Retailing without stores

Will telecommunication and related technologies transform shopping?

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Will stores become extinct in American retailing? This article argues that the answer is yes or, at least, yes—for great areas of retailing. Telecommunication will make it possible to order merchandise from the home; delivery systems will take the place of pickups by customers; banks and other financial organizations will handle money transfers. But technological possibility is only part of the story. Growing numbers of Americans appear to be interested in the time saving convenience and breadth of choice that can be offered by telecommunication shopping, to say nothing of the fuel economies that would be made possible. Of course, the authors recognize, there are still important issues to be resolved, some of them subject to considerable controversy. It is probable, therefore, that this article, a sequel to "The Next Revolution of the Retailing Wheel," by Malcolm P. McNair and Eleanor G. May (BBR September-October 1978), will itself be followed by more analyses in future issues.

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A revolution is under way in the store-dominated world of retailing. The instigators are nonstore retailers who are appearing in new forms, proliferating in numbers, and gaining market share from store-based retailers. Although accurate sales figures for this nonstore growth are hard to come by, one source estimates that nonstore annual sales are expanding from three to five times faster than those of traditional store outlets.[1] Here are some tangible examples of the rise of nonstore retailing:

¤ The increasing volume of telephone- and mail-generated orders received by traditional store retailers such as Bloomingdale's, J.C. Penney, and Sears, Roebuck & Co.

¤ The experimental use of interactive, two-way cable TV as a means of ordering merchandise; the Qube division of Warner Communications is one of the experimenters.

¤ The expanding selection of merchandise offerings made to credit card customers by VISA, Master Card, and American Express.

¤ The increased popularity of in-flight shopping catalogs of major airline companies.

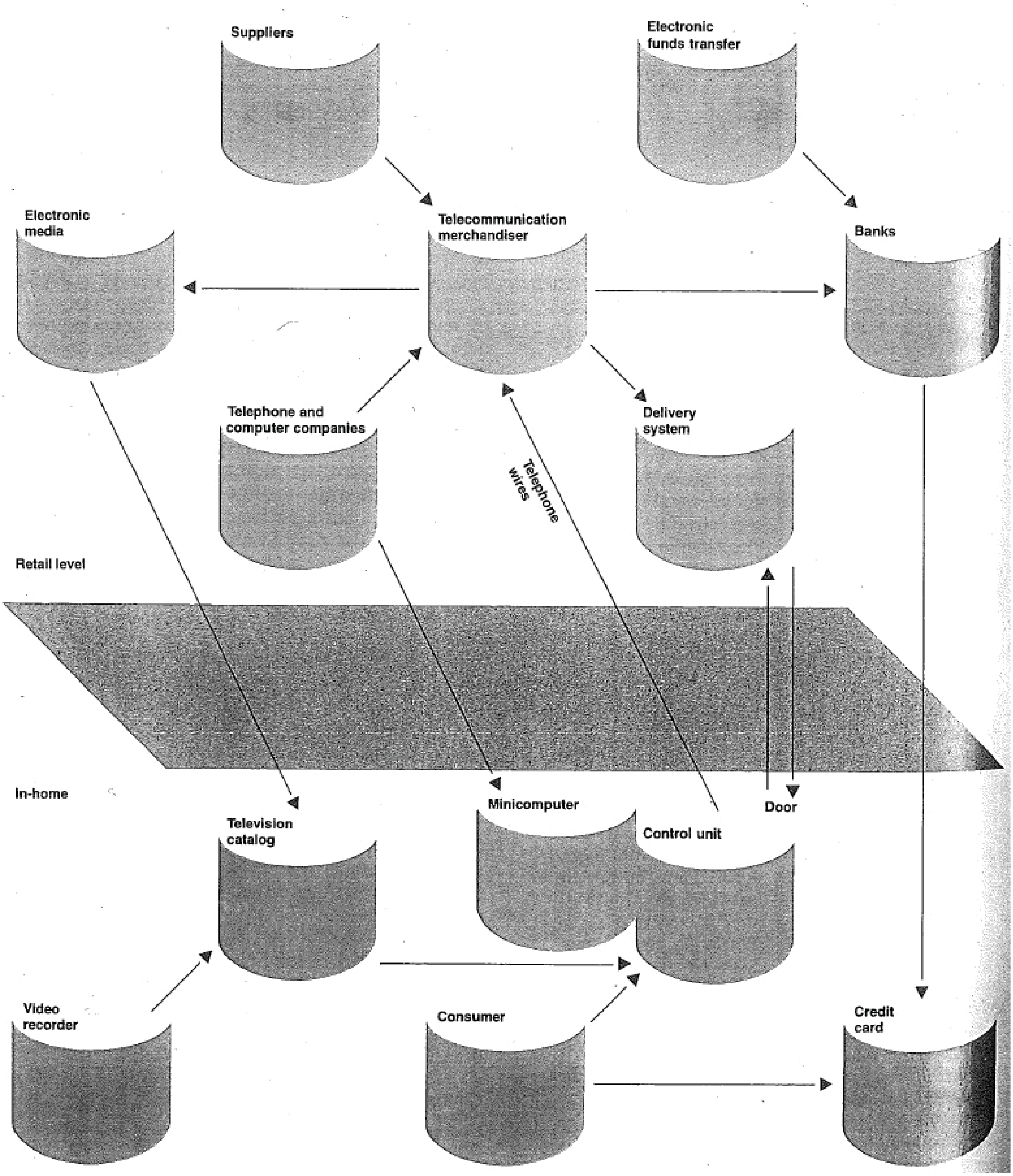
¤ The success of televised promotional offerings for records and tapes of popular music "not available in any store."

