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RESEARCH ON AUSTRALIAN E-RETAILERS: STRATEGIC ISSUES, SUCCESS FACTORS, AND CHALLENGES

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ABSTRACT

The emergence of the Internet has revolutionized retailing industry. However, the technology stock slump worldwide last year has made financing much more difficult for many e-tailer. As more well-established traditional retailers roll out their own online divisions and branches, online market, or marketplace, becomes increasingly competitive. How can Australian e-tailers successfully survive in this new competitive environment? This paper attempts to integrate research on Australian e-tailers and empirically explore, using a case study approach, some strategic issues in managing e-tailers.

Research so far on Australian e-tailers has shown that Australian e-tailers have used state-of-the-art Internet technology in designing their Web site and have offered a big range of products to their online customers. They also perform reasonably well in customer services. The most difficult challenge facing them is fulfillment because of its geographic isolation and low population density. Australian government is actively involved in tackling those issues concerned by consumers, such as privacy and security, by legislation and promoting 'best practice model'.

The findings from a case study of an Australian e-tailer helps us understand several strategic issues in managing pure e-tailers. To survive, e-tailers need to carefully select product offerings, streamline business processes, minimize marketing budget and HR costs, improve fulfillment efficiency, and adopt a long-term growth strategy.

INTRODUCTION

The emergence of the Internet has revolutionized many industries and one of these industries is retailing. The Internet has provided many opportunities for online retailers, or e-tailers, to start up their businesses and to compete with traditional, or "click-and mortar" retailers. The early expectation was e-tailers would outperform their traditional counterparts under the assumptions that they have many competitive advantages. Such advantages include that they can operate with little spending on physical infrastructure (such as physical stores and warehouses), be accessible 24x7 and reached by virtually anywhere in the world.

The technology stock slump worldwide in April 2000 has shattered high expectations many people have on e-tailers. With the cash draining from financial investors, many e-tailers have abandoned their early "get-big" strategies and rethink their business models to keep them float. As the well-established traditional retailers roll out their own online divisions and branches, online market, or marketplace, becomes increasingly competitive. Should pure e-tailers abandon their business models? If not, how do they manage their businesses to survive and grow in such a new competitive environment?

Australian e-tailers not only face the challenges that their overseas cousins have, but also face some unique ones, particularly in fulfillment and growth, because of its large territory and relatively small population. Although more than 50 per cent of adults are online and 40 per cent of household have accesses to the Internet by November 2000 [21], some international consultants [cited in 3] claimed that no city in Australia can provide economic delivery intensity, questioning seriously the survival of Australian e-tailers.

How do Australian e-tailers take up the challenges in managing their businesses? What are the success factors and lessons we can learn from them? This paper attempts to address these questions by integrating the extant publications on the management of Australian e-tailers and also by conducting one case study of a new startup e-tailer in Australia.

RESEARCH ON AUSTRALIAN E-RETAILERS

Overview of Australian E-Tailers

Currently, there are three types of e-tailers operating in Australia: online branch of a traditional retailer, pure e-tailer and online shop of a manufacturer or wholesaler [10]. It was estimated that there were about 650 on-line retailers by the end of 2000 [10]. Recently, several leading pure e-tailers were acquired by traditional retailers, including TheSpot by David Johns in June 2000, Dstore by Harris Scarfe in December 2000, and Wine Planet by Foster in March 2001. Australians spent about A$2.9 billion from online purchase and it is estimated to increase to A$3.75 this year, according to ACNeilson [cited in 18].

Product Considerations

In general, Australian e-tailers offer a large variety of products to online buyers. These products can be categorized into airtickets, books, clothing, electronics & IT, flowers, gifts, groceries, health and beauty, home & garden, music & movies, office supplies, romance & adult, sport and outdoors, and wine [11]. The most popular goods purchased online are books (45%), computers and computer-related products (45%), CDs and recorded music (37%), clothing (25%), video and filmed entertainment (21%), electronic products (16%), and food and drink (15%) according to a recent survey by Ernst and Young [10].

