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E-Commerce Strategies: The Manufacturer Retailer Consumer Relationship

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Abstract

This paper will focus on how on-line grocery shopping will affect the relationship between the manufacturer, the retailer and the consumer. The Internet has brought change forcing companies to re-evaluate their on-line strategies. For established companies, doing business on-line risks damage to brands and distribution relationships that currently represent key competitive advantages. Four e-commerce frameworks are discussed and integrated with the traditional marking model (product, price, promotion, and distribution). Finally, the paper will discuss how the e-commerce strategies could be applied to a real company.

Keywords: E-commerce, Strategy, Strategic Frameworks, Consumer Products, Manufactures, On-Line Grocers.

Introduction

Almost every company has to rethink their strategies due to the changes that Internet has brought. For some the implications are obvious, but for others they are not. As a traditional manufacturer of packaged consumer goods, Nabisco falls into the later category. Nabisco, a multi-billion dollar snack food company, has major competitive advantages in the traditional supermarket distribution channels. Its Consumer division currently spends 10% of sales, annually in trade (retail) marketing for items such as special promotions and in-store displays. In addition the Consumer division maintains a fleet of trucks that provide direct store delivery, an advantage that few competitors can afford. Direct store delivery and Nabisco's dominant market share (38.8%) in the Biscuit category ensure that Nabisco's products receive the most shelf space in stores and cross shoppers' paths more than competitor products. However, almost all of these competitive advantages will disappear in a market dominated by on-line grocery shopping. Strategies will need to be developed for replacing these competitive advantages with new ones. The purpose of this paper is to provide a framework fore-commerce strategies.

Growth of the On-line Grocery Business

The on-line grocery shopping industry is positioned for tremendous growth in the coming years. The current sales are estimated at $1.8 billion annually (Dykema 1999). Sales are expected to reach $3.5 billion by 2002 (Munarriz 1999) and $37 billion, 4% of domestic sales, by 2004 (Dykema 1999). Some projections call for 20% of all grocery orders to be placed on-line by the year 2007 (Munarriz 1999).

Currently, there are only a handful of publicly traded companies in the on-line grocery business. One of the biggest threats to on-line-only grocers is that established chains, with their existing distribution systems, will enter the market. Some have entered regional markets in the Boston area and in Seattle via the Internet as of November of 1999. However, the vast majority of the large chains have not moved on-line to date (Munarriz 1999).

The incentive for grocers to go on-line is to establish relationships with customers that will allow them to automatically replenish homes. This will result in a consistent cash flow (Dykema 1999). Being the first to offer quality service through an expansive distribution system is critical to the industry. Since this will require setting up distribution centers across the country for new entrants, it may take some time for the industry to reach its potential. According to Dykema (1999), web-grocers will also need to develop ways to help consumers break their old habits of weekly shopping trips to local stores.

Despite the obstacles and what could be seen as slow growth projections for the immediate future (from $1.8 billion to $3.5 billion by 2002), it is clear that web-grocers will be a significant retail force in the industry within the next five years. Beyond five years, growth at a much greater rate cannot be ruled out. The growth of on-line grocery shopping will clearly have an impact on packaged consumer product suppliers by changing the business models they have operated under for decades.

Strategic Difficulties for Established Businesses

Although there are a number of different perspectives on strategic thinking about e-commerce, one thing that all seem to agree on is that it has been very difficult for established businesses to determine what their Internet strategy should be. The initial phases of the e-commerce revolution have been dominated by a land grab mentality. Companies have rushed to create an Internet presence so as not to be left out. The ability of a web site to generate value for customers and investors was secondary to merely establishing a presence. However, companies that have performed well in traditional settings seemed totally lost on the Internet. No bricks and mortar retailer has been able to capture the leading market share in a major e-retail category. The companies that seemed to have made the most of the Internet are start-ups such as Yahoo!, Amazon.com and priceline.com (Evans and Wurster, 1999).

