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Cyber Retailing in the UK: The Potential of the Internet as a Retail Channel

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Abstract *A myriad of opinions has been propounded to explain how "cyberspace" can be exploited by commercial organisations. For the most part they are speculative, visionary or promotional. This work seeks to redress the balance by focusing on the utilisation of the Internet within the UK retail sector and examining its potential as a new retail channel. The paper presents an exploratory study using qualitative and quantitative methods: an on-line survey of retail web activities followed by in-depth interviews. This approach provides a framework of current retail usage of the Internet and explores retailers' perceptions of the inhibitors and facilitators to its development. It concludes with an emerging model that explains why current levels of retailing on the Internet are low and provides guidance for retailers wishing to increase their level of Internet activity.*

Introduction

Many companies have incorporated the Internet into their business practices, but as yet it is a virtual arena of indeterminate commercial value. For most sectors, this new communication medium offers the opportunity to expand global markets, or to enter completely new market areas. While the commercial potential of the Internet has been forecast, there are wildly conflicting estimates about the rate and extent of its adoption. For example, according to Healey & Baker the international real estate consultants *"by 1997, 5% of all retail spending in England, Scotland and Wales will be done over the net"* (Computing 1996*); "By the year 2005 it will capture between 8 and 30 per cent of the UK retail market"* (Pavitt 1997) *"electronic sales will only represent 1 per cent of all retail spending by 2001".* (Verdict 1998) and *"it will be 30 years before 30% of consumer activity takes place online".* (Economist 1997). Despite the optimistic tone of some of these predictions, there is little evidence to suggest many companies have developed on-line trading. Indeed, KPMG (1996) observe that "much of the debate still centres around the medium's potential rather than its actual performance, accessibility and content".

The retail sector provides an obvious route for Internet development. UK retailers have built up an enviable reputation in retailing and supply chain management, providing the ideal framework in which to apply this new channel. However, there is little conclusive evidence to explain the retailers' reluctance towards commercialising the Internet. This study seeks to redress this imbalance by critically reviewing retailers' perceptions of the inhibitors and facilitators to Internet retailing and its potential comparative advantage. As a result, it will recommend possible strategies for managing the integration of the Internet into various retail organisations and within different distribution channels.   The second section critically reviews the rapidly growing yet limited literature relating to the Internet, the third section outlines the research method, the fourth presents the result of the research and finally the fifth section discusses the future value of the Internet as a retail channel.

A New Retail Channel?

Traditionally, the term 'channel' described the flow of a product from source to end-user. This definition implies a passive unidirectional system whereby the manufacturer / producer marketed through a wholesaler or retailer to the consumer (Davies 1993). The concept of the retailer as simply the final distributor has been supported by the emphasis on "buying decisions, operational concerns" and overall "product orientation" (Mulhern 1997). However, recent developments in information technology are changing this orientation by enabling retailers to focus their marketing efforts on managing the customers more effectively (Mulhern 1997). The potential role of the Internet in retailing could involve bringing the customer even closer to the retailer via a combined marketing / distribution channel, in effect an interactive "retail channel". This may also suggest a shift towards a bi-directional retailer / consumer relationship, in which more power accrues to the customer (Hagel 1997).

In evaluating the Internet's potential as a retail channel a number of advantages, opportunities and threats have been identified. The reported advantages are:

- **Accessibility.** Given the current rates of domestic PC uptake and the basic desire to communicate (Anderson 1995, Dern 1995, Parker and Gulliford 1996) the use of the Internet is forecasted to expand exponentially.
- **Direct communications.** As an interactive channel for direct communication and data exchange (Verity 1995) the Internet enables focused targeting and segmentation opportunities for retailers who can more closely monitor consumer behaviour.

- **Cost savings.** The Internet could ultimately replace the High Street by satisfying all shopping needs on-line, from home. This could benefit the retailer by substantial transaction cost savings (Hooi-Im Ng et al 1998).
- **New markets.** It is predicted that retailers can gain additional sales, either to existing customers or through attracting new ones via a whole new global marketplace (Cronin 1996). Furthermore, the new communication opportunities of the Internet provide the potential and easy access for brand positioning and diversification into new product areas (McWilliam et al 1997).

The comparative advantages of using the Internet appear compelling but its potential as a retail channel will only be realised if a number of well-documented limitations are successfully addressed. For example technical problems: the complexity of the user interface bandwidth restrictions and access connection speeds and security concerns (Baty & Lee 1995, Cockburn and Wilson 1996, Krol 1994). From a retailing perspective the Internet also presents a number of problems. The use of the Internet is an elective activity whereby consumers require effort to access sites and products and consequently planned purchasing may dominate over impulse purchasing (McWilliam et al 1997). The move from a physical to a virtual marketplace may require more complex product differentiation and positioning (Baty and Lee 1995). Fundamentally, Shi and Salesky (1994) warn that value created by retailing on the Internet is unlikely to be additional but a re-distribution of profitability from current retail channels. It appears that the true benefit of the Internet as a retail channel has to be traded off against these drawbacks.