This suggests that the most popular products purchased online are commodity-based items. Two factors contribute to this. First, these products are standardized and thus do not require any customization [6]. The second factor, which is more important for Australian e-tailers, is the available time of these products. Usually, most of these products are made in the USA. They are launched there first and then exported to Australia. Therefore, Australian e-tailers have a competitive advantage over the physical ones because of their supply channels. My recent interview with an e-tailer's owner also found that DVDs are also selling well in Australia. Sales of clothing have increased in the last year. This reflects the increase of customers' confidence in online transaction. Australian consumer's confidence on online transaction is expected to grow.

Web Site Design and Customer Service Functions

Site design and functionality is the shop front of an e-tailer. The quality of a site design can be regarded as an indicator of the service level behind it [20]. Because of the information storing capacity of a site, e-tailers can provide detailed product information and customers' review and/or comments on these products. This can be a competitive advantage for e-tailers over their physical rivalry. Besides this, a good site should provide other information regarding who is providing the goods purchased and how the process works.

On line customer service is important to increase sales and to enhance customer relationship. Its quality and amount are closely related to site design. A well-designed site can enable customers to serve themselves, thus reducing the amount of customers' request for servicing. According to GartnerGroup [12], a good site should have the following customer service functions: 1) frequently asked questions, 2) self-service (search engine and a site map, 3) trouble ticket, 4) voice over internet protocol (VoIP), 5) environment (contact information, such as contact number, address and operation hours), 6) collaboration assistance ('call me' buttons and chat functions), and 7) e-mail address. Moreover, it also needs to have statement of privacy and return policies.

Regarding site usablity, several recent research and publications [20] [11] [10] report that many Australian e-tailers' site has a reasonably good functionality and usability. Using Amazon.com as a benchmark, the site usability of many leading Australian e-tailer's site have been found superior or close to that of Amazon.com (Global Reviews, 2001).

Security and Privacy

Security and privacy have been repeatedly identified as major hurdles for consumers to buy online in Australia [9] [10]. However, Australian companies were found not paying enough attention to these areas. For example, Anderson Legal [cited in 13] conducted two surveys of Australian top 100 sites in October last year and February this year and reported that only 60 and 47 per cent of these sites have an on-site privacy policy respectively. Such percentages are much lower than that of American top 100 where 97 per cent of them have an online privacy statement. For Australian e-tailers, it had been found that many of them do not have privacy policy and the percentages of sites with encryption functions or digital certificates are only 41 and 20 respectively [10]. However, a recent site survey has found that Australian e-tailers have made significant improvement in these areas (Global Reviews, 2001).

Australian government has been actively involved in addressing the privacy issue and legislated in online privacy. From 21st December this year, private companies with annual revenue over A$ 3 millions are obliged to comply with the Privacy Amendment (Private Sector) Act 2000 (for more details, see www.privacy.gov.au). This may not applied to most of Australian e-tailers as their annual revenue is less than A$ 3 millions. A recent survey by Ernst & Young [10] reported that only a half of Australia e-tailers generated more than A$ 1 million a year. However, the Federal Treasury of Australia has set up a set of activities called "Best Practice Model" in which privacy and security are two major components (for more details, see www.treasury.gov.au/ecommerce) to promote the awareness of importance of privacy and security issues among small Australian e-tailers.

Customer Relationship Management

The Internet technology provides many ways for online retailers to track their customer's browsing and purchase behavior. Many technology firms also offer such services to e-tailers. The database of online buyers and their behavior can be very useful for marketing purposes. However, many e-tailers do not fully recognize the value of such a database. As reported by Ernst & Young [10], 39 per cent of Australian e-tailers do not use customer information at all, only 27 per cent of them use this information for track repeat customers and 23 per cent for feeding it into market research. The percentages of e-tailers that offer customized products or personalized web pages are only 14 per cent and 10 per cent respectively. This is an important area that Australian e-tailers need to improve significantly.

Fulfillment and After-Sale Support

Fulfillment has been one of the biggest challenges for e-tailers. For traditional e-tailers, customers usually are responsible for picking and delivering the goods purchased. They also take the goods back to the shop if they want to return them. The products are usually stocked in shops. So, aggregating the products purchased is easily accomplished in the shop. However, many pure e-taliers do not have physical warehouses and do not stock products presented on their site. Therefore, product aggregation, delivery and return are much more difficult for e-tailers than their physical counterpart. In addition, providing after-sale service, such as handling return, or reverse logistics, and tracking goods purchased, can be very challenging for them, because of their fulfillment processes that are usually involved many third party players.