For established companies, doing business on-line risks damage to brands and distribution relationships that currently represent key competitive advantages. New strategies will often require a company's new businesses to compete against old ones (Evans and Wurster, 1999). For example, many conventional retailers have hesitated to embrace electronic commerce because they fear that when consumer's shop on-line, they'll make fewer impulse purchases and become more price sensitive (Maruca 1999). Resistance to change in these areas will be great. The larger the organization the greater trouble it may have. The web will reduce the competitive advantage of scale currently enjoyed by many global companies. These companies will need to coordinate the Internet strategies of all their subsidiaries to preserve their brands and prevent confusion across markets (Klein 1996). Also, due to the rapid change of the Internet, old methodologies for determining investment paybacks do not apply (Gosh 1998). This is as true for internal investment decisions as it is for external ones. Witness the sky-high stock prices of numerous Internet start-ups that have yet to turn a profit. By conventional measures of corporate worth these stocks would have no value.

In the past, new technologies have been viewed as too expensive and offering too few benefits. Examples of technological failures of the past that have left retailers leery include the VideOcart system which attached wireless LCD displays to shopping carts to display advertising and store information to customers. Maruca (1999) suggests that these systems can cost between $100,000 and $150,000 per store to install and can take up valuable display space at the point of purchase. There is also very little evidence that it increased product sales. Furthermore, interactive television costing approximately $1,000 per home has generated incremental revenues of just a few dollars per week from video-on-demand movies. These examples make executives fearful of taking risks with new technologies (Maruca 1999).

No matter the difficulties, established companies must face up to the challenge and determine the opportunities the Internet creates and how their traditional business models are threatened (Gosh 1998). The value chain for incumbent manufacturers and retailers is being deconstructed. The value created for consumers by entire segments of the chain can be created more efficiently and effectively through the use of the Internet (Evans and Wurster, 1999). The internet is an immediate threat for retailers that offer higher-value branded convenience goods and an unformed but someday formidable threat for supermarket, wholesale clubs, and retailers that offer a great assortment of mostly low-end merchandise. Even if the overall percentage of sales on the internet averages just 5% across all categories, that shift will still create tremendous pressure on physical retailers, particularly in the United States (Maruca 1999). As we enter the second phase of e-commerce branded-goods suppliers and physical retailers will join electronic retailers and pure navigators and shift their attention from claiming territory to defending or capturing it. They will be forced to focus on competitive advantage and strategies to achieve it (Evans and Wurster, 1999).

Strategic Frameworks

Zwass (1996) suggests that the established way to analyze and develop complex systems (such as E-commerce) is to organize them into a meaningful structure. The strategic frameworks reviewed represent new versions of familiar themes in the marketing process. Table 1 (contact the authors for a copy) summarizes four articles that provide strategic frameworks for thinking about on-line relationships between manufacturers, retailers, and consumers.

As a means of comparing the frameworks presented, the major concepts of each article will be discussed as they apply to the traditional marketing mix model of product, place, price and promotion. In addition to the four P's model, the paper will also discuss how each framework addresses shifting consumer expectations. Table 2 (contact the authors for a copy) shows how the major concepts of each framework map to the traditional models.

Product

A product is anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need (Kotler 1991). In an e-commerce marketing strategy it is important to remember that information is now a viable product in and of itself. This change has resulted from technology that has brought down the cost of collecting and disseminating information about customers and products. Many of the frameworks reviewed addressed this area. Rayport and Sviokla (1994) discuss transactions where the product has been replaced by information about the product and Evans and Wurster (1999) discuss navigation as its own business. By using information in this way the product and place elements of the marketing mix essentially merge.

Navigation is the process through which shoppers collect information about products that may satisfy their needs. In the physical world of shopping, a shopper who wants to buy something has to manually sift through the millions of choices they may have. This usually requires a shopper to travel to a store and inspect the products. Unless they want to travel to various stores, they are limited to the information about what a particular store carries. A complete search of all offerings would be extremely expensive and practically impossible. Instead consumers rely on product suppliers and retailers to aid them in the search. This allows the suppliers and providers to use the consumers cost-of-search as a competitive advantage. However, on the Internet customers can search much more comprehensively and at virtually no cost. Suppliers and retailers must realize that information that helps a consumer navigate their choices is now a product all its own, which can be delivered to consumers by a third party. Indeed pure navigators such as Yahoo! have already become major players in this business. Besides recognizing the value in helping shoppers to navigate their choices, manufacturers will also have to consider the effects that navigation will have on the price, place and promotion mix of their traditional products (Evans and Wurster, 1999).