We expect this trend toward nonstore retailing to accelerate rapidly with the development of telecommunication retail systems. Descriptions of how such a system may work have been offered by several experts.[2] Our version is depicted in *Exhibit I*.

1. William R. Davidson and Alice Rodgers, "Nonstore Retailing: Its Importance to and Impact on Merchandise Suppliers," *The Growth of Nonstore Retailing* (New York: New York University, Institute of Retail Management, 1979).

2. See, for example, Alton F. Doody and William R. Davidson, "Next Revolution in Retailing" (*Thinking Ahead*), HBR May-June 1967, p. 4.

Exhibit I
"Shopping" at home



Consumers with accounts at the telecommunication merchandiser will shop at home for a variety of products and services. Using an in-home video display catalog, they will order products from a participating retailer. When the order is received on computer, this retailer will assemble the goods from a fully automated warehouse. Simultaneously, funds will be transferred from the customer's to the retailer's bank account. Customers will choose between picking up the order at a nearby distribution point or having it delivered to their door. There will be no fee for picking up the order. However, there may be a delivery charge of approximately $5. The charge will depend on the amount of the order and delivery time requirements (whether the next day at the compomy's convenience or at a confirmed time when the customer is at home).

The rise of telecommunication merchandising will add yet another option to the already diverse retail scene. People will continue to shop in different ways for different goods and services. Some consumers who are pressed for time will use telecommunication for staple goods, especially groceries. Others will turn to it for expensive specialty items, adding to the volume of today's mail- and phone-order business, for such items.

In other words, we expect consumers to choose retail combinations along an entire spectrum, with some continuing to shop mostly at stores, some using both mail order and stores, some combining telecommunication shopping and store shopping, and some shopping almost exclusively by telecommunication systems. On this spectrum, the mass or density will move steadily toward the telecommunication end, though never becoming exclusively concentrated at that end.

Some observers believe that telecommunication merchandising could have profound effects on the structure of retailing. However, beyond sketching in some implications for retail competition, they have made few projections concerning the potential impact of telecommunication on retailing. Our purpose is to analyze this impact. First, we will discuss why telecommunication retailing is virtually a certainty—with only its period of implementation subject to conjecture. Second, we will show why this emerging retail system calls into question the very notion of retailing as we think of it today. We suggest that a new concept—what might be called the "offering system"—will take the place of retailing. Finally, we will make some predictions concerning competition and customers.

Seeds of change

When consumers and the technology are ready, the experts agree, entrepreneurs will launch telecommunication merchandising in various cities across the nation. The readiness of consumers is a key question. Will enough of them ever desire this new shopping experience and accept the novel technology that such systems involve? Actually, there is evidence already that a sufficient base of consumers is emerging to support telecommunication merchandising. Developments like the following are relevant:

¤ Increased emphasis on consumer self-identity, on developing and maintaining individuality in goods and services (leads to a desire to consider more items than a store can display).

¤ A higher proportion of women who are entering the work force (they have less time to shop).

¤ Desire for increased leisure time to further self development and creative expression (means less time to go from store to store).

¤ Heightened consumer demand for specialty products and services (they are often hard to get in most shopping centers).

¤ Increasingly rapid consumer acceptance of technically complex items such as videotape recorders, home computers, and debit cards for automated teller machines (consumers have had more experience using them).

¤ The popularity among consumers of such recent nonstore innovations as pay-by-phone, special-interest mail-order catalogs, and televised direct marketing (people are becoming psychologically prepared for new forms of shopping).

