WHERE ARE ALL THE SHOPPERS?
E-tailing lessons for the Asia Pacific

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Over the past six years, the growth of Internet retailing has resulted in dramatic challenges for existing retailers. Traditional channels of distribution have been challenged by the Internet's ability to offer products to distant consumers, resulting in increased competition in both product range and price. The pressure to enter this competitive market has resulted in high expenditure by potential and existing e-tailers attempting to achieve online sales. However, to date, use of the Internet for retail purchases lags far behind more traditional channels of distribution. Despite high levels of Internet use in Asia, uptake of online shipping has been much higher in the United States, and Internet retailing in both the US and the Asia Pacific is marked more by high profile failures than by successes. This study analyses reasons for the limited success of online shopping, particularly in Australia and Hong Kong, examines whether there were warning signs that Internet shopping would not take off, and considers the implications for existing or potential e-tailers in the Asia-Pacific.

KEYWORDS: Internet retailing, e-tailing, shopping online

Internet shopping has been the subject of enormous interest in both the academic and popular press over the past five years, as Internet e-tailers evolved, expanded, and all too commonly foundered. Accurate statistics on online sales are difficult to obtain, but while total Internet sales have continued to grow each year, expansion has failed to maintain early growth levels, which (starting from a low base) were claimed to range from 40 percent to 340 percent over one year (Sellers, 1999). These early growth patterns, and expectations of a sustained Internet shopping boom, created enormous pressure for businesses to enter an industry where barriers to entry were said to be low (De Jonge, 1999). Exhortations such as ‘Catch the wave or
drown’ were said to be the ‘advice of industry experts to retailers resisting the onslaught of the Internet’ (Chain Store Age, 1998). Asian retailers have been urged to “act fast to secure a slice of the rapidly growing Asia-Pacific e-tailer market” according to a report by the Boston Consulting Group (Zampetakis, 2000). Bill Gates is reported to have predicted that by 2005, 35-45 percent of all groceries will be bought online, despite less than 1 percent of groceries being bought online in the US, the most developed Internet market (Nakada, 2000).

Despite its rapid growth over the past five years, online shopping has still to make a substantial impact on retail figures. Despite finally announcing a profit in early 2002, Amazon’s shares subsequently slid, amid critical reports on their liquidity and high debt loads (Davidson, 2002; Ham, 2002; Hansell, 2002; Reuters, 2002). Despite early claims that barriers to entry for online selling are low, much of Amazon’s problems are likely to arise from their high customer acquisition costs, which in the early years were said to be as high as $29 per customer (Sellers, 1999). Established retailers might be expected to have lower acquisition costs, yet even experienced retailers like Barnes and Noble continue to make a loss on their Internet operations (www.barnes&noble.com). In Australia, successful in-store retailers such as David Jones and Harvey Norman abandoned early experiments in on line retailing due to a lack of profitability (Sauer and Burton, 1999), but subsequently re-commenced online shopping, in part due to pressure from the market to have an e-commerce strategy. High profile failures such as E-toys, Peapod and Webvan in the US, adMart in Hong Kong, and TheSpot.com in Australia have questioned the viability of the Internet shopping model. Business failures caused by the costs of selling online are not restricted to pure play e-tailers. Ag.com, a successful Australian fax and telephone business, was forced into voluntary administration in 2000 because it could not raise funds to pay for costs linked with its website, and later sued Accenture, the consulting company that developed the site (Higgins, 2001b).