The strategic importance of channels has been summarised in Porter's Value Chain (1985) whereby the effective management of a company's primary activities including creation of the product, its marketing and delivery to buyers, can provide added value and thus competitive advantage. Three major issues, however, are likely to threaten the retailers' ability to attain any competitive advantage through the Internet:

1) **Logistics.** Cooke (1997) identified one fundamental flaw in applying the value system to the Internet as a retail channel. The logistics required to operationalise the channels are perceived to be "the most neglected element of the Value Chain". Establishing a new logistical infrastructure to service the needs of Internet customers may yet prove to be the biggest barrier to its immediate development as a retail channel. It is therefore likely to be the mail order and direct marketing operators who are best positioned to exploit the commercial potential of the Internet, due to being non-store based, and having established direct distribution systems (Shi and Salesky, 1994). The response of the

fixed location retailer might involve a third party distribution company to bridge the gap between the customer ordering and delivery to customer (Gourley 1996; Parker and Gulliford 1996). Thus a potential contradiction exists, whereby in attempting to bring the consumer closer to the producer or retailer, additional intermediaries are involved to fulfil the process.

2) **Disintermediation.** Over recent years, distribution channels for consumer goods have become much shorter due to the increasing power of the retailers, with many channels now involving only the producer and the retailer. Potentially, the Internet could further shorten the channel through Disintermediation by excluding the retailer altogether through the producer marketing direct to the consumer (Ettorre 1996). Suppliers or other members anywhere in the supply chain could potentially interact with consumers and change the channel structure. This form of "Pirating the Value Chain" (Ghosh 1998) could ultimately change the balance of power within electronic channels of retail sectors. Sarker et al (1996) suggest that the threat will be minimal as many producers lack the skills and the system infrastructure required to sell direct to the end consumers. Potentially, the major retailers should be less at risk from Disintermediation due to their infrastructure, logistics, supplier relationships, brand image and loyalty, compared with the smaller retailers. However, one solution may be for the producer to acquire the necessary skills through mergers or acquisition of other companies such as mail order companies.

3) **Virtual Merchants.** As a new channel, the Internet has distinct advantages over traditional channels in reducing barriers to entry. The location issue, considered to be the key determinant of retail patronage (Finn and Louviere 1990), is in the physical sense, reduced, along with the enormous capital investment in stores. However, it has been suggested that by removing the physical protection to the offering may also provide the opportunity for increased competition (Alba et al 1997). New players in the guise of 'virtual merchants' can easily combine commerce software with scheduling and distribution to bypass traditional distributors. The Internet could therefore present a threat by fundamentally changing the distribution channels for consumer products (Stern and Weitz 1998). The Internet is thus more likely to appeal to the new entrants who have not already invested in a fixed location network (Shi and Salesky, 1994).

While it is highly unlikely that conventional retail stores will be completely usurped by the Internet, because the majority of consumers prefer the social and physical interaction of "going to the shops" (KPMG 1997), the threats highlighted above cannot be readily ignored.

This brief summary of the literature highlights the high level of interest in the commercial potential of the Internet and some likely implications for store based retailers. A criticism of the literature is that much is based on speculation and informed comment as opposed to primary evidence. Consequently a research project focusing upon retailing on the Internet was initiated. The key objectives of the research being:

1) To review and evaluate the current level of application of the Internet as a retail channel within the UK

2) To examine retailer perceptions of the relative advantage of the Internet, and the factors which may facilitate or inhibit its growth.

3) To explore the potential of the Internet as a retail channel for the UK retail sector.

Research Method

Given the lack of empirical research in this area, an exploratory investigation was considered the most justifiable approach (Churchill 1991). The research method ultimately adopted was a combined quantitative and qualitative approach, as advocated by Miles & Huberman (1994), whereby an initial quantitative survey is followed up by more detailed interviews. The quantitative part of the research comprised of an on-line review of retailer's Web presentations, which helped contextualise the research by forming a framework of Internet usage. The qualitative element comprised a series of in-depth interviews, which explored retailer's perceptions of the Internet's potential as a retail channel. The research was conducted over a six month period commencing in the middle of June 1997.

On-line Survey. The Internet presence of 330 organisations operating in the UK retail sector was individually inspected to identify the range of functions and services currently offered to end users. All the organisations were extracted from the '*Corporate Intelligence on Retailing'* survey (1995). This document was used as the sampling frame, as it claimed to include '*all of the largest retail organisations, as well as those, which are significant because they are perceived as innovative, or hold a powerful position within a niche market*'. This ensured that the most influential retail organisations were identified and targeted in a rigorous fashion. A pro-forma web site assessment form was then created to facilitate accurate and consistent collation of information on the range of features and services offered by each of the targeted retailers.

