

# SEVENTEEN

## ‘MAKING THE CONNECTIONS, MOVING THE GOODS’

### *Logistics and Distribution Services*

#### APPLIED CASE STUDY

When the e-tailing boom began in the late 1990s, it was hailed by hyper-globalist commentators as a completely new development which would revolutionize the concept of shopping. When the inevitable bust followed, other commentators argued that e-tailing was simply a novelty which would have little impact on the retail business. An examination of the case of Amazon.com, one of the most successful online businesses, may help to clarify the situation.

Amazon.com was founded in 1995 as an online bookstore, adding music to its product range in 1998 and going on to add other types of merchandise, including DVDs, toys, DIY equipment, home and garden accessories, clothing and, most recently, e-books and downloadable music. Although Amazon retains a completely Web-based presence, its main competitors still tend to be traditional retailers with an online division – so-called ‘clicks-and-mortar’ businesses such as Barnes and Noble and HMV, with the purely Internet-based large retailer being still relatively rare (although it is an increasingly attractive option for small or specialized businesses). We will here consider what, if anything, differentiates it from the traditional retailer.

#### Marketing and Promotion

One key area of difference is in terms of means of marketing and promotion. While the goals and techniques of marketing are much the same, e-tailers are

usually more reliant on web traffic and links rather than traditional advertising. In addition, e-tailers tend to rely heavily on promotional alliances (for instance, popular search engine/email provider Yahoo including links to Amazon in its toolbar, and Amazon promoting Yahoo in turn on its sites), and on 'affiliate programmes', whereby members of the public can put links to Amazon products on their sites and receive a small fee in return if a visitor buys the product through the link. Play.com, which began as an Amazon-like e-tailer, has since become instead a 'marketplace' site, where third-party merchants sell new and used goods. Word of mouth, and informal links on blogs and websites, can also prove a useful tool. Such methods are generally cheaper than traditional promotional sources, though critics argue that they may be less reliable, as in many cases they depend on the company's ability to make strategic alliances and/or stimulate 'word of mouth' advertising on the Web. While traditional retailers, and clicks-and-mortar businesses, also make use of such techniques, they are of greater importance as a source of advertising for e-tailers such as Amazon.

## Logistics and Distribution

As noted in Chapter 13, logistics and distribution are a key area of difference for e-tailers, and one where they have a clear advantage over traditional retailers. Amazon, like other businesses, needs to lease warehouses and find distributors to move its products, and, like other businesses, inevitably shops around to find the cheapest warehouse location and distribution contractor. However, the fact that Amazon is not tied to a particular physical location gives it greater freedom of choice; in theory at least, goods can be warehoused anywhere in the world (whereas a more physically based company such as Barnes and Noble is constrained by needing to supply its bricks-and-mortar operations as well as its online ones), and any distributor chosen. Location can also be used as a form of tax avoidance, for instance Amazon.co.uk's controversial use of the Channel Islands as a base as a means of avoiding UK value-added tax. For less popular products, such as academic books or independent CDs, also, Amazon may not keep any in stock, but simply order as needed directly from the suppliers. Furthermore, many clicks-and-mortar businesses were badly hit by the recession, due in part to the liability of having to maintain physical outlets.

Increasingly, Amazon and its rivals are focusing more on virtual products, such as MP3 music downloads, movie downloads and e-books, meaning that no distribution centres are required at all, saving even more money. However, Amazon is not unaffected by national boundaries: a study in the early 2000s of the US-based Amazon.com's sales in Canada showed it losing out to Canadian clicks-and-mortar companies, because, although Amazon.com was able to offer lower prices than its rivals, the savings were eaten up by shipping costs, leading Amazon eventually

to open a Canadian-based operation, Amazon.ca. Location thus remains important for e-tailers, even if not as much as for traditional retailers.

## Physical Product

Although e-tailers emphasize low price, ease of use and security in their promotional strategies, there are nonetheless some products which are difficult to sell online. Rosa and Malter point out that there are some things for which sensory experience is a key part of the customer experience, such as auto sales; there are also areas such as clothing and sports equipment where it is important for customers to check the fit and appearance. There is also the case of women's clothing and accessories, where often shopping is a social activity rather than a merely practical one, and of emergency purchases where the customer requires the object immediately. By contrast, Amazon's expansion into virtual products has been driven by the rise of companies such as iTunes, which sell only virtual products and consequently can reduce their prices drastically compared with the physical products. Trust can also be a key factor: Amazon's foreign expansion around the turn of the millennium showed overall drops in sales due to new customers being suspicious of the reliability and security of the website, and identity-theft scares affect customers' trust in the website system. Some products, thus, are more amenable to online sales than others, and some customers more inclined to use the system.

## Conclusions

Although Amazon differs from traditional retailers in some ways, it is not categorically different, facing many of the same issues in terms of marketing and logistics. It is also more successful in selling certain products than others: books and DVDs, for obvious reasons, lend themselves better to online sales than cars or clothing. However, as the decline of high street sales, and the consequent bankruptcy of several large clicks-and-mortar firms during the 2008 recession, shows, the concept of purchasing online is becoming increasingly attractive to customers in more and more product areas.

## QUESTIONS

1. Is Internet-based advertising less reliable than traditional forms? Discuss.
2. How important is location to an e-tailer? Could it ever become truly divorced from physical geography?
3. Design and develop a sales and distribution strategy for an e-tailer looking to expand into selling women's sports clothing ranges.
4. Why might small, specialized businesses fare better as online operations than larger ones? Discuss.

## FURTHER READING

- Chakrabarti, Rajesh and Scholnik, Barry (2002) International expansion of retailers: where the Amazon flows. *Thunderbird International Business Review*, 44 (1): 85–104.
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