A CASE STUDY ANALYSIS OF E-COMMERCE STRATEGIES FOR RETAIL BUSINESSES

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ABSTRACT

This study examines retail businesses in Wisconsin currently having an effective e-commerce strategy implemented. These businesses do a major portion of their retail sales through the Internet. The study examines the different approaches these companies have taken towards e-commerce and identifies the problems encountered. A comparison is made of the initial to the existing e-commerce strategy in place. The progression of the e-commerce strategies for these businesses is discussed and the strategies are compared for effectiveness. Recommendations are made as to how they may enhance and build upon the existing e-commerce strategy.

Keywords: E-Commerce, online stores, business models, strategies

INTRODUCTION

E-commerce is playing a more important role in the business plan and the operating infrastructure. Today's businesses are faced with the challenge of whether to incorporate an e-commerce strategy into their business model, and if so, how will they do it. The retail business has been greatly affected by e-commerce. Consumers now have the choice to purchase goods online rather than physically going to the store. The Internet has allowed consumers to research products more thoroughly and partake in comparison-shopping more easily. This has resulted in a more educated and informed customer. With the ability to easily purchase goods online and a more educated consumer, retail businesses are directly faced with the competitive nature of online purchasing.

With the increasing number of retail businesses implementing e-commerce strategies as a business model, retail businesses today are constantly faced with competition and for identifying techniques to meet or exceed their competition. Achieving customer satisfaction also has become more important in today's competitive retail marketplace. To achieve this goal, businesses look for strategies to market their products in a better manner or a more unique way.

The evolution of e-commerce gives retail businesses a new way to sell to customers. Not only does it give customers another medium for purchasing goods, but also gives the customer a quicker and easier way. Retail businesses now recognize the efficiency it can offer its customers and are looking for procedures to use e-commerce to reach their target market.

PROBLEM OF THE STUDY

This study examines retail businesses to determine their strategies for e-commerce. Further it examines how the respective strategy has changed since the beginning of their e-commerce implementation. Each of the businesses was also studied to determine how they handle strategic business functions such as inventory management, in-store operations, relationship with vendors and suppliers, and overhead costs associated with an e-commerce website.

CASE STUDY ANALYSIS

The case study analysis that was used to examine the following elements:
- The initial e-commerce strategy and approach
- The problems associated with this approach
- The current e-commerce strategy and how it has changed

To further understand the e-commerce strategies of the businesses, several functional areas were examined:
- How has e-commerce affected inventory management?
- Has the way the in-store operations and management changed because of the e-commerce strategy?
- Has the relationship with vendors and suppliers changed as a result of the move to e-commerce?

Description of Businesses Studied

This paper will describe three of the businesses studied representing different e-commerce models commonly used. The procedures that these businesses have used may or may not work for another business. However, this information will permit the reader to better understand the complexities of developing a successful online business.

Case Study I—Muldoons Men's Wear

Muldoons Men's Wear (MULDOONS.COM) is a retail store specializing in selling men's clothing and accessories. The business was originally started in 1950 and focuses on selling big and tall clothing to men. Until 1996 when they moved to an online strategy, they operated out of their storefront. The primary customer base before their online operations existed in and around an area within 80 miles of the store.

The primary reason for moving the business online was to attract a different customer base. Muldoons wanted to continue their market thrust and decided they needed a strategy that would broaden their customer base. Their strategy consisted of moving the business online to attract more customers from a broader geographic region.

At first they chose to sell only inexpensive items such as undergarments and socks. In a pilot test of online selling the owner was able to judge the reaction of customers. As customers became more familiar with the site and the target market expanded, more products were added to the site.

Problems with Initial E-Commerce Approach

Although Muldoons initial approach to e-commerce turned out to be very successful, they believe they should have focused more attention on aspects of the regular business functions. One important function that was overlooked from the beginning was inventory management. Initially, Muldoons did not have a problem handling the amount of inventory that was needed and demanded. As the site expanded and more and more products were offered, the lead-time for orders kept increasing due to the lack of on-hand inventory.

Current E-Commerce Strategy

Currently Muldoons has an effective and strong e-commerce strategy in place. Muldoons operates in both the brick and mortar and online mode. Their current goal is to expand their online operations. This includes placing a more diverse set of products on the site, thus having the ability to broaden their customer base. By placing the business on the Internet, Muldoons has seen an increase in sales. The "old" customer base, which existed before the business was online, began to recognize the convenience of the site. Customers with a geographic location close to store could now go online and view what products Muldoons had to offer. They had the choice order online or to go to the store itself and purchase the product.