In-depth Interviews. For this exploratory project it was considered important that the interviewees were encouraged to participate in the creation of a research agenda. Consequently, questions were incorporated into a flexible interview guide, which provided a framework for addressing specific issues while highlighting concerns retailers believed were of significance to the current, future uptake and application of the Internet as a commercial tool. The interview schedule was validated by a series of pre-test interviews, which prompted some important modifications to the content, wording and structure of the interviews.

A stratified sample of interviewee organisations was again selected from the '*Corporate Intelligence on Retailing*' survey (1995). More specifically, the sampling process sought to target at least one company from each of the major categories of retailing activity. A classification of the major categories of current UK retailing activity was developed by adapting the classifications used by the Business Monitor (1996) and the Corporate Intelligence on Retailing Survey (1995). However, in order to reflect the increasingly global nature of Internet retailing, the American Standard Industrial Classification (Levy & Weitz 1995) was also consulted. Product type and assortment, size of operation, the nature of retail activity and ownership were also considered in arriving at the final categorisation, as illustrated in Table 1.

Table 1 about here

At least one respondent represented each of the seventeen sectors except for confectionery, tobacco and news (CTN), which is perhaps the least promising sector from an Internet utilisation perspective. In three instances two interviewees participated from the same category. Consequently, a total of 20 interviews were conducted, covering a representative cross section of the retail sector. In all cases the interviewees were individuals who held management responsibility for the development and operation of a retail organisation's Internet activities. The job titles and roles of the participating individuals were therefore somewhat varied, depending on the level of Internet activity, although most came from an IT or marketing background.

All interviews were tape-recorded and transcribed each one lasting between 45 to 90 minutes. To present the data in a meaningful manner the text of the transcripts were reduced using '*in-vivo*' codes: codes originating from the respondents themselves (Stauss and Corbin 1990). The codes were then arranged in twenty within-case displays, which took the form of matrices (Miles & Hubermann 1994). The within-case analysis provided a

preliminary descriptive understanding of each company's experiences with, and perceptions of, the Internet. This was followed by cross-case analysis (Miles & Hubermann 1994) which helped to highlight the degree of similarity or variability between the cases and any systematic associations between the variables. The results of the cross-case analyses are separately presented in this paper, as they are of most relevance for exploring the stated research objectives. The methodological literature suggests two primary approaches to cross-case analysis; firstly the variable-oriented approach (Ragin 1987; Runkel 1990), and secondly the case-orientated approach (Ragin 1987; Denzin 1989). A variable-orientated strategy was adopted, as its aim was to explore the essential nature of the Internet, rather than to compare and contrast different approaches.

Research Results

The investigation into the retail use of the Internet has yielded some highly interesting results. Significant variations have been observed in the extent of the uptake, and perceptions about the role and impact, of the Internet. The most important results of the research have been summarised in a series of tables, supported by complementary evidence, quotes and examples.

The Current Uptake and Utilisation of the Internet

The results of the on-line survey in Table 2 summarise the current uptake of the Internet by retailers in the UK. The survey identified that while nearly half of the retail organisations (49 per cent) surveyed had a registered Uniform Resource Locator (URL), the number who had an active web site offering end-users a range of services, facilities and information sources, was surprisingly small (20 per cent). The number of retailers who were actively offering a transactional service supporting direct sales was a mere five per cent and in many cases this service was restricted in terms of product and geographical range. The physical survey of web sites however, identified a wide range of other on-line activities including on-line marketing, public relations, debating forums, on-line payment competitions and interactive advertisements.

It can be seen from the results presented in Table 2 that there are significant differences, between sectors, in the level of Internet activity. In particular, the groceries, electrical goods and home shopping sectors have a high proportion of active web sites, whilst there has been little activity, as yet, in the specialist foods, footwear and jewellery sectors. Web sites also showed marked differences in the quality of design and clarity of information. Some Web sites enable the on-line user to navigate easily through their structural hierarchy,

encouraging the end user to receive the retailers' message. Book retailers, wine merchants and mail order catalogue retailers provide some good examples. Other sites merely present lists of products and store locations, which invites neither interaction nor communication most notably from the fashion and furnishing sectors. These variations raise questions about issues, which are not answered by the on-line survey alone. Further understanding may be gained from exploring the retailers' perceptions of the Internet's potential and examining the company's approach to the adoption of the Internet.