The Internet can also serve as a platform for new product innovations. Companies can use the direct access to customers to collect information that will help them better develop products to meet the consumers' needs. For international companies this would help provide adaptations and customizations for local markets (Klein, 1996) or create niche products. Companies can also leverage their reach to customers to sell advertising during transactions (Gosh 1998).

Place

For most companies the place aspects of the marketing mix involve marketing channels. Marketing channels can be defined as interdependent organizations involved in the process of making a product or service available for use or consumption (Kotler 1991). Of all the elements of marketing mix the Internet will have the most profound affect on place. All of the frameworks reviewed addressed place. E-commerce puts the purchase-decision anywhere a connection to the Internet exists. The Internet is the largest marketplace ever seen. Internet standards will also make competitive advantage more difficult to sustain. One web page can be made to look like the next. However, a recent court ruling may provide some protection for e-commerce store designs (Reuters 1999).

Gosh (1998) discussed how the Internet could be used to pirate the value chain. Examples most often involve marketing the product on the Internet in order to jump over the retailer. Consider computer manufacturers such as Dell and Gateway 2000 and programs by UPS, which set up e-commerce sites for businesses that ship with them (Gosh 1998). The market place on the Internet will consolidate quickly and many e-retailers will attempt to become category killers, the places where consumers can go for all their shopping needs. This would be equivalent to superstores like Wal-Mart that are part of the bricks and mortar world. The advantages of category killer's on the Internet are as follows; physical space is meaningless, expansion is easier on the Internet, and stores can customize offerings to customers. Instead of navigating hundreds of sites to find what they need, customers will stay with the sites they find convenient. Magnet stores or category killers could be expected to form around a number of dimensions such as product, service, customer segment, and industry. Companies need to figure out how to embed their products in these magnet stores (Gosh 1998).

Rayport and Sviokla (1994) describe the place of Internet commerce in terms of two aspects: context in which the transaction occurs (e.g. an electronic on-screen auction replaces a face-to-face auction) and the infrastructure that enables the transactions to occur (e.g. computers and communication lines replace car lots). Customer loyalty must be gained on the context dimension first. Klein and Quelch (1996) discuss the global reach of the Internet in creating a larger marketspace and the strong growth of a network's utility based on Metcalf's law.

Evans and Wurster (1999) describe reach as the number of eyeballs that view a web-site. Reach is the most visible difference between e-commerce and the physical world. For example, the largest physical Barnes & Noble bookstore in the United States still carries only 200,000 titles. Amazon.com offers 4.5 million volumes and is "located" on some 25 million-computer screens. With the success of category killers, some are starting to move outside their categories. Amazon.com now sells CD's and toys among other things. Small niche producers now find ample space for their products in the market place. This represents additional competition for large producers who have relied on extensive distribution networks and shelf-space for their products as a major competitive advantage. Traditional suppliers could try keeping their product out of navigational web sites in order to block their development and retain their advantage. However, this is unlikely to work. First, it would be technically difficult to do and second they could only be successful if other large producers followed suit. Furthermore, it would be a tremendous advantage for a single producer to defect from the group and offer its product and the only defense available to other producers would be follow suit. A more successful strategy would be to enter into joint ventures or expand a suppliers web site to offer competitors products (Evans and Wurster, 1999).

