries have made a significantly greater impact. Indeed, many intermediaries – such as Google, Yahoo, eBay - have now become household names. The value of electronic intermediaries, to both customers and sellers, alike, comes through their ability to support many basic, yet critical, market functions, such as search, aggregation, matching and evaluation, as well as providing management teams with invaluable market-related information [Dai & Kaufman, 2002]. The pivotal role of electronic intermediaries seems secure for the foreseeable future, as recently attested by

Luo and Donthu [2007; p. 452] who envisage that they will '*continue to add value to the producer-consumer chain, benefitting both the consumers and the producers*'.

Leaders and laggards in the electronic market-place

Fifteen years into the era of on-line retailing, it is now becoming much clearer as to which specific types of organisation have been successful in opening Internet stores, and which segments of the market are the most enthusiastic and profitable shoppers. With regard to which types of organisation are enthusiastically embracing electronic commerce, and have been successful in opening of Internet shops, it has become clear that there is an extremely high degree of variability between different retail segments: some retailers have developed innovative and comprehensive web-sites, but others have been far more timid either developing small scale, experimental applications or completely ignoring the Internet's potential altogether [Doherty *et al*, 2003]. Consequently, many researchers have sought to explore the factors that might explain these differing levels of adoption [e.g. Doherty & Ellis-Chadwick, 2009; Ashworth *et al*, 2005]. Indeed, it has been suggested that there are a variety of factors that have a significant affect on the level and extent to which retailers use the Internet as a channel to market. For example, it has become clear that there are certain market segments – such as: travel, consumer electronics, hobby goods, and media goods – in which Internet retailing has really made a very significant impact [Weltevrenden, & Boschma, 2008]. Moreover, it has recently been found that the adoption of e-commerce, amongst retailers, is primarily driven by management support and strategic fit, whilst its perceived success requires retailers to deploy a portfolio of appropriate resources and capabilities, in support of its on-line operations [Doherty & Ellis-Chadwick, 2009].

In contrast to the large numbers of initial conjectures, made by researchers and commentators about the likely behaviour of retailers and markets, predictions about shopper activity were few and far between. Since then, a very significant body of research has been accumulated, which explicitly adopts a consumer perspective, and in so doing, provides detailed insights into shopping behaviours, the online shopping process, and the factors that influence shopping behaviours [Keen *et al*, 2004]. Looking back, it is now possible to see that in the early days of online retailing, it tended to be young males, who were generally better educated and wealthier than their contemporaries, who had both the confidence and desire to experiment with this exciting new channel [Donthu & Garcia, 1999; Korgaonkar & Wolin, 1999]. This was a fact that had obviously not been lost on the retailers, as it was also shown that the most eager, early adopters of the Internet were retailers whose core customer targhet segment was young men, who were members of the professional / managerial classes [Doherty & Ellis-Chadwick, 2003]. Since then a huge amount of research has been conducted to try to understand the typical profile of the Internet shopper, which can be categorised in terms of:

i. **Demographic variables:** Any personal attributes that tend to remain static throughout an individual's life time, or evolve slowly over time – such as age, gender, race etc. - can be defined as '*demographic variables*'. Key elements of a consumers'

demographic profile that have been found to influence their online behaviour include variables such as: income, education, race, age [Hoffman *et al*, 2000]; gender [Slyke, 2002]; and life-style [Brengman *et al*, 2005]. Research studies have also identified the potential of consumers' cultural and social make-up to influence their online behaviour [e.g. Shiu and Dawson, 2004].

ii. **Psychographic and behavioural variables:** Any aspect of a consumer's perceptions, beliefs and attitudes that might influence their online behaviour, and in particular their intention to shop, can be defined as a '*psychographic / behavioural variables*'. Indeed, there has now been a significant amount of recent work to explore how the consumers' character or personality might influence their online behaviour [George, 2004]. Cheung et al [2005], in their wide ranging review of the consumer oriented literature, demonstrated that a very substantial body of literature has already been established which explores the impact of a wide range of behavioural characteristics – such knowledge, attitude, innovativeness, risk aversion etc. – on a consumers intention to shop. For example, it has been found that consumers who are primarily motivated by convenience were more likely to make purchases online, whilst those who value social interactions were found to be less interested [Swaminathan et al, 1999].

