

Will Online Kill Traditional Retail



The dramatic downturn in retail spending this year by Australians has been put down to three factors; the lack of a GST on on-line sales, our sudden savings orientation and a slow economy.

Where does this leave traditional retailers? What role do they have in the future?

The first and most important point to note is that consumers behave far more rationally in response to price than some marketers would lead us to believe. Yes, favourable brand equity does allow marketers to charge a premium over the competition but only if the experience of consumption continues to outperform the competition. A key example here is the bread and milk wars currently underway The bread and milk is the same as the branded product, so why not save a couple of dollars? Anecdotal reports of clothes and shoes being tried on in traditional retail outlets, but purchased on-line at a far reduced price reflect the same economically rational behaviour. If the consumer can save cash at no cost then why not do so? And it is not simply the lack of a GST that makes these on-line goods cheaper; overseas on-line retailers are benefiting from a strengthening Australian dollar as well.

This price effect will not evaporate as the economy improves. While many point to us now saving at a rate exceeding that of our counterparts, and at a far greater rate than a decade or so ago, a longer term view reveals we are simply returning to our traditionally somewhat conservative savings regime. It is unlikely we will spend more than we earn for a while yet. Retail must accept this reality in order to survive.

One strategy that simply does not work is to plead with the consumer to support their bricks and mortar retail outlet out of some sense of local loyalty. Not only does this smack of desperation (because it often is) but, further, this strategy simply promotes the fact that buying on-line is cheaper. How many people decided to not buy an electronic good on-line in order to support Harvey Norman? Not many I suspect.

In order to survive in this altered economic state retailers need to closely examine the manner in which consumers shop, both at bricks and mortar stores and on-line. Their behaviour and motivations in each channel are quite different, and these differences can be cleverly exploited by the astute retailer in a marketing strategy that embraces the strength of each channel.

Almost without exception, however, is that in order for retail to survive into this thrifty future an on-line presence is required for while bricks and mortar retail faces a sales slump, according to eBay's survey Online Business Index (OBI), Australian online businesses had a great 2010 and are expecting an even better 2011. This trend will continue.

Going forward, Australian retailers have little option other than to embrace the internet as a part of their "product", applying their long valued knowledge of what consumers require of a retail outlet; the environment must be pleasant (the site must look attractive), it must be easy to find what you are looking for (the site must be easy to navigate) and the sales person must be able to provide useful advice and knowledge (the site's content must be useful).

Martin James is managing director of Celsius Research