Price

Most of the frameworks did not discuss price. However, pricing decisions will be just as important on the Internet as they have traditionally been. Price is the only element of the marketing mix to generate revenues. All other elements represent costs (Kotler 1991). Rayport and Sviokla (1994) point out that the ability of technology to offer services at a cheaper cost would make it difficult to determine the appropriate price for a consumer. Voicemail for example is a solely information based service which provides the consumers a replacement for the traditional answering machine. However, consumers are willing to pay even more for the service than they would for an answering machine due to the convenience and added features (Rayport and Sviokla, 1994). Klein and Quelch (1996) point out two counteracting affects of the Internet on price. First, a supplier could use the technology to discriminate pricing between consumers, say in different countries. However, if they do not take precautions the consumers may be able to quickly find out about the price discrimination and not tolerate it. Taken together these factors would lead to increased standardization of prices across borders (Klein 1996). In general the ability to compare prices across all suppliers using the Internet and on-line shopping services will lead to increased price competition. Finally, the price of providing Internet based services often contains little or no marginal costs. Economic theory predicts that the cost a product or service will approach its marginal cost, in this case zero, as competition intensifies. Increased price pressures would play to the benefit of the traditional large producers. In physical products there is still tremendous benefits in economies of scale and incumbent companies have much more experience producing and selling their goods under the constraints of intense price pressures.

Promotion

Promotion encompasses all the various ways an organization undertakes to communicate its products' merits and to persuade target customers to buy from them (Kotler 1991). Promotion on the Internet offers distinct advantages for incumbent retailers and manufacturers. Evans and Wurster (1999) discuss these advantages in relation to the richness of information they can provide consumers. Incumbents can use their traditional sources of consumer information (e.g. product testing, focus groups) in addition to the information that is easily collected from e-commerce sites (e.g. sales information, customer demographics). Using data mining they can build customer profiles that allow them to offer distinct promotions that are tailored to their customers (Evans and Wurster, 1999).

However, there are a few limitations to the information that can be collected about consumers. There are privacy concerns that make consumers unwilling to give up information. The technology also allows consumers to block data from being sent. In addition, consumers may realize the value of this information and demand a premium for it (Evans and Wurster, 1999). This is unlikely though, when web-marketers have this information they can create substantial value for the customer. That being the case, the consumer would be more likely to share this information.

When it comes to promoting products with rich product information manufacturers have an advantage. The Internet provides a low cost way for the manufacturer to build a direct link with the consumer. This advantage is at its greatest when the consumer is interested in detailed product information or the product is marketed as state of the art. Such rich product information is most useful when the consumer is evangelistic, enthusiastic and the product has a strong connotative context. However, when detachment, objectivity, and comprehensiveness characterize the purchase decision the richness of product information provided does not provide as strong an advantage. Other problems for manufacturers presenting rich product information include the reach of their web sites and the lack of credibility in a single product web site versus an independent site that compares multiple products (Evans and Wurster, 1999).

New users tend to explore sites with familiar brands first (Klein 1996). Recent surveys (Kane 1999) have shown that 46% of new on-line shoppers prefer to buy from merchants they had previously bought from off-line. Even 34% of repeat on-line shoppers preferred the familiar off-line store sites. Brands that equate their products with an experience (e.g. feelings, associations, and memories) will likely be more effective than brands based on fact based beliefs about a product. Belief based brands associate themselves with attributes such as high quality or reliability. These attributes can be easily proven by an impartial display of the facts on a navigators web site. Even if the facts confirm the brand it may only be rendering the brand redundant. Brands that are associated with a mixture of beliefs and experiences should play up the experiential side of the brand (Evans and Wurster, 1999).

The Shifting Importance of Marketing Mix Elements

Besides changing the elements of the traditional marketing mix in isolation, some of the most profound effects of the Internet will come in how the trade-off between the elements of the marketing mix operates. Evans and Wurster point out that traditionally the amount of products a retailer could carry (their reach) was inversely proportional to the amount of information they could present about the product (richness). The Internet has eliminated that tradeoff. Internet retailers can offer many more products than the largest bricks and mortar retailer and provide detailed product information at the same time (Evans and Wurster, 1999). Physical warehouse and distribution are no longer part of navigation and selection. Manufacturers can now reach a larger market and can present more information through promotions to consumers than they could before.