Does this lack of online retailing profitability suggest that the impact of the Internet on traditional retail outlets has been overstated, and that the competing e-tail strategies of ‘pure play’ or ‘clicks and mortar’ are both flawed, or does it only reflect the early stage of the medium and technology limitations? The answers have critical implications for business, yet there has been only limited research into the factors limiting the adoption of web shopping. If online sales have shown the growth levels recorded in the literature, without yet making a substantial impact on traditional stores, there may be groups of customers or particular product types which are primarily responsible for much of the growth in online sales, and hence natural limits to the potential and profitability of the channel. Research into the drivers of, and barriers to, online shopping is important to managers and researchers. Expenditure by pureplay and existing retailers hoping to enter the online market has been huge, sometimes threatening the survival of a profitable company, as in the case of Ag.com discussed above. The costs of unsuccessful Internet ventures may also have contributed to the problems of much larger retailers: Kmart, which filed for Chapter 11 bankruptcy in early 2002, had twice failed to successfully enter the online market alone, before relaunching through an initially independent retail web site, Bluelight.com. Despite large amounts of funding by its backers and then by Kmart, which bought all shares in the company, Bluelight.com failed in its model of attracting sales by offering free web access (Vance, 2001). Similarly, Toys R Us, which in January 2002 announced large layoffs and plans to close 64 stores, had suffered large losses from its online subsidiary (Hays, 2002; Lewis, 2001) The extent to which unprofitable investment in online shopping contributed to Kmart’s and Toys R Us’ decline may never be clear, but in both cases substantial and unprofitable investments in online shopping certainly diverted funds which could have been spent on revital-
ising their retail business. By examining some of the assertions that have been used to promote online shopping, and the evidence in favour and against these claims, we may be able to obtain some reasons for the limited success of online shopping, and some advice for potential e-tailers. In this paper, we examine some of the faulty and/or overstated arguments which were used to promote online shopping, and review the evidence concerning online shopping over the past four years.

**METHODOLOGY**

The study reviewed the substantial amount of academic, business, and press literature describing and analysing the development of online retailing over the past six years. Common themes justifying the anticipated boom in online shopping were identified. These claims are tested against the actual state of online shopping in 2002, providing a basis to analyse the extent to which these assertions have been validated by actual business trends. In cases where the claims have been incompletely supported by recent data, the study discusses the reasons why early projections for the success of online shopping growth have not been met.

**Assertion 1: People Have Shopped by Catalogue, So They Will Shop Online**

Clues to the ultimate potential of online shopping can be gained by contrasting it with other forms of in-home shopping, such as catalogue and direct response (or television) shopping. All these distribution channels share similar advantages and disadvantages and appear to appeal to similar demographics. Studies of what is important to online and catalogue shoppers have identified convenience as a key reasons for shoppers using both channels (Beaudry, 1999; Donthu and Garcia, 1999; Eastlick and Feinberg, 1999). Common barriers have also been identified as reasons for not shopping by catalogue or online: a preference for seeing the product before purchase, a lack of trust in the medium, and reluctance to wait for delivery (Beaudry, 1999; Pavitt, 1997). Both distribution methods have been said to experience significant problems in coping with returned goods, a problem compounded by international sales, where there may be difficulty reclaiming taxes (Foch, 1997; Tedeschi, 1999). Higher income groups have been shown to be over-represented among both groups (Beaudry, 1999; Gillett, 1970, Lumkpkind & Hawes, 1985; Donthu & Garcia, 1999). These similarities between the two channels suggest that the attraction of Internet shopping may be greatest in countries with an established market for non-store retailing, where consumer willingness to shop outside stores has been established by a history of catalogue retailing.

Most of the research into Internet shopping has been based on the US market, with an implicit assumption that other countries will follow the increasing pattern of online shopping shown by the US. However there are clear reasons to suggest that the US market may be different from other countries, and that US projections may not apply to other markets. The penetration of catalogue and direct response shopping has been much higher in the US than in all other markets (Foch, 1997), particularly the Asia Pacific region, probably due to the much higher level of urbanisation in countries such as Hong Kong, Singapore, and Australia. The US also offers tax advantages for catalogue retailers who set up in low cost states, providing cost advantages for shoppers who live in higher taxed states. With a consistent tax structure, e-tailers in the Asia-Pacific area do not share these cost advantages relative to retail stores, and thus compete against local retailers with additional delivery charges, and lower brand recognition. Without a strong tradition of catalogue shopping or tax advantages, the penetration of Internet shopping was always likely to be lower outside the US.