Table 2 about here

Retailers' Perceptions of the Internet

The key issues relating to Internet adoption were addressed through the programme of interviews. Retailers were specifically questioned about the factors that affected their utilisation of the Internet as a retail channel. The flexible interview format allowed other relevant issues to be probed as and when they occurred. This strategy generated a rich source of data containing details of the Internet adoption approach of twenty leading UK retailers. Having interpreted the textual transcripts using *'in-vivo'* codes, and their associated frequencies, it was possible to organise these into a taxonomy of the factors affecting Internet adoption. To enhance the understanding of the results a the structure of the taxonomy, and some key definitions, have been presented in Table 3. Three major categories: internal factors, environmental factors and relative advantage, have been used to organise the discussion of the results.

Table 3 about here

Internal facilitators and Inhibitors.

The internal factors affecting the use of the Internet as a retail channel have been presented in table 4. The importance of issues contributing to the evolution of a clear and coherent **strategic vision,** guiding Internet adoption, was frequently raised. Many retailers identified the disposition of the senior management as important. Eleven stated that they had a management team committed to the project. Nine had a management team who lacked commitment. *"I believe that the company's product range is strong enough to do some selling over the Internet but the boardroom has it's own opinions".* Management disposition, therefore, can both facilitate or inhibit the adoption process.

<u>**Table 4 about here**</u>

Four respondents thought that their Internet development was being guided by a clearly defined vision for Internet retailing. *"We decided that the site was to be a functional one right from the start. We didn't want it to be a company brochure. These goals have not changed. The aim is to provide a fully functional world wide service offering our customers a larger range of products than are available in any individual stores."* However, eight interviewees identified the absence of a clear vision as inhibiting the Internet adoption process.

Equal numbers of respondents acknowledged the importance of, or the lack of an Internet strategic development plan. "*Internet activities have to be well thought out and properly introduced otherwise negative attitudes will prevail".* The importance of a development plan was also highlighted by a number of interviewees commenting upon other retailers' web sites. *if you look at some UK retail Web sites I'm sure they've had very **little planning**. They've just slapped up the corporate brochure and haven't made any changes in the last six months".*

Most of the retailers identified the need for **assessment strategies** because the level of "uncertainty" involved in using the Internet reportedly inhibited the development of strategic plans. Lack of knowledge about how it will develop, its impact on trade and the perception that it is an unproven domain are reported to be constraining retail investment in on-line operations. Current on-line trials leave retailers struggling to evaluate the effectiveness of their Web operations. The absence of a method to translate Web site visits into accountable information inhibits the Internet growth as a retail channel.

The **availability of resources** influenced Internet adoption according to a number of retailers. The need for a fulfilment infrastructure to support the logistics of Internet retailing was noted as significant. Eleven respondents thought their operation was capable of supporting this method while nine said that no such facility currently existed. Seven felt that they had the IT infrastructure capable of supporting Internet activities, however, interestingly none of the others indicated that its absence was important.

Internal web development skills and expertise were seen as factors which also impact on a company's readiness to trade in "Cyber Space". A dozen retailers felt that they didn't have an existing skill pool available within the company to facilitate Internet retailing. However some reported to have staff who have a good level of knowledge and expertise. *"Everyone in the company is aware of the Internet and skilled in the use of IT."* In addition to having the requisite skills, the availability of appropriate staff and funding were cited as important. A wide variation was noted. Some retail organisations have Internet departments with a dedicated staff and budget. Others fit Internet development into their existing workloads with very limited support staff and funding squeezed from other budgets. *" I'm the prime motivator of the company's Internet development, about 5% of my time is devoted to the job. Funding for the project comes from my marketing research budget".*

A retailer's perception of the importance of the Internet is also influenced by how **appropriate a product** is for the on-line world. Product features were described as both inhibitors and facilitators. Suitable on-line products were perceived to be familiar, specialised or "*information rich"* items: wines, books and computer products. Unsuitable on-line products are those needing very precise visual representation, such as fashion items, or those which are too valuable to transport, such as jewellery. The on-line survey supported these findings by illustrating that most product ranges fall within these parameters. Other product related issues seen as inhibiting on-line development were politics of trading agreements and legal complications of trading in a global market place. Established trading territorial boundaries can be easily crossed in the virtual arena. Product safety regulations and national trading standards reportedly complicate the prospect of trading in the global market place.

Environmental facilitators and inhibitors

In Table 5 the retailers' perceptions about environmental factors point to significant obstacles to the Internet adoption process. The **market for Internet trade** will be affected by the retailer's current customers' propensity to shop on-line. Their sex, age, interests,

socio-economic grouping and computer literacy according to fourteen retailers will influence the likelihood of them buying on-line. All of these retailers see their present customer base as unsuited to on-line retailing.*" You have to look at the customers you are targeting. Our average customer is female with two kids. Does she own a PC? Is she competent at using a computer and capable of getting all the training and education?"* Despite their beliefs that their existing customer base was unsuited to on-line purchasing, most retailers with active web sites presented their existing ranges to a generally unknown audience. Three out of the four respondents who felt that their customers are suited to on-line retailing operated in markets where consumers are typically young, affluent and well informed/educated.