Recent research tends to suggest that in terms of their personal profiles – age, gender, education, salary etc. – Internet shoppers are no longer likely to be greatly different to their offline counterparts [Jayawardhena et al, 2007]. By contrast, it is still possible to differentiate the most enthusiastic and profitable Internet shoppers, based upon their perceptions, beliefs and behaviours. For, example, it has recently been found that the Internet is a favourite channel for the compulsive shopper, as consumers are able to '*buy unobserved*', '*without contact with others shoppers*', and in so doing, '*experience strong positive feelings during the purchase episode*' [Kukar-Kinney *et al*, 2009]. In their extensive study of Internet shoppers from six countries, including both developing and developed countries, Brashear et al [2009] found a surprisingly high degree of homogeneity in their characteristics and habits. More specifically, they found that generally Internet shoppers share their desire for convenience, are more impulsive, have more favourable attitudes toward direct marketing and advertising, and wealthier, and are heavier users of both e-mail and the Internet'.

In the mid to late 1990s, there were also relatively few predictions about the factors that might affect the potential consumers' perceptions of, and confidence in, the Internet as a retail channel; and help encourage them to shop on-line. Since then a very significant body of literature has been published, which investigates the impact of a variety of independent variables, such as ease of use, usefulness, perceived control, interactivity, and shopping enjoyment on their intention to continue shopping on-line [Bhattacherjee, 2000; O'Cass and Fenech, 2003; Wolfinbarger and Gilly, 2003]. For example, Szymanski and Hise [2000] investigated the impact that the consumers' specific experience of convenience,

merchandising, site design and security might have on their overall satisfaction with a particular web-site. In a similar vein, the antecedents of loyalty, such as service quality, trust, value and satisfaction, have also been investigated [e.g. Harris and Goode, 2004; Rafiq and Fulford, 2005]. Other researchers have sought to perform detailed studies of the role that the consumers' experiences of single aspects of the retailers' online offerings, such as '*e-tail store image*' [Wilde *et al*, 2004] or '*store layout*' [Vrechopoulos *et al*, 2004], might have on their behavior. Finally, Dennis et al [2009] present a compelling case that web-atmospherics, emotional states and trust will all positively affect actual Internet purchases.

5. The future of Internet retailing

Whilst it may not be possible to predict with any degree of certainty how the Internet will shape the design of markets, the practice of marketing or the behaviour of on-line shoppers, in the future, it is very clear that on-line retailing's market-share, and influence, will continue to rise. For example, in the UK, it has been estimated that the number of customers being served by the UK online and catalogue retail industry, which currently stands at 26.9 million active online consumers, will rise to around 30 million by the year 2013, representing over half of the UK population [IMRG, 2010]. In a similar vein, statistics for the US also provide evidence of the rapid growth of Internet retailing, in recent years, and a strong expectation that this growth will continue, well into the future. [e.g. Noble et al, 2009]. This continuing expansion of on-line retailing will inevitably draw renewed attention to its likely affect on the high street. Although Weltevreden [2007] was clear that, as yet, the Internet has had a limited impact on city centre stores, it would seem inevitable that, in the longer term, the size and composition of the high street will be significantly impacted, as on-line shopping becomes a far more mainstream activity.

So who will be getting the lion's share of these rapidly expanding on-line markets? One thing seems clear, in a retail environment in which *brand* is getting more, rather than less, important [Burt, 2010], it is likely that the big names will continue to dominate Internet retailing. At least in the immediate future, the majority of these big names will be established retailers who will continue to retain a very strong position within the electronic market-place. Moreover, given the consumers' desire to use the Internet as a flexible tool for researching products and locating stores, as well as purchasing merchandise, it would also seem likely that the multi-channel format will be the preferred design [Hahn & Kim, 2009]. However, the established retailers will inevitably continue to face stiff competition from the successful and high profile '*virtual merchants*' and '*disintemediators*', such as Amazon.com, Apple.com and Dell.com. It is also very likely that the established retailers will face growing pressure from a variety of completely new businesses, keen to get their share of the electronic market. If one thing has become very clear, from the first fifteen years of Internet retailing, it's that there is always the opportunity for the innovative and dynamic company, that has read the market well and has an effective business model, to make a strong impact, and in so doing, grow very big and powerful, very quickly . As we've seen from the experiences of organisations

such as Amazon and eBay, the Internet can prove to be a very fertile environment if organisations have good ideas, supported by an appropriate set of core competences and capabilities.

In the future, it is very likely that there will be a significant struggle for power between the retailer and the consumer. On the one hand, all Internet retailers will want to get even more out of their customer data-bases, so that their 'one-to-one' marketing [Arora et al, 2008] and customer relationship management [Kim et al, 2008] initiatives will deliver even more value. Moreover, Kaufmann-Scarborough *et al* [2010] suggest that in future this wealth of consumer oriented data, will also allow retailers to better predict their customers' requirements, and, in so doing, provide a better level of customer service. The most obvious consequence of this may very well be that in future, it will be the most technologically adept and Internet savvy retailers who will dominate online markets, as they have a far richer and deeper understanding of their customers' needs and wants. This scenario will, however, only come to pass if consumers remain happy to form long-term relationships with particular retailers, and are prepared to act on the tailored promotional advice, to which they are being subjected.