Even within the US, it has been noted for many years that catalogue and phone shopping have failed to achieve a substantial proportion of retail sales, suggesting that in-home shop-
ping has limitations for much of the population (Tauber, 1972). Catalogue sales have been said to plummet when new retail stores are opened in strong catalogue regions (Stoneman, 1997), so the lower penetration of catalogue shopping in other countries may be partly explained by higher levels of urbanisation, with consequent higher retail penetration. Asian countries such as Hong Kong, Singapore, and Australia have the highest levels of urbanisation in the world. In Singapore and Hong Kong, virtually all of the population live in cities, and Australia and New Zealand constitute the region with the highest level of urbanization in the world, with 85 percent of the population living in cities (Reserve Bank, 2002). In highly urbanized markets, most consumers will have easy access to large retail centres, and as a consequence, these regions present a less fruitful market for catalogue, and potentially for Internet, shopping.

**Assertion 2: Use of the Internet is Rapidly Increasing, So People Will Increasingly Shop On-line**

Any report on the future of Internet shopping in the late 1990s discussed rapidly increasing penetration rates for Internet use. US statistics reported rapid increases in the number of people who had shopped on line, from 37 percent of AOL subscribers in June 1998 to 62 percent in September 1999 said to have shopped online (Hansell, 1999). Statistics from Asia revealed a very different picture; however. Australia and Singapore had comparable rates of Internet penetration to the US, but much lower levels of Internet shopping (B&T Weekly, 1999). In the 12 months to November 1999, 43 percent of Australians accessed the net, but only 5 percent used it to order goods or services (ABS, 2000). At the same time, 37 percent of Hong Kong households were online, but only 5 percent had shopped online (Wong, 2000). Despite high levels of Internet use, both countries showed very low rates of shopping online. More worryingly, even analysis of early adopters showed very low repurchase rates: in 1999, more than half of those who had shopped online in Australia had bought on only one or two occasions. Such a low rate of repurchase could have provided an early warning that the medium had limited value for many customers. A low rate of repurchase is particularly concerning for a business model where customer acquisition costs are high. Internet marketers have been said to sometimes spend $45 “to acquire a customer who generally spends $35 and never comes back” (Bulkeley & Carlton, 2000). These early warnings, which appear to have been disregarded by e-tailers, have been reinforced by later findings showing the same pattern of high levels of Internet use, but very low levels of expenditure online (Lowe, 2000).

In every study of Internet use, people were shown to be primarily using the Internet for information search and communication. The most common use of the Internet in communications is for transmission of electronic messages or e-mail, particularly in the workplace, with 55-84 percent of workers in different countries reporting using the Internet every day or several times a week (Merrick, 2000). Behind the statistics of Internet use was a pattern of trial shopping, but with limited repeat purchases, except for a small minority. This is in line with studies of web usage which have shown that increased experience may not influence behaviour in a linear fashion, with moderate users often enjoying web use less than less experienced users (McWilliam, Hammond, et al., 1996). Early predictions of a boom in online shopping resulting from an increase in online usage appear to have ignored the fact that the Net was, and continues to be, primarily used for information and message exchange, not for shopping.

**Assertion 3: Teenagers are Online All the Time. Given Time, They Will Shop Online**

It is often said that today’s teenagers, with much higher levels of Internet usage, will be
much more likely than today’s adults to purchase online as they grow up. The founder of failed Australian retailer 131.Shop claimed that online shopping would only be profitable “when the 16-to-20-year-olds of today have enough disposable income to be buying over the Web” (Higgins, 2001a). Teenagers were said to be a “hidden gold mine” for the marketing community, that, with time, would spend more and more online (Lloyd, 1999). However this view is not supported by early US statistics, which showed that despite high levels of Internet use, there were very low levels of online shopping by teenagers (Connelly, 1999). The limited use of online shopping may be due to teenagers’ lack of access to credit, and it is then possible that today’s computer savvy teenagers may switch to online shopping when they have their own credit cards. However these same teenagers are developing shopping habits based on bricks and mortar stores, and socialising patterns which are often based around retail malls, just as their parents did. It is thus not clear that the shopping channels of today’s teenagers will be radically different from their parents.