Consumer awareness and receptiveness towards using the Internet was quoted as important. Over half the retailers mentioned that the popular media had raised public awareness of the existence of the Internet. Security issues were discussed in conjunction with their effect on consumer adoption of the Internet. They were not seen as inhibitors from the retailer's perspective. However, the reporting of security issues and free access to pornography was seen as raising potential end user resistance and therefore created unfavourable customer awareness.

Table 5 about here

A significant inhibitor to the adoption of the Internet is reportedly the limited size of the on-line market and its lack of maturity.   Twelve retailers raised concerns and felt that the market is likely to remain small. On probing this issue, the main reason was considered to be the consumers' preference for the traditional shopping experience offered by fixed location retailing. Only three retailers mentioned the younger generation, saying that increasing levels of exposure to IT could mean that the longer term potential for market growth was phenomenal. The on-line survey, however, revealed that only a small number of active Web sites have features to attract the young consumer, indicating a very limited investment in the development of a future consumer base.

Competitive pressures influenced retailer's behaviour. Peer pressure had encouraged the development of web sites according to half the respondents. As a result many web sites had very short development times. However, the pressure to develop a more successful Web site was hampered by the failure of many existing retail sites. This factor was seen to be constraining the allocation of resources and limiting the functions of sites.

Technical considerations such as the reliability of networks raised fears for some retailers

who expressed concerns about the effect of a network failure on their customers. They felt that working with a system that could fail may damage their image. Furthermore, ten retailers suggested that restricted bandwidth meant slow download speeds and disruptions to on-line services. These technical issues were considered in over half the cases to be surmountable by using external expertise. Internet consultants prepared to act as designers and even hosts for Web sites were seen by half to facilitate Internet development. Indeed, some retailers had received free site development by outsourcing in the initial development stages. However there were indications that this may not be a long-term strategy. Five retailers (all with extremely developed web sites) felt that the usefulness of Web developers was limited. In each case they had examples of how a lack of understanding of the Internet or company issues by the external developers had resulted in poor development decisions. As a result these retailers felt there is a void of expertise. Several pointed to the need for guidance on how to develop an Internet strategy. Four retailers suggested that Digital Television could solve reliability and accessibility issues and could become the means for expansion to the mass-market.

The Internet's comparative advantage

The results of the investigation of the retailers' perceptions of the Internet's comparative advantage are presented in table 6. Retailers unanimously agreed that the Internet provided market **development opportunities** through the range of services offered to customers. However the on-line survey showed very few retailers were actively participating. According to thirteen retailers the Internet was potentially a new retail channel enabling access to wider markets, both global and niche. Yet the geographical scope of the on-line sales services were, in over half the cases, only national. There was no evidence of focused product ranges targeted to niche markets and the presentations were restricted to information about varying proportions of existing ranges.

The **technical capabilities** of the Internet, such as speed of communication and flexibility of the end-user interfaces, were seen as facilitating its adoption. However, over half of the retailers were concerned about the Internet's inability to appeal to a wide range of senses. *"For a company like ours we want to be able to offer a facility which will allow people to be able to buy on –line but it's not necessarily going to be a substitute for a shop … I mean the smell, the texture, the whole experience of going into a shop cannot be replaced".* This was an important issue to consider when 70 per cent of web sites have focused on presenting product information.

Table 6 about here

Questions about the **financial potential** of the Internet exposed a number of issues. The cost of duality i.e. supporting two methods of retail distribution was a perceived disadvantage and raised concerns with 55 per cent of retailers. Investment in the existing fixed location retail infrastructure inhibited the adoption process. Over half referred to the high costs involved in restructuring the organisation to sustain effective and efficient on-line retailing. Their current image in the market place has to be mirrored by the on-line operation. Although a quarter acknowledged the potential advantage of low cost trading, the same number saw the low level entry costs as only a short-term benefit, which facilitated trialability. The opportunity to make future significant savings on investment in a fixed location infrastructure was cited by almost half as important.

The Internet was considered to offer **marketing opportunities.** Its early adoption had allowed seven respondents to enjoy extended media coverage of their on-line activities. Another aspect detailed as important by a fifth of interviewees was the opportunity to collect market research data from end-users by capturing data through registration forms and competition. **Ethical concerns** were limited to the consideration of long term social isolation of end-users.

Discussion: The Future of Cyber Retailing

The results of the on-line survey suggest that whilst there were a small number of high quality Internet sites which offer a wide range of functions and services, the 'typical' British retailer will only have established a fairly basic web site. It has also been found, through the interviews, that such basic web sites have generally been developed in response to peer pressure and customer expectations rather than as part of a coherent strategic plan. These exploratory forays into the provision of Internet services coupled with intense media attention have ensured that there is a high degree of interest in, and awareness of, the Internet within the retail sector. It is unlikely, however, that this interest will be translated into action until retailers believe that the commercial logic for Internet expansion is more compelling.