Customer Centered

As in all market economies, the needs of the customer that make up the marketplace are the driving force of change. The Internet has opened up new ways to satisfy those needs and has also changed how customers are defined. As companies begin to take advantage of the Internet to satisfy customers, they change customers' expectations. What is today's new thing will quickly become tomorrow's requirement. This will force changes in how every company does business.

Companies are changing how they market their products in order to satisfy a consumer's needs better. Traditional marketing has become more expensive and less effective over time. The concept of Brand Management, which was developed just after WWII, was the last major advancement in marketing practices. However, brand management has become part of the problem. Rival products differ so little that brands have become hard to promote. Various attempts to re-organize companies or motivate sales forces have not solved the problem. Now companies can use the Internet to enter into a dialogue with their customers. They can replace the salesperson while increasing the level of service. In doing so they can use one medium for the customer and exploit and discover customers' individual interests. With the Internet it is possible to gain permission to discuss your products, as opposed to interruption marketing, such as television commercials. Advertising, research, sales, promotions, coupon distribution, and customer support can all be done on the Internet. Eventually companies can develop relationships with customers that will allow them to continuously re-supply after initial permission is obtained. Retailers will weaken in power and trade-marketing expenses for manufacturers will start to go away in favor of improving products and promoting brands (Sealy 1999). The frameworks reviewed only touched on this important factor.

Implications for Nabisco's Internet Strategy

Current State

Nabisco's current corporate strategy is built around building total brand value. Total brand value calls for satisfying customers faster and more completely than the competition. As the on-line grocery business evolves this strategy will continue to serve the company well. However, it requires being sensitive to changes in the Internet that increase the power of consumers over retailers. In addition, the need to understand how brands, as a tool to provide consumers with information which helps them navigate through product selections, will be changed by the Internet. For example, a brand such as SnackWell's is belief driven. In that case, the belief is that SnackWell's products are healthier than other snacks. Consumers truly focused on health concerns could easily take advantage of information on an on-line grocer's site to determine which products are the healthiest. This would either destroy the credibility of the Snackwell's brand or make attempts to establish the brand as healthy redundant. However, most Nabisco brands are based on experience. For example, many of brands, such as Oreo, have a nostalgic appeal. In addition, it would be difficult for any on-line grocery store to present the most critical piece of information for consumers about Nabisco's products-namely taste. The best approximation of this would be publishing consumers taste satisfaction surveys. The most effective way to use brands to distinguish Nabisco's products in an on-line environment is to focus on presenting information about the experiences associated with our brands. The company's current web sites tryto enhance that experience.

Nabisco has established a significant presence on the Internet during the land grab phase of the Internet referred to by Evans and Wurster (1999). For the U.S. market, the company currently has three main web-sites:

- A web site aimed at the children of consumers. It contains games centered on the Nabisco brands.
- A town theme page that provides information about the company and products as well as links to other Nabisco web pages.
- On-line shopping for Nabisco brand merchandise (e.g. mugs, dolls, and trains), along with specially packaged food products.

The Emergence of on-line Grocers

Nabisco has only recently developed an e-commerce group to address the larger strategic issues presented by the Internet. Developing consumer driven e-commerce strategies for a packaged consumer goods company is difficult. The company could work with bricks and mortar retailers to try to preserve the current way of doing business. Most likely strategies would be to keep Nabisco products off web grocery or not support the on-line grocers. These strategies would be doomed to fail. They would only work if other consumer product manufacturers followed and also held out. However, none of them would take the risk of being left behind in the new channel. Nabisco would also find it difficult to compete by selling its product on-line because it would not have the reach consumers would want. Consumers typically do not purchase grocery items in isolation and they would be unlikely to pay the high shipping costs to deliver such a low priced product for on demand consumption. Nabisco could overcome this problem by forming alliances with other consumer products companies (e.g. Heinz, Campbell's, P&G). Even then only one brand of each item would be offered unless the industry as whole decided to open its own on-line grocery.