**Assertion 4: It Just Needs Time!**

In attempting to understand the diffusion of an innovation such as online shopping, the behaviour of early adopters can be used to shed light on subsequent adoption patterns (Lambkin & Day, 1989). So, if we consider the Internet as an innovation, the study of early adopters can perhaps suggest something about the long term potential of the channel. However studies of early adopters in the Asia-Pacific were showing low rates of repeat behaviour. Over half of those who had shopped online had bought on only one or two occasions (ABS, 1999). Another study of Hong Kong, Singapore and Australian managers with high rates of Internet use had found low adoption of Internet shopping, and low rates of repurchase, with the exception of a small percentage of individuals (Burton, Pulendran, & Sauer, 2000). While Internet sales have continued to rise, this is off a low base. Even the advent of a profit at Amazon has not allayed criticism that their model is unsustainable, with a strategy of low prices in the face of strong competition and the concurrent announcement that a loss, or at best break even result, was anticipated for the next quarter (Davidson, 2002).

Amazon’s essential problem remains the difficulty of growing sales and achieving profitable margins in the face of competition from other retailers, leading to criticism that a profit was only achieved by closing two fulfilment centres and slashing marketing and administration costs (Ham, 2002). Traditional retailers also face this problem, but Internet retailing is often founded on the premise of economies of scale which subsequently appear elusive. There appears to be little hope that the rate of Internet spending will increase substantially, with US reports in late 2001 suggesting a lower proportion than one year before expecting to make online purchases in the subsequent year (Veverka, 2001). These statistics suggest that despite high levels of Internet sales, there is insufficient depth in the market to make profits for most e-tailers, and this problem will not be resolved by increases in Internet usage.

For example Australia has the second highest level of Internet use in the world, after Canada, yet Internet shopping represents less than 1 percent of households’ total annual retail spending in Australia (Lowe, 2000; Nicholas, 2001). While total sales online may continue to increase, the limited size of the online market relative to in-store buying suggests that economies of scale will be difficult for e-tailers to achieve, and with the high logistic and customer acquisition costs presented by Internet retailing, profitability will be elusive for most e-tailers.

**Assertion 5: It’s More Efficient On-line**

One of the early attractions of the Internet was said to be lower distribution costs, due to the lack of a store presence. Failed toy e-tailer, toybox.com claimed that “We can be more
competitive on price due to our lower overheads and streamlining of ordering and fulfilling” (Lloyd, 1999). However distribution costs can be disproportionately high for low value items, negating any potential value in online shopping. A 25-cent paper cup has been said to cost $8, and to take two days to deliver from Walmart.com’s site (Zellner, 2000). It has quickly become apparent that building awareness online and driving customers to sites is expensive and highly competitive (Peterson, 1999; Lynch, Kent, & Srinivasan, 2001). The cost of acquiring customers has consequently been a major problem for start-up Internet retailers. E-toys, the failed online toy retailer, paid $3 million to become an ‘anchor tenant’ on AOL, and paid 25 percent of each sales dollar to other net players who steered customers to eToys (Sellers, 1999). Added to the costs for e-tailers have been the substantial IT costs, which even in 1999, were as high as $US75,000, and were estimated by the Gartner group to rise to $US1.5 million by 2001 to establish an online presence.

The high costs of building awareness for a start-up should provide a substantial advantage for the so-called ‘clicks and mortar’ retailers, with a known brand and a web presence, such as Barnes & Noble in the US, David Jones in Australia, and Giordano in Asia. However the established retailers face other problems when they attempt to sell online. Commodity type goods such as books and cds, where price comparisons are easy, have dominated most reports of what people buy online and in these areas, barriers to switching are low. As a consequence, pricing online has been highly competitive, and margins very low, making it difficult or impossible for e-tailers to cover delivery costs, let alone make a contribution to the very high fixed costs of setting up and maintaining a web presence. Online retailers are said to spend more than twice as much as catalogue based retailers to acquire each new online buyer (Quick, 2000). In such a world, the only source of sustainable competitive advantage is cost leadership, and a company that attempts to compete in this market without cost leadership is likely to suffer limited business if it doesn’t match prices, and low or non-existent profits if it does match prices.