The issue of how quickly and to what extent, the level of retailing on the Internet is likely to expand in the coming years still remains unclear. It is, however, now possible to make some observations on these important issues. In the analysis and discussion of the qualitative data, presented in the previous section, three dominant and interacting themes have been identified and reviewed, namely: the internal inhibitors and facilitators; the environmental inhibitors and facilitators and the Internet's comparative advantage over existing retail

channels. In considering these themes, a potentially important relationship may be identified. It is suggested that the retailers' current low levels of Internet activity will only be significantly increased if their perceptions about the readiness of the environment, the readiness of their organisation and the relative advantages of the Internet as a retail channel become more positive. It is likely that the process of Internet adoption will be lengthy, with perceptions about these critical factors evolving gradually, before the Internet ultimately becomes a widely used retail channel. This proposition has been encapsulated in the model of the factors affecting the future development of the Internet, as illustrated graphically in Figure 1.

Figure 1 about here

This section critically assesses the degree of positiveness associated with each theme and the resultant likelihood of significant growth in Internet retailing, in the near future.

- **Internal Factors:** The results in Table 4 suggest that the overall balance between the internal inhibitors and facilitators is marginally skewed in favour of the inhibitors. The most significant internal inhibitor is the concern about assessment strategies, with most interviewees perceiving that it will be extremely risky to invest large sums of money in the development of the Internet as a retail channel until they have better ways of evaluating its potential.

- **Environmental Factors:** The results in table 5 clearly indicate that there are some serious doubts about the readiness of consumers to use the Internet, and the technical ability of the Internet to support transactions. It can also be seen that the media is having a dual impact; on the one hand generating much awareness about the Internet, but at the same time emphasising concerns about its capabilities and impact.

- **The Internet's Comparative Advantage.** The results presented in table 6 suggest that the retailers have positive perceptions about the Internet's potential to deliver a comparative advantage over traditional retail channels. This potential is seen most clearly with regard to the range of services that can be offered, and the size of the market that can be targeted. It should, however, be noted that many of the interviewees qualified their remarks by commenting that the advantages were fairly marginal or difficult to realise. This might explain why the comparative advantages have not, as yet, been sufficiently

potent to overcome the perceived inhibitors.

The interpretation of the research results suggest that while the Internet provides a discernible comparative advantage, its potential will not be fulfilled until the retailers perceive that the market is ready for Internet retailing and that the technical deficiencies of the Internet have been overcome. Perhaps more importantly the Internet will not become a significant retail channel until retailers are far better prepared internally to exploit its significant potential and the on-line medium is sufficiently mature. There could be two possible conclusions drawn from these observations. The first is that retailers do not feel pressured to prepare for Internet exploitation, because they believe that the Internet environment is too immature to justify the investment required to develop a major presence. The alternative is that the retailers are happy to believe that the market is not ready, because they are not in a position to exploit it. Either way there is a clear implication that if the Internet were to suddenly take off as a retail channel, many UK retailers would not be in a position to exploit its potential. The result being loss of market share to other organisations who have mastered the on-line consumer relationship.

This lack of urgency and focus carries a risk from the threat of competition. For example, new entrants in the form of Virtual Merchants (e.g. The Internet Book Shop, Amazon.com,**)** could not only drive the pace of development but also increase price competition through facilitating consumer search / price comparison. Furthermore, whilst the intensity of Internet rivalry is generally low, there are sectors, such as electrical goods and books, where the level of Internet activity is developing fast and the threat could come from existing retailers. Finally, suppliers who manufacture retail merchandise for fixed location outlets may exploit the potential shift in the balance of power in the on-line supply chain by trying to by-pass intermediaries through offering their products directly to the customer.

It was noted from the interviews that there was a high degree of variation with regard to the level of internal preparedness of the twenty collaborating organisations and also their perceptions about the readiness of the environment and the likely levels of benefits to be realised. Indeed, it is likely that the strategic position, will be very different for each and every retail organisation. It is, therefore, very important that all retailers explicitly evaluate the opportunities and threats that are being posed by the Internet and develop a comprehensive and coherent Internet strategy in response. Without a strategy to guide them, retailers risk being technology led and simply reacting to the latest Internet development. But as Stern and Weitz (1998) suggest: *"the Internet has great potential, but to use it effectively means understanding consumer behaviour and channel issues, not advances in technology".*

Although the medium may have changed, fundamentally, the markets still require the same needs to be fulfilled.