Currently, three delivery categories have been used in Australia: in-sourcing, out-tasking, and alliance. Some e-tailers have established their own in-house transportation fleet and deliver goods to their customers. Examples of e-tailers in this category include Greengrocer.com and shopfast.com. Both are online grocers and operating in Sydney and Melbourne. The online arm of a giant retailer, MyerDirect, also has its own delivery fleet. The economic viability of this mode of delivery is questionable in Australia. It is estimated that a cost of delivery for each transaction is about A$ 8 [3] based on the average order is A$100. This requires a large number of orders a day to deliver goods cost-effectively. As estimated by David Gold, the former CEO of a leading pure e-tailer in Australia, an -e-tailer needs 2,500 to 3,000 orders to justify the economics of having its own delivery system.

Most of Australian e-tailers rely on a third party to deliver their products to the customers. In Australia, the dominant e-fulfillment organizations are Australia Post, TNT, and Toll Holdings, a private transportation company [18]. Australia Post has invested about A$35 million in e-fulfillment technology [18], focusing on four areas of fulfillment: warehousing, fulfillment, delivery and payment systems for Australian e-tailers [16]. It has about 4,500 post offices and deliver goods for the online arms of Coles, Telstra and David Johns. Many small Australian e-tailers are also using its delivery services. Toll Holdings delivers groceries for the online shopping unit, HomeShop, of a retailing giant, Woolworths. It has also made a significant investment on technology, including setting up a new online marketplace for relocation business.

E-tailers in the third category of e-fulfillment is to establish alliances, either in the form of joint venture or strategic alliance with other, particularly established, companies. For example, Dstore set up a joint venture (e-fill) with 3PP – a logistics and fulfillment company and added Home Delivery last year in its fulfillment system. Home Delivery provides out-of-hour delivery service to customers.

Wishlish.com, a leading specialized online gift e-tailer in Australia, has formed an alliance with BP Express. It offers customers the option to pick up their goods purchased at the BP convenience store at their choice. Customers can also return their goods to the PB stores. It was claimed that such a strategic delivery arrangement could reduce the average deliver costs to A$2.

Success Factors

According to a survey by Ernst & Young (2001), a carefully selected product range and a well-designed site are perceived by Australian e-tailers and customers as the most important factors to Australian e-tailers' success. Other success factors, such as security, privacy, after-sales service, are also rated highly, but differences in their importance exists between the e-tailers and customers. As shown in Table 1, Australians rated price much important than the e-tailers did. Interestingly, good brand was rated very low by online buyers in Australia.

Table 1 The Perceived Success Factors of Australian E-tailers and Online Buyers

Perception of success factors	Consumers (%)	e-tailers (%)
Good range of product	27	23
Good site	25	23
Competitive Prices	17	7
Good after sales service	14	9
Convenience	10	14
Good security	5	14
Good brands	2	10

Source: Ernst & Young [10] with 997 Internet users and 133 Australian e-tailers.

Challenges

Australian e-tailers face many challenges. Ernst & Young [10] identified three major challenges, namely, getting customers to the site, overseas competition, and fulfillment. Other publications have repeatedly pointed delivery as a biggest challenge facing Australian e-tailers [1] [17] [3]. It is not surprising as marketing and fulfillment have also been reported as major challenges in many studies in other countries [19] [4] [2] [5].

So far, we have reviewed existing publications on some strategic issues and success factors in managing Australian e-tailers and the challenges they face. The next section presents some findings from a case study of how a Australian e-tailer addresses these strategic issues and outlines the challenges the company faces in this new competitive environment.

A CASE STUDY OF AN AUSTRALIAN E-TAILER

Perth-based Starshop.com was established in May 2001 and has made a steady progress in increasing its revenue. The company did not receive venture capital and is run by two persons, an owner and a CEO. The CEO is mainly responsible for updating its site's content and getting their suppliers involved. The owner takes care of sales and customer relationships. This section outlines its strategic considerations and challenges in operating a pure e-tailer.