**Assertion 6: Online Shopping Will Comprise a Substantial Proportion of the Retail Expenditure**

The idea that consumers will switch a substantial proportion of their purchases to online channels ignores knowledge about consumer shopping behaviour. Except for products which can be downloaded online, Internet shopping requires exposure to a product, choice, typically without trial, and a wait, typically several days minimum, to receive the product. However in-store shoppers typically make a large percentage of their purchases on impulse, after being exposed to them by walking through a store (Underhill, 1999). Internet shopping cannot expose shoppers to anything like the same number of products or services. It does not offer the ability to pick up, touch, smell, and try the product. While this is less of a disadvantage for repeat purchases, it limits the potential to expose the consumer to the many additional products which might be bought during a trip for routine stock replenishment.

Asia-Pacific cities such as Hong Kong and Singapore, with highly concentrated populations, pose particular problems for online shopping. Hong Kong residents, in particular, shop more often for groceries than any other country in the world, probably due to the city’s strong tradition of wet (fresh) markets. In such a retail market, switching consumers to large grocery orders would be difficult, yet frequent small orders are expensive for the e-tailer in picking and delivery. Start up grocery retailers such as AdMart in Hong Kong faced the dilemma that the type of order that was most profitable for the retailer (a large, occasional delivery) was inconsistent with customers’ shopping habits. AdMart, like US online grocery seller WebVan, was unable to make a
profit and closed in December 2000. Amway Australia faced a similar problem in coping with small online orders. When Amway launched its web site, it found that the average order size went down, and distribution costs rose by more than 20 percent as customers used the web to place small orders (Lloyd, 2001).

**Assertion 7: Logistics Can be Solved with a Good Business Plan**

Good logistics were identified early as the defining cost advantage for setting up an online business (Saville, 1999). However, the failed US retailer, E-toys, is a salutary lesson of a well-resourced, well-planned enterprise, which achieved high awareness and trial, yet which still failed to make money. Amazon.com was also premised on the belief that scale and dominance, which the company quickly established, would lead to rising sales and reduction in marketing and fulfilment costs. However though costs have fallen, Amazon has found that sales have also fallen, questioning the viability of the pure e-tail model (Bartholomeusz, 2001a). Some of the failure of E-toys and other retailers can be traced to logistic problems, such as the requirement to carry large amounts of inventory, the high seasonality of products such as toys, clothes and gifts, difficulty in selling off excess unsold inventory, and the high cost of returns. Delivery problems are exacerbated in highly urbanised cities such as Hong Kong and Singapore, where a large percentage of the population (particularly the target population of young professionals) lives in security apartment blocks and/or work long hours, so delivering an order, except after hours, is difficult, and delivery after hours is expensive. Innovative distribution systems, such as the Australian partnership between Wishlist.com.au and petrol stations to provide delivery pick up and returns have gone part of the way to address this issue. However the additional delivery point adds another intermediary to the value chain, resulting in higher costs.

**Assertion 8: There is Substantial Demand for Online Shopping**

The early push to online retailing was driven by research reports that suggested that large numbers of consumers were attracted by online retailing. For example, European research was said to show that 17 percent of customers found the idea of buying their food online appealing (Mullins-Gunst, 2000). However sales figures in every market have suggested that projections of high online demand are overstated, perhaps due to the limitations of Internet research, much of which asked intentions rather than measuring behaviour, and was completed using the Net, thus overstating likely use (Manktelow, 2001). While there will always be customers for whom online shopping offers a benefit, the available evidence on customer behaviour suggests that the majority of customers do not see a substantial benefit in shopping on-line, given perceived security risks, delivery costs, and the inability to touch and try the product before purchase. In highly urbanised societies such as Hong Kong and Singapore, access to retail shops is close and convenient. Access to retail stores is simplified by extended opening hours, and shopping is an established recreational activity. In this environment, the advantage of online sites such as Giordano.com.hk, with problematic delivery caused by long working hours and security apartment buildings, is not clear, when the nearest retail outlet is likely to be close, and products can be tried before purchase. In particular, there is evidence that for some customers, browsing in-store may be more rewarding than the actual acquisition of products (Beatty & Ferrell, 1998). Customers who enjoy browsing in-store will also be exposed to substantially greater numbers of products, and are likely to provide a significant amount of in-store sales. There is no evidence that browsing online creates the same hedonic response. Online browsers will also be
exposed to a much lower number of products in almost any directed or undirected browsing session, creating a lower probability of buying.