In evaluating the Internet's potential as a new retail channel, retailers have, hitherto, had little to guide them with regard to the development, structure or content of an Internet strategy, as it represents such a new model; a point emphasised during a number of the interviews. However, the model, presented in figure 1, has the potential to provide some guidance in this increasingly important area. More specifically, it is suggested that each of the issues, identified in the boxes entitled 'internal factors', 'environmental factors' and 'comparative advantage', need to be explicitly considered as part of the strategic evaluation process. For example, in the area of internal factors, retailers must be considering questions such as: 'have we got a strategic vision for Internet development?; 'have we established a method for evaluating the Internet's potential?'; 'have we allocated sufficient resources to this area?' and 'have we established that our products are appropriate for Internet sales?'. Moreover, the model suggests that there may be interactions between different factors, for example perceptions about the appropriateness of the product may influence perceptions about the likely marketing opportunities. The implications of such interactions should also be considered when evaluating the Internet's potential. In essence such an exercise will constitute a formal audit of the retailer's readiness for further Internet development and highlight the areas in which additional work is needed to prepare for such a challenge. Most importantly, the results of the audit could then be translated into a formal and coherent Internet strategy.

Conclusions and contribution

In conclusion, it has been found that the current levels of Internet activity within the retail sector are low and much of what is being done is merely experimentation. Whilst retailers appear to value the Internet's potential they also expressed concerns about the high costs and risks of failure. This situation leaves most retailers in limbo, whereby they are aware of the importance of the Internet but have no strategic vision as to how it can best be exploited. This is a dangerous position, as there are plenty of others, such as 'virtual merchants' and producers wishing to '*dis-intermediate'*, who may be well placed to benefit from the retailers' inactivity.

The primary value of this research therefore, is to clearly identify the need for retailers to evaluate their competitive position and to develop coherent Internet strategies. This research has indicated that the challenges and opportunities are likely to be very different for retailers within each sector, as well as between sectors and therefore, there are no general panaceas. Whilst it may be difficult to be more explicit about the form and focus of an Internet strategy, it is no excuse for inactivity, and the model presented in figure 1 may prove to be a useful tool in guiding retailers in the development of a strategy. A final value of this study lies in its foundation for future research; having identified the critical dimensions of retailer Internet development, the next stage is to test the findings and measure the relationship between each area. Further research in this important area is currently underway.

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Table 1: A classification of On-line Retail Activity

1	**Food & Consumables:**	**Grocery** including supermarkets and hyper-markets
2		**Convenience stores**
3		**Specialists food retailer**s e.g. bakers and confectioners
4		**Alcohol Retailers** including off-licences
5	**Clothing & Accessories:**	**Clothing Retailers** including female, male and children
6		**Footwear Retailers** including fashion and work wear
7		**Jewellery Retailers** including accessories
8	**Home:**	**Furnishings Retailers** including hard & soft furnishings & textiles
9		**Electrical Goods** including brown and white goods and computers
10		**DIY** including gardening
11	**Leisure & Entertainment:**	**Sports Retailers** including sportswear and equipment
12		**Toys Retailers** including games, hobbies and crafts
13		**Books, Music, Stationery and Videos Retailers**
14		**News** including newsagents and CTN's
15	**Health & Beauty:**	**Health & Beauty** including chemist and opticians
16	**Home Shopping:**	**Home Shopping** including catalogues & mail order directories
17	**Mixed Stores:**	**Mixed Stores** including department stores & variety retailers

Category	Number of retailers	URL	Web site Status None	Web Site Status Active	Information Product	Financial	Other	Marketing	HR	Comms.	Sales	Online sales Product Scope	Geog. Range
Grocery	16	14	9 (56%)	7 (44%)	5	3	3 Company information	3	6	5	2	2 Limited	2 National
Convenience Stores	8	3	7 (87%)	1 (13%)	0	0	1 Company information	0	1	0	0	0	0
Specialist Foods	9	3	9 (100%)	0 (0%)	0	0	0	0	0	0	0	0	0
Alcohol Retailers	11	6	8 (73%)	3 (27%)	2	0	3 Store locator	2	0	1	1	1 Extensive	1 National
Clothing	49	27	37 (76%)	12 (24%)	6	4	6 Store locator	10	2	10	3	3 Extensive	1 national 2 US
Footwear	31	11	30 (97%)	1 (3%)	0	0	1 Store locator	0	0	1	0	0	0
Jewellery	17	8	16 (95%)	1 (5%)	0	0	1 Store locator	0	0	0	0	0	0
Furnishings	41	21	36 (88%)	5 (12%)	2	0	3 Store locator	3	0	1	1	1 Limited	1 National
Electrical Goods	16	10	9 (57%)	7 (43%)	5	2	6 Company information	4	1	5	1	1 Extensive	1 National
DIY & Gardening	14	7	12 (86%)	2 (14%)	0	1	2 Store locator	0	1	1	0	0	0
Chemists Opticians	16	7	12 (75%)	4 (25%)	4	0	1 Life style information	1	1	3	0	0	0
Sports	12	6	9 (75%)	3 (25%)	1	1	3 Company information	3	1	3	0	0	0
Toys & Hobbies	9	5	6 (67%)	3 (33%)	5	0	2 Store locator	3	0	1	1	1 Extensive	1 Global
Books / Music	8	3	6 (80%)	2 (20%)	4	0	2 Store locator	2	0	2	2	2 Extensive	2 Global
News	11	1	10 (91%)	1 (9%)	0	1	1 Company information	0	0	1	0	0	0
Mixed Stores	45	19	39 (87%)	6 (13%)	6	2	5 Store locator	3	2	3	2	1 Extensive 1 limited	2 National
Home Shopping	17	11	9 (53%)	8 (47%)	6	2	3 Company information	6	2	6	4	4 Extensive	4 Global
Totals	330	162	264	66	46	16	17 Co.Info 25 Store Loc	40	17	43	17	17	17
Percentage of whole sample	**100%**	**49%**	**80%**	**20%**	**8%**	**5%**		**12%**	**5%**	**13%**	**5%**	**5%**	**5%**