Selecting product carefully: The most important criterion for selecting products, according to the owner, is that they are easily to sell online. Currently, there are 11 categories of products displayed on the site: music, art, books, computer games, DVD and video, electrical, perfumes and fragrances, jewelry, toys, travel goods, and wine. These products are in line with the most popular products purchased online as reported by Ernst & Young (2001). Another criterion for product selection is to have a wide range of products. This not only provides convenience and more choices to customers, but also offers opportunities for customers to test the e-tailer's creditability and delivery. For example, some customers would like to buy some small items to test the site's creditability and reliability before they buy big ticket items. Interestingly, the product margin is not a big consideration. Some products offered by Starshop.com are sold at very low margins and it hope

that the customers may buy other products with high margins at the same time or in the future.

Streamlining business process and integrating the front and back systems. The emergence of the Internet provides a new medium for communication between all parties involved, such as customers, intermediaries, manufacturers, and suppliers. Because of its extensive connections with its suppliers and customers, organizations that are conducting online business are dubbed as "extraprises" [7]. Managing e-business processes is a response to "executive or die" imperative many companies face [15]. To survive in this new competitive environment, pure e-tailers have to redesign its business model and one of the crucial components in a business model is e-business process [14]. For Starshop.com, its e-tailing process can be depicted in Figure 1.
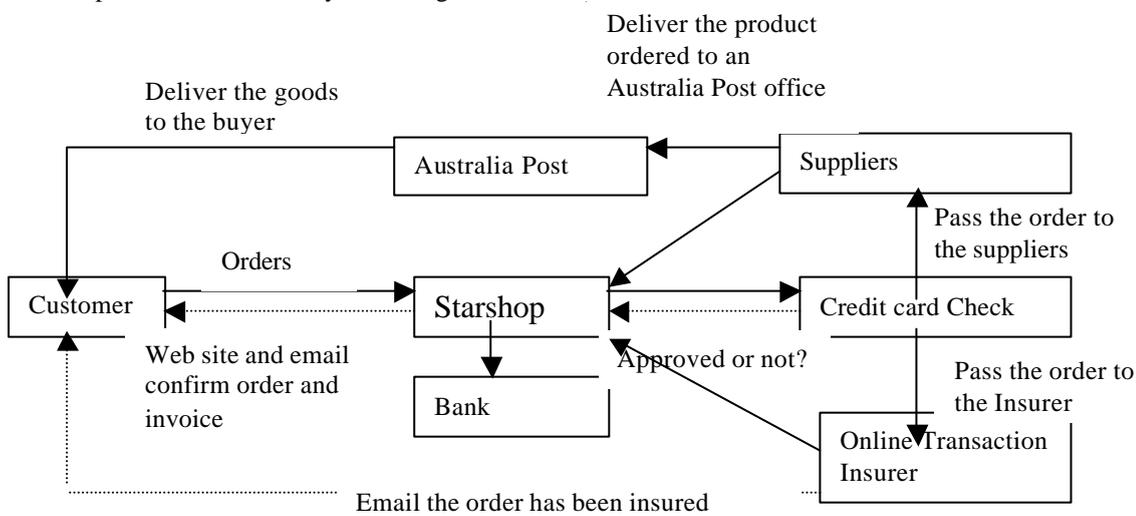

Figure 1 The E-tailing Process at Stsarshop.com

The design principle of this e-tailing process is to automate most of the back office functions and to integrate the front and back-end functions. Activities such as order taking and processing, invoicing, payment, credit card checking, and the accounting activities, are undertaken automatically by the software. This not only reduces the number of staff to operate the business, but also increases to license such a back-office process and integrated system to other e-tailers in the future.

Minimizing promotion budget: To many pure e-tailers, the relationship between promotion and revenue is usually considered as that between 'chicken and eggs'. To bring customers to their site, promotion is necessary. However, where the promotion money comes from if no revenue has been generated in the first place? In the Internet and technology boom period of 1995-2000, online businesses were much easier to get funds than now because many venture capitals were keen to get exposed to online businesses. Some Australian pure players have lamented that they had spent too much on promotion in the early days [8].