Suppliers Relationship

Another important aspect of Muldoons' current e-commerce strategy is their relationship with their suppliers. As the site became more popular and the customer base expanded more vendors were attracted to selling to Muldoons. The wholesalers saw the importance of establishing a good working relationship with Muldoons to market their products. Since then Muldoons has formulated a strategy with their vendors in which they will actively market their suppliers products and the vendors will actively market Muldoons' web site as a source as to where to buy their products.

A customer centric model is the key to an effective business model and an e-commerce strategy. A concept called "Relationship Marketing" is used. This means that Muldoons has developed a relationship with its customer based on trust and service. By continually fulfilling its obligations of providing the customers with a product and service in a timely fashion, Muldoons has expanded their customer base.

Recommendations

The tight integration with vendors and suppliers is essential in Muldoons' operation of the business. An electronic data interchange system could improve their business and strengthen their association with suppliers. It could:
- Reduce even further the processing and lead time with customer orders
- Increase the accuracy of the orders placed by customers.
- Reduce labor costs on Muldoons end as well as the supplier's side

To continue the success of their business, Muldoons believe they should continue to expand the products they offer online. To ensure maximum success, Muldoons needs to continue the development of their website. Currently, the time is spent on updating inventory levels and prices on the site. Enhancing the site to include more up-to-date web technologies could reduce this time.

Case Study II—DetailsDirect

Details (DetailsDirect.Com) is a retail-clothing store selling specialty tailored clothing as well as more traditional styles of clothing. The product line includes women's clothing, pajamas, sweaters, maternity wear, and children's clothing. The clothing sold by Details is of a higher quality than that offered by traditional retail-clothing stores because it is handmade by a particular designer. Details primarily market to women. They have many designers that can tailor a specific article of clothing for women. Details other large target market is maternity wear. Most of Details customer base has come to know and trust them for these two particular reasons. Details also sells many other products besides maternity wear and specialized women's clothing. Details started its online business in 1995 when it wanted to move some of these less specialized items such as pajamas, sweaters, and children's clothing online.

Initial E-Commerce Approach

Prior to their online business, Details produced a catalogue that contained the items explained above. The catalogue contained the items that were not specialized and could be kept easily in inventory. This allowed for quick shipment of orders to customers utilizing the catalogue as their medium for purchasing. As they moved into e-commerce, Details wanted to emulate this catalogue system. Their approach was to sell the items online. Their strategy was to broaden the customer base and have the ability to process orders quickly and efficiently. The site consisted of taking what was in the catalogue, as well as the best selling items in the store and putting them online.

The catalogue system used was much like the traditional catalogue systems by clothing businesses today. One significant difference was that their customer base for the catalogue system was relatively

small and geographically close to the store location. Many users of the catalogue were long time customers and found it easy and convenient.

Problems with Initial E-Commerce Approach

The strategy of placing their catalogue business online resulted in many problems for their online business called DetailsDirect.Com. Their customer base was not comfortable moving to a different medium to place orders when their existing catalogue worked effectively. This forced them to market their products on the site to a much different and expanded customer base. The products that were sold online at the time were of much higher quality than the competitors and thus more expensive. As a result, Details had to restructure their e-commerce strategy to expand its customer base and at the same time make online consumers comfortable with the product quality.

Current E-Commerce Strategy

In order to overcome the problems with their initial e-commerce approach, DetailsDirect worked hard to establish a niche market. This meant going away from selling the traditional catalogue items online to selling those items that constituted a niche market. They established markets in custom style designer clothes and maternity wear for women. By focusing only on a few targeted consumer groups, a solid and expanded customer base was established. After moving from selling the catalogue items online to a more niche market style of products, a strategy was developed to attract consumers to the site and make them trust the company. This strategy was approached in several ways:
- Displaying a welcome message and the picture of the owner on the site
- Displaying testimonials from satisfied customers
- Providing outstanding customer service, fast deliveries, and a personal thank you note attached with each order. By continually providing excellent customer service with a personal touch, Details current e-commerce strategy is strong and thriving.