One of the arguments for online shopping is that it is faster, more convenient, and thus more attractive for buyers because it avoids the inconveniences of in-store shopping. While this model of shopping as a search cost may be true for some products and for some consumers, the paradigm of in-store shopping as a cost ignores the complex nature of many retail exchanges. The situational nature of many purchases has been demonstrated by a range of authors (see for example Holbrook & Hirschman, 1982; Donovan, Rossiter, et al., 1994). A number of situational factors will also limit sales over the Net. Net consumers are not exposed to in-store triggers or to in-store personal selling techniques. Many items, such as fashion, need to be tried on before purchase and are consequently generally less suitable to sell on the Web (Catalogue clothing tends to be loose fitting and make extensive use of features such as elastic waists as a response to this problem). Hardware constraints still make it difficult to assess colours or to rapidly scan online offerings, and the enforced delay in delivery for products ordered over the Net will be a disadvantage for consumers who want immediate use of a product.

Perhaps a greater limitation to the potential of the Web to effect retail sales is that for many consumers, the search process can be enjoyable in itself, whether or not a purchase is ultimately made, akin to Thaler’s (1985) concept of transaction utility. While a purchase may provide acquisition utility for both web and in-store purchases (though delayed by the delivery lag for web purchases), shopping itself may provide transaction utility for groups of consumers. Consumers with stronger feminine identities have been shown to manifest greater involvement and enjoyment of shopping (Fischer & Arnold, 1994). Given the limited sensory exposure of the web, competing content and the technological constraints which limit rapid browsing, it is likely that online shopping has less potential to create impulse buying, which has been shown to be strongly associated with physical exposure to a product, often when no purchase was intended (Rook, 1987). There has been little research into consumers’ enjoyment of web shopping, but the research discussed above suggests that for consumers who enjoy shopping, online shopping is not an acceptable substitute for in-store browsing and shopping.

**DOES ONLINE SHOPPING HAVE A FUTURE?**

There will always be a demand for Internet shopping, from people who value its convenience and for its ability to supply unusual items to distant markets. The internet has particular advantages for search goods, such as books and CDs, for repeat purchases of experience goods such as pre-trialled clothing (clothing which is being repurchased in identical size and style), pharmacy items, and for purchases with high distribution efficiencies online, such as share transactions. In contrast, however, the Internet has major limitations for stimulating impulse buys, for goods requiring trial, for risk averse consumers, for price conscious consumers, and for consumers seeking the shopping experience.

The strategic problem for the online retailer, however, is whether the demand for Internet shopping can be satisfied in a manner which is economically sustainable for the e-tailer. This analysis suggests that the medium itself may have limited attraction for many consumers, except under special conditions, such as ordering a rare or unusual book. However delivering rare and unusual items is not a large market, and is likely to result in substantial inventory costs to be able to provide supply. If the Internet has limited benefits for supplying the relatively standard items which constitute the bulk of retail sales, it is unlikely that a mass market e-tailer will be able to generate sufficient demand and extract an adequate margin to cover the set-up and maintenance costs of an online system. Logistic
issues such as seasonality, distribution costs, and disposing of excess inventory pose further problems. While children and teenagers have high levels of on-line activity, their established shopping habits do not suggest that they will be any less addicted than their parents to bricks and mortar outlets.