Each of these trends indicates consumers' willingness to change. The people who give the trends impetus will form the core of the demand for telecommunication shopping. They will be attracted by the greater diversity of merchandise than shopping centers can offer, as well as the smaller investment of time required.

Not everyone will be a prospect for telecommunication shopping in its early stages. The prospects will likely be average or above in educational attainment, and they will come somewhat disproportionately from the professional and managerial strata. This is because a certain minimum level of technical sophistication and income will he required to operate a telecommunication ordering system. Furthermore, such individuals are most likely to feel the need for such a service and to perceive its usefulness.

Technological advances

Concurrent with the sociocultural trends is the expansion of technological capability in retailing. This technology will play a central role in shaping retail competition, especially for mass-merchandised items. Mechanisms now exist for distributing almost any product directly from the point of production to the point of consumption. Severe problems remain to be solved, but they are not nearly so great as the problems that have already been solved.

Traditionally, stores served as the primary distributors for retail products because consumers were accustomed to purchasing there, few acceptable alternatives existed, and the value of consumers' money exceeded the value of their time. Nonstore retailing was hindered because of inadequate systems for merchandise display, payment transfer, and purchase delivery.

However, these impediments to the growth of telecommunication shopping appear to be rapidly diminishing—and just at the time when increased energy costs are giving Americans an incentive to cut down on trips to retail centers. In various stages of development are several new methods of choosing, buying, and obtaining merchandise. The methods include specialty catalogs, catalog showrooms, electronic funds-transfer systems, interactive in-home television linkages, and electronic "mail" delivery. Significant as they are, though, these methods make up only part of the picture.

Conceptual leap

Telecommunication shopping is more than technological paraphernalia enabling revisions of buying habits. It represents a great leap beyond the conventional concept of retailing.

Retailing basically consists of different types of institutions engaging in transactions with consumers. But over the years, perspectives of retailing have shifted in response to new conditions in distribution. Three major concepts are compared in *Exhibit II*.

The initial concept of *conventional retailing* entailed a channel of independent participants with retailers sandwiched between suppliers (producers and one or more levels of wholesalers) and consumers. Store-based retailing dominated, except for truck (or wagon) deliveries and mail-order merchandising.

While conventional retailing still abounds, since the late 1940s it has been gradually eclipsed by the *vertical marketing system*. This notion has viewed the distribution system participants as an interdependent set. Either retailers or suppliers take on the coordinator role—whether through corporate, contractual, or administered means--making decisions for the system and influencing its members. The store is still the scene of purchasing.

On the surface, the telecommunication merchandiser, however innovative, resembles someone who might be in the vertical marketing system. But this is not the case. The telecommunication merchandiser is part of a system of creating and distributing a total product-service offering to subscribing consumers. Such a system differs in kind as well as degree from the familiar vertical marketing system. We call the new system an *offering system* because of its different emphasis.