A more useful alliance on the part of manufacturers would be to promote on-line retailing standards. To counteract the "sticky" technologies that on-line retailers would develop to retain customers, consumers products manufacturers should develop standards for technologies that would allow consumers to switch on-line grocers easily. The industry would also want to encourage standards that would allow consumers to select products from manufacturers' sites even if the purchase and distribution occurred through the on-line grocer. In order to gain leverage in enforcing these standards the manufacturers, or Nabisco in particular, should provide an on-line service that allows consumers to navigate their selection of on-line grocery providers. The site would provide information about on-line grocers that consumers would be interested in such as the price of the service, service quality measures and the geographic area the service is offered in. Sponsoring manufacturers could embed themselves in the on-line grocer's site by offering promotions through on-line grocers who are complying with industry standards. The site would also give manufacturers the opportunity to collect additional consumer information. This would transfer informational power from on-line grocers to consumers and help in the deconstruction of the value chain, which will allow manufacturers such as Nabisco to become closer to consumers.

Nabisco should be prepared to leverage the Internet to offer its products and services in new ways. For example, it could start programs with on-line retailers that would allow consumers to subscribe to a cookie or snack of the month. This would allow it to better service existing consumers by introducing new products. Also, the subscription process would also allow for identifying and establishing relationships with its best customers.

Nabisco may have to compete with niche shops over the web and should start a business unit designed to compete in niche markets. Collected web information would allow targeted marketing to consumers and eventually the ability to spot entirely new markets. A niche business unit would be able to respond to the marketing information that indicates a new product is desired by a smaller segment of the market. A niche business unit would also help Nabisco respond better to international consumer needs. Finally, niche products would give the company's product development labs a chance to use promising developments that could not achieve the critical market mass required by today's cost structure.

In starting to do business on the Internet Nabisco will face a number of challenges. On-line grocery services will be expected to consolidate, reducing the number of retailers and bringing the quick dissemination of information to consumers. This will increase price pressures. However, the company is familiar with operating within a very price competitive market and in the manufacturing of its products there are still economies of scale that would allow for price reductions. In addition to price pressures, Nabisco like other companies will have to be careful not to damage their brands and their relationship with existing distributors and retailers. For a substantial part of the company's business they provide the distribution themselves by Direct Store Delivery (DSD). A business model where consumers buy groceries on-line, directly from large regional warehouses, would negate the value of DSD. It would also cut into the volume of product carried by DSD, which is crucial for offsetting fixed costs (e.g. trucks). The company will have to determine a divestment strategy for its DSD assets as on-line grocery shopping grows in popularity. In addition, change management plans will have to be developed to help management and employees adapt to changes in business practices that have been competitive advantages for decades.

Value Chain Deconstruction

Eventually the supply chain will break down in new ways. Consumers will no longer rely on grocery stores to help them narrow their choice of products and navigate through the selections. The navigation and distribution functions performed by supermarkets will be done by on-line grocers. Then on-line grocers will split into delivery services and grocery information sites. These sites could link directly to manufacturer sites to provide consumers with product information. The rationalized distribution networks would be able to respond to consumer requests from manufacturers within days, even if the product was not already in the distribution channel. This would allow Nabisco, in essence, to finally sell directly to its consumers.

Manufacturers will no longer need bricks and mortar retailers to provide their products to consumers. Currently manufacturers pay retailers for the value they add through trade marketing expenses. With the navigation process being performed by grocery information sites, consumers and manufacturers will benefit as they split the costs previously paid to trade marketing between them.

To operate successfully in this environment Nabisco will have to develop relationships directly with its consumers. The opportunity exists for companies to know their consumer's preferences so well that you can predict their needs accurately enough to ship directly to them before they place an order.

Conclusion

The on-line grocery business is growing, but currently at a very manageable pace for consumer products manufacturers. In the short-term, Nabisco's power in relationship to its retailers will either stay the same or become worse. However, in the long-term consumers will weaken the retailer's power by refocusing the value chain on their demands. To bring this about quicker, Nabisco should take the following actions.

- Emphasize brands that relate to experiences over facts.
- Help the consumer choose the on-line grocer by encouraging standards and disseminating information.
- Use the web to develop new products and services.
- Prepare itself to operate in an increasingly price competitive market place.
- Develop consumer centered marketing practices.

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