For Stallmall.com, its has spent little on promotion and its promotion depends mainly on publicity by talking to different government organizations and registering on Internet search engines. So its customer acquisition cost is near zero. It does not use affiliation marketing programs.

Minimizing HR costs. Starshop.com also minimizes its costs of employment through automating its back-office function and using telecommunication technology. The automation of back-office functions enables it to operate with two persons: the owner and the CEO. Moreover, the owner has other businesses and only work on a part-time basis. His time spent on this business has been to handle customers' enquiry. A non-state specific telephone number (1300) is shown on the site. However, calls to this number can be diverted automatically to the owner's mobile phone. Hence, he can take customers' phone calls virtually everywhere in Australia. The only full-time staff is the CEO. She is experienced in distribution and wholesales and spends most of her time on negotiating with potential suppliers and updating the site contents. To further minimizing HR costs, the company is considering to get its suppliers directly involved in updating its site contents.

Improving fulfillment efficiency. Starshop.com has selected Australia Post to deliver products purchased to its customers. It has signed a service agreement with Australia Post to get a discount account and has a supply agreement with each of its suppliers. Under this agreement, suppliers are required to deliver the products to a nearby Australia Post office. Such goods are then delivered by Australia Post to the customers in the name of Starshop.com. At present, aggregation is a problem for Starshop.com as Australia Post does not provide such a service. This means the goods purchased by its customers deliver to the customers item by item if they have purchased multiple items and may become a nuisance to them. However, Australia Post are investing heavily on warehousing. It is expected that Australia Post will provide aggregation services to e-tailers in the near future.

Adopting a long-term growth strategy. Overall, Starshop.com is adopting a long-term growth strategy. This was clearly expressed by the owner during the interview. He said that he would like to grow his online business within his resources and he holds a long-term perspective for Starshop.com. He considers the development of the expertise in e-tailing site design, back-office process automation and fulfillment, can provide many opportunities for him. Therefore, he is optimistic of the future of Starshop.com.

Challenges for Starshop.com. Regarding the challenges Starshop.com is facing, the owner said that getting suppliers involved is the biggest challenge so far. It is much more difficult for manufacturers or wholesalers to supply to e-tailers than to traditional retailers for several reasons. First, they are responsible for delivering products to another delivery agency, such as Australia Post in the case of Starshop.com, or directly to customers. Second, orders are usually small in size, causing efficiency in processing these orders. Third, planning and availability are also problematic because of difficulties in predicting the number of orders from e-tailers. The fourth difficulty is the coordination of online and offline product pricing and promotion. Another problem in supplying e-tailers is the investment of information technology. This problem can be exacerbated if different e-tailer uses different technological platform. Suppliers' involvement is critical to the survival of Starshop.com.

Customer relationship management may be a challenge in the near future. Because the company has only been operating for three months, the owner can know who is buying from Starshop.com. As it expands and grows, how to make use of the customer data for promotion and product selection will be another challenge for Starshop.com.

CONCLUSIONS

With the technology stock market crashing last year, e-tailers, particularly pure players, have found difficult to get venture capitals and are fighting for their survival. Many pure e-tailers have been closed or acquired by established organizations. However, some e-tailers are still alive and some are prospering. Why has this happened? What lessons can we learn from their experiences? This paper attempts to explore some strategic issues in managing e-tailers.

Australian e-tailers have been very keen in exploring the opportunities offered by Internet technologies and are evolving. Overall, Australian e-tailers have used Internet technology in designing their Web site and have offered a big range of products to their online customers. They also perform reasonably well in customer services, but there is still much room for improvement in this area. The most difficult challenge facing them is fulfillment because of its geographic isolation and low population density. Australian government is actively involved in tackling those issues concerned by consumers, such as privacy and security, by legislation and promoting 'best practice model'.

How can e-tailers advance in this soft economy? The examination of an Australian e-tailer helps us understand several strategic issues in managing pure e-tailing players. To survive, e-tailers need to carefully select product offerings, streamline business processes, minimize marketing budget and HR costs, improve fulfillment efficiency, and adopt a long -term growth strategy. These are some characteristics we have identified in Starshop.com - a new Australian pure e-tailer.

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