An alternative, and perhaps more likely, scenario is that in the '*Web 2.0*' era [Wirtz et al, 2010], in which social networking plays an increasingly powerful role, consumers will become less susceptible to the power of one-to-one marketing. According to Brown *et al* (2007), '*word of mouth* [WOM] *has greater impact on product judgements, attitude formation, and decision making than formal marketing communications'*. This view is strongly supported by Trusov et al [2009] who find that WOM referrals have a more significant impact on new customer acquisition, than traditional advertising mechanisms. With millions of people around the world, from an ever widening age profile, spending ever more time communicating with their 'friends' via sites, such as *Facebook*, it is very likely that the power of social networking will continue to expand, and have a far greater affect on the modern consumers' on-line shopping behaviour. However, as social networking is but one element of the 'Web 2.0' environment, retailers will also face increasingly intense pressure from consumers to: deliver a more authentic dialogue; provide opportunities to customise the interface and allow consumers to generate their own content [Wirtz et al, 2010]. Retailers will also face growing pressure from consumers to allow their services to be accessed flexibly from a growing array of mobile devices, as they want to be able to shop on the move. All in all, it is likely that the power of the consumer will continue to grow, as they become increasingly willing and able to seek and use information, and then either directly or indirectly exert pressure on retailers. In parallel with this trend, it is also likely that the power of the electronic intermediaries will continue to grow, as consumers become more reliant on their information providing capabilities.

6 Concluding remarks and implications

It was prophesised that, at the very dawn of the Internet revolution, the Internet would represent the '*most important wave in the information revolution*' [Evans and Wurster, 1997; 70]. Looking back at the first fifteen years of on-line retailing, it can be argued that there is a considerable amount of evidence to support this view: on-line shopping is moving rapidly from a minority hobby, to an everyday part of most peoples' lives. From the perspective of the here and now, and looking forward, there is plenty of evidence to suggest that this Internet-enabled revolution has got much more life in it yet. In particular, it appears that the revolution has moved from a phase in which the innovation and ideas were primarily flowing from the supply-side, to one in which it will be the consumer, from the demand-side, who will be empowered to direct the way in which the revolution unfolds, from this point on.

Having reviewed the growth and impact of on-line retailing, from the perspective of the past, the present and the future, it is interesting to stand back and critically appraise the implications of an increasingly vibrant and sophisticated Internet market-place, from the retailers', the consumers' and the academics' perspective. Starting with the retailers, it may be tempting to stand back and congratulate them on a job well done. However, there are still many significant challenges that they need to confront and overcome, if on-line retailing is to complete its transition from a minority to a mainstream activity. All retailers will need to develop strategies for responding to enhanced consumer power, possibly with initiatives such as: marketing via social networking sites; growing their brand; differentiating their product offerings; and working hard to ensure that their web-sites provide consumers with an enjoyable and reliable shopping experience. The established retailer will also need to consider how they can more effectively integrate their on-line and off-line channels to provide customers with the very highest levels of service. By contrast the virtual merchants need to develop strategies for effectively promoting and developing their brands, so that they are in a position to compete, on more equal terms, with their established, high-street counterparts. For the consumers, the big message must be to make more use of their increasingly powerful position, to become better informed, shop around, and ultimately drive a harder bargain.

From the academic perspective there can be little doubt that online retailing will remain a significant focal point for research activity in the years to come. Despite the many valuable contributions that have been made thus far, there has probably been too much emphasis, in recent years, on the behaviour of the consumer, often relying on soft studies, based upon student samples. Whilst there will still undoubtedly be a need for consumer-oriented studies, in the future more emphasis must move to the demand-side, to get a far clearer understanding of retailer behaviour and performance. In particular, it will be important for future studies to explore how retailers are responding in the face of growing consumer power. It will also be necessary to conduct regular audits of the electronic market-place to identify new types of Internet business, whether these be focussed primarily on the sale of goods and services, or the provision of market related information.

Finally, it is important to conclude with a few words of warning, with respect to the study's limitations. Firstly, by its very nature, a review article has to be limited in its ambitions: it tends to pose questions, rather than answering them. Moreover, a review is typically limited by the number of articles that it can realistically accommodate: in attempting to critique and summarise the most common and compelling predictions and themes, to have emerged from the Internet retailing revolution, thus far, it is inevitable that we will have missed some important articles and ideas that might have made a useful contribution to this paper. Consequently, rather than attempting to provide definitive answers and conclusions, this study has sought to highlight key issues and raise questions, that should hopefully provide an important point of departure for future studies..

Acknowledgements

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