Table 2: A Summary of the most Important Results from the On-line Internet Survey

Table 3: Taxonomy of Factors Affecting the Development of the Internet as a Retail Channel

Major Categories	Internal Factors	Environmental Factors	Relative Advantages
Definitions	Factors resulting from or belonging to a process, activity or personnel over which the company has complete control	Factors resulting from or belonging to a process, activity or personnel over which the company doesn't have direct control.	Circumstances where Internet retailing offers a comparative advantage / disadvantage, in comparison with traditional retailing methods.
Sub Categories	**Internal Factors**	**Environmental Factors**	**Relative Advantages**
	▪ Appropriate Product ▪ Resource availability ▪ Strategic vision ▪ Assessment strategy	▪ Market for Internet trade ▪ Competitive position ▪ Technological considerations	▪ Market Development Opportunities ▪ Technological Capabilities ▪ Financial Potential ▪ Marketing Opportunities ▪ Ethical considerations

Table: 4: Internal Factors

	Facilitators No. of respondents	Inhibitors No. of respondents
Strategic Vision		
1) Management Disposition	11	9
2) Vision of the Internet in retailing	4	8
3) Internet development plan	7	7
Assessment Strategy		
1) Difficulty in assessing the impact of the Internet (uncertainty of the potential / complexity of assessment process)		17
Resource availability		
1) Logistical infrastructure	11	9
2) Technological infrastructure	7	
3) Internet development skills	8	12
4) Human resources	5	7
5) Financial resources	10	5
Appropriate Product		
1) Product suitability for on-line retailing	13	8
2) Legal and trading restrictions relating to the product		8

Table 5: Environmental Factors

	Facilitators No. of respondents	Inhibitors No. of respondents
Market for Internet trade		
1) Likelihood of current customers using the Internet	4	14
2) Customer awareness	11	15
3) Size Maturity of retail market on the Internet		12
4) On-line shopping experience	3	13
Competitive pressures		
1) Peer pressure	10	
2) Web site failures		9
Technical considerations		
1) Reliability of the Internet		5
2) Functionality of the Internet		10
3) Outsourcing of Web development	10	5
4) Access to the Internet through digital Television	4	

Table 6: Relative Advantage

	Advantages No of respondents	Disadvantages No of respondents
Development opportunity		
1) Opportunity to extend the range of customer services which can be offered via the Internet	20	
2) Opportunity to expand access to a wider market place: global and niche markets	13	
Technical capabilities		
1) Speed flexibility and interactiveness of the Internet	8	
2) Mediums inability to portray some types of sensual information: touch, smell/taste and sight		11
Financial Potential		
1) Cost of duality: the supporting of two methods of retailing		11
2) Low cost trading	5	
3) Low cost trialability	5	
4) Opportunity for reduction of future fixed location development costs	9	
Marketing opportunities		
1) Promotional opportunities	7	
2) Access to market research data	4	
Ethical concerns		
1) Social isolation of end users		4

Figure 1: Factors Affecting the likely Uptake and Application of the Internet as a channel for Direct Sales

Critical Factors

Internal Factors:
- Appropriate Product
- Resource availability
- Strategic vision
- Assessment strategy

Environmental Factors:
- Competitive pressures
- Market for Internet trade
- Technological considerations

Comparative Advantage:
- Market Development Opportunities
- Technological Capabilities
- Financial Potential
- Marketing Opportunities
- Ethical considerations

Current position

Future position

Current low levels of Internet Activity

Increasing levels of Internet Activity

The Internet as a Major Retail Channel