Recommendations

DetailsDirect currently contracts for the administration of the website. During the past six years they have encountered some problems with this outsourcing process. The site needs to constantly be updated to reflect product and price changes. This process must happen quickly so customers see accurate prices and products on the site. DetailsDirect has encountered problems when a change needs to be made to the site. To alleviate this problem a technical employee could be hired to administer the site or current employees could be trained to do the work

Case Study III—Totally Fun Toys

Totally Fun Toys (TotallyFunToys.Com) is a retail business that specializes in selling unique types of toys for children of all ages. The Totally Fun Toys motto is: "Toys that stimulate, creativity, learning, and healthy play". They began their retail operations in 1998 and went online in 1999. Totally Fun Toys target market is the middle aged, middle-income family. The primary element that separates Totally Fun

Toys from a standard toy retailer is that they sell a specialized and unique type of toy.

Initial E-Commerce Approach

The initial e-commerce strategy for Totally Fun Toys was to start a business in selling unique educational toys only online. During the process of building their site and formulating their business plan and strategy, Totally Fun Toys ran into problems with their vendors and suppliers. Some of the vendors and suppliers were still uncomfortable with the risk of doing business online. Their vendors and suppliers did not like the idea of Totally Fun Toys running their business entirely online. Vendors felt the risk factor of doing business with them was too high and were very reluctant to sell product. At this point they began to reexamine their approach toward e-commerce. They continued to build the site, but looked at the idea of starting an operation out of a physical store rather than online. They felt this would be the best plan to pursue and the one that would please their vendors and suppliers.

After the retail store was established and known, they began to focus once again on moving their business online. This involved examining their relationship with their vendors and suppliers to ensure that doing business online would not hinder order processing and shipment times. Since Totally Fun Toys wanted to make the online business their primary source of selling their goods they had to ensure the maximum cooperation with their vendors and suppliers. Once this was ensured, they gradually moved their business online.

Problems with Initial E-Commerce Approach

When Totally Fun Toys moved their business online they encountered a major problem with inventory management. When they began their online business they focused most of their attention on establishing a customer base and the marketing of their site. At the same time they were still running their in-store operation the same and had not done much adapting for the possible increase of sales from the website. Once the online business began to become established and the online customer base began to expand, the problem with inventory management emerged. The vendors and suppliers were not able to ship the products in time to Totally Fun Toys, so in turn they could not package and ship them to their customers in a timely manner. At times inventory was being taken off of store shelves to complete orders that had been placed online. This caused a great amount of confusion between the inventory supplies of the in-store business and the inventory supplies of the online business.

Because most of the focus of the business was directed toward developing an e-commerce strategy, not much attention was given to developing an effective in store operations strategy. They made an assumption that the on-line business would operate just like the in store business.

Current E-Commerce Approach

Totally Fun Toys now approaches e-commerce very much like other businesses studied having both an online and in-store operation. They have separated the venture into two businesses: the online portion and the in-store portion. This has allowed them to manage their inventory more efficiently. By

separating the online business from the in-store business they can operate the two entities without them interfering with each other.

An innovative approach Totally Fun Toys is taking in terms of e-commerce is their affiliate marketing program. This program allows other sites to market the Totally Fun Toys website for a fee. The affiliate program has allowed their website to be widely marketed and advertised in the online community.

Recommendations

To ensure maximum success of the online business, Totally Fun Toys needs to continue to improve the efficiency of the site. To increase efficiency of their e-commerce strategy, they should consider doing some data mining to determine customer needs. Also, they should continue to build supply alliances with vendors to enhance supply chain management.

CONCLUSIONS

When developing an e-commerce strategy, businesses must consider several options. What is their strategy? Do they want to expand market, customer base or customer service? This case study analysis provided an understanding of the problems encountered when an enterprise changes its business model or attempts to build a business based upon a model not readily accepted. Some businesses have a customer driven strategy (CRM), a business driven strategy, or an integrated strategy between vendors, customers and the business. Each model has characteristics that contribute to the success or failure of the business.

The online business model cannot be a duplication of the bricks and mortar model. It must vary from the bricks and mortar strategy that may have been successful in the past. Customers view the different business models quite differently. Those customers that are familiar with the catalogue will not necessarily endorse the Internet model. Marketing on the Internet is quite likely to be an e-commerce strategy that will continue. People recognizing the needs of others will ensure its success.

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