**Can a Bricks and Mortar Retailer Succeed with an e-Commerce Strategy?**

The preceding analysis suggests that Internet retailing will continue to be a high-risk analysis, even for established retailers. In October 2001, Australian retail giant Coles-Meyer announced a review of its online operations, with figures showing that losses per dollar of sales had climbed, despite substantial growth in revenue, providing further evidence that economies of scale are often elusive, even for large Internet players (Bartholomeusz, 2001b). It is not, however, impossible to make profits online: Tesco.com, the British online grocer, was said by its CEO in October 2001 to be profitable, with losses for the group stemming from expansion into the areas of electronics, baby, toddler and fashion, wine and entertainment (business-week.com). Given that Tesco, as the market leader, with 22.8 percent of British grocery spending in September 2001, would have made a substantial proportion of these sales from its bricks and mortar stores, however, it is possible that many of their online sales do not represent incremental income. Tesco’s online model was based on starting small, containing costs, and picking from its established stores, and rolling out the service to more stores as their capability grew. John Browett, Tesco’s CEO, illustrated this control on costs in emphasising “The point is always to have revenues ahead of costs.” (business-week.com).

The preceding discussion illustrates the problems of selling tangible goods online. For intangibles purchases, however, the ability to see goods before purchase does not distinguish Internet channels from physical retail outlets. For example, banking services are as visible on the Internet as in a branch. Travel services can be more visible on the Internet than in a travel agent’s office because of the ability to access a range of visual images. In other words, there is little difference in trialability of these services across channels. Similarly, delay in delivery is not a problem for financial services or travel bookings delivered through the Internet compared with delivery through conventional channels. It is also doubtful that concerns about enjoyment will significantly differentiate Internet visits to the bank or travel agent from more conventional ways of obtaining these services. For these reasons, therefore, goods and services that can be transacted and delivered via the Internet can be expected to be more readily adopted than tangible goods. The critical strategy issue for potential service e-tailers, however, is whether they can generate sufficient revenue from Internet operations to justify the huge start-up and ongoing investment in online selling.

For purchases of tangible goods, the Internet does offer some advantages for customers: the ability to provide information on demand, to compare options and establish product availability, even if the final decision is made in-store. The Internet can then be a powerful support tool for the bricks and mortar retailer, providing detailed information that the in-store shop assistant can rarely hope to match. A good example of this is the Australian sports retailer, Rebel Sport, who have chosen not to develop online selling, but instead use their web site in a ‘pull’ strategy, to drive traffic to stores by the provision of sporting information. Using a pull strategy can allow a store to estimate demand for online sales by measuring traffic to the web site, using strategies such as intermittent online vouchers to attract business to the web site, and to estimate the price sensitivity of potential web shoppers. The success of a pull strategy, however, will rely on stores’ ability to overcome the potential for free riders, where expensive content is provided for
large numbers of customers who search for the best price and buy elsewhere.

**CONCLUSION**

Online shopping is undoubtedly here to stay, and will provide an alternative channel for some retailers and consumers, particularly for those who are selling or who seek rare or unusual products. However substantial barriers to the adoption of online shopping persist. For retailers, the most critical barrier is strategic, in developing profitable margins and an economic mass of customers. Fundamentally, however, this barrier is based on overcoming established consumer preferences for in-store shopping. While a minority group of consumers will continue to be heavy users of online shopping and a majority of customers might use it intermittently, building sufficient mass of customers to ensure economic returns is likely to continue to provide a challenge to both pure play e-tailers and established retailers who wish to develop an online presence.

In 1996, marketing scholar George Day suggested four traps for businesses in developing interactive marketing: deferring participation, picking the wrong technology, unwillingness to commit, and lack of persistence (Deighton, 1996). However following this advice in the highly uncertain world of Internet marketing seems more likely to lead managers into making large and ongoing investments in risky markets without economic returns. Given the pattern of e-tailing which has emerged over the past six years, more appropriate advice to managers might be to understand their customers’ current and likely behaviour, and to thoroughly assess the potential risks and returns before investing large sums of money which could provide greater profits if spent on some other area of business activity.

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