Unique features

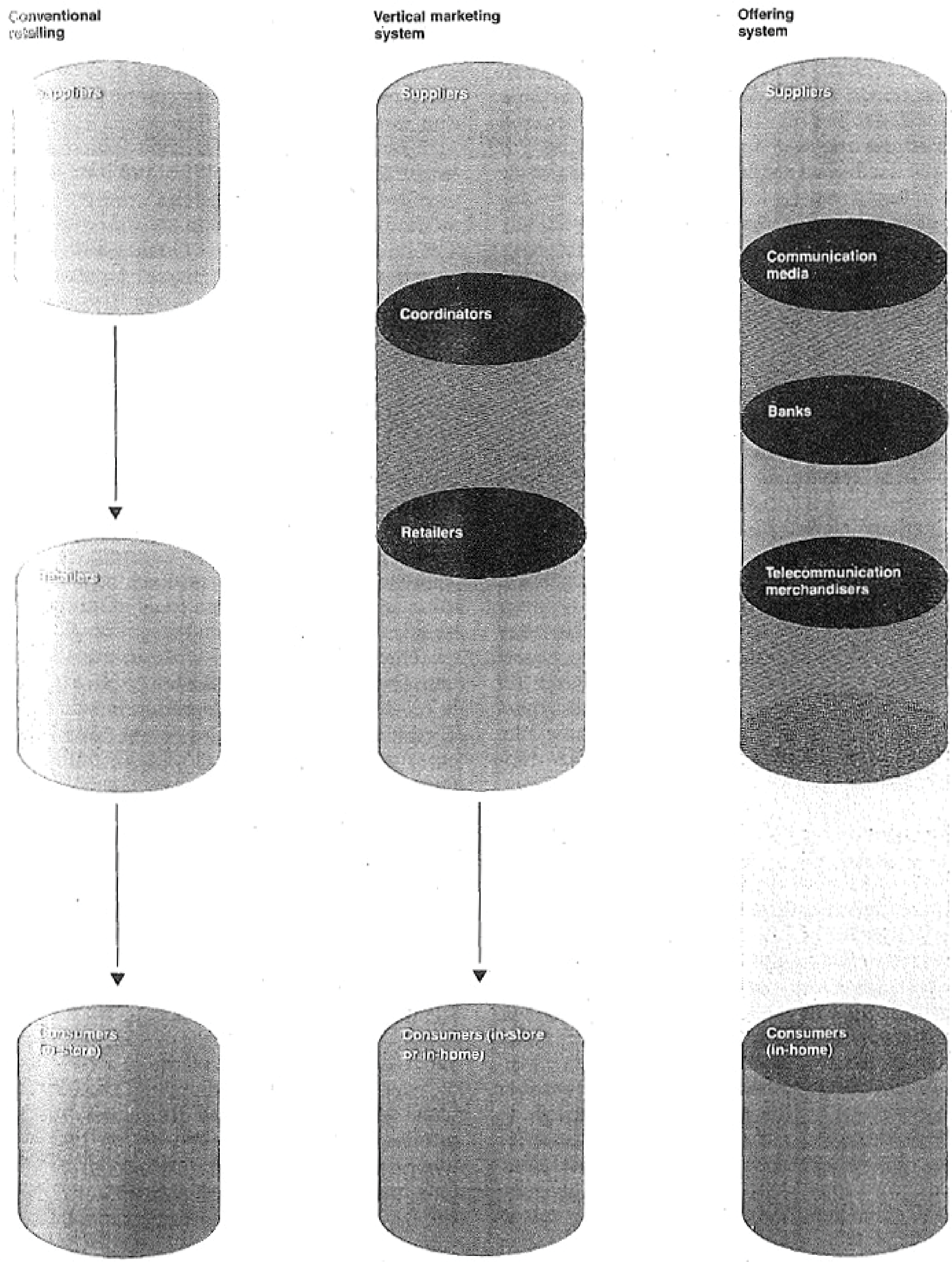
How will an offering system differ from its predecessor, the vertical marketing system? It will have four distinguishing features:

1. The principal commercial members will interact more simultaneously, rather than sequentially (or vertically), to accomplish the work of the system. Its success depends on the integration of several business functions—production, data exchange, warehousing, direct communication, and electronic payment. The system combines those capabilities currently possessed by manufacturers, retailers, and communication media. There is even reason to believe that computer software providers such as AT&T and IBM will become actively involved.

2. The offering system will create more rivalry in distribution. In arranging the offering system's resources, large manufacturers, retailers, and communicators will vie for the coordinator's role. This struggle for control generates new types of distribution conflict because of the new members (media and computer networks) and the sizable financial stakes. Rival systems, organized by the various participants, will strive to forge a distinctive character and competitive advantage. For example, the manufacturer-coordinated system will emphasize an assortment of its brands and rely on its existing ware house network, while the communicator-coordinated system will excel in merchandising through its televised catalog.

3. The involvement of financial systems in retailing will be greater. It could result in the integration or merger of several retail and financial systems.

Exhibit II
Changing concepts of retailing



For instance, growing retailer adoption of bank credit and bank debit cards is going to affect business relationships, with the advent of offering systems, the payment arrangement will become fused with the transaction. Retailer tie-ins with financial organizations will be physical (computer connections) and economic (credit services). The result should be a joint capacity to provide all the goods, services, and financial flows required for consumer buying. All this will be facilitated by the arrival of a nationwide electronic funds-transfer system.

4. Consumer participation in the system is likely to be unprecedented. The offering system' customers will be connected to it by a formal shopping relationship, computer-phone terminal, and credit/debit account. There is more than shopping convenience here. The system will produce a heightened level of customer participation and power in decision making.

When offering system fully recognizes it has an identifiable, stable customer group, it will strive to keep these consumers satisfied. It will do this through member surveys and member advisory panels (perhaps elected representatives of all members). In time, member opinions will take on the force of "votes" as if by a primary constituency. Particularly if members make their own investments in the home telecommunication equipment, they will feel the right to shape critical system decisions.

In short, they will feel more "possessive" than do customers of today's supermarket chains and mass merchandisers. They will think and act more like the members, say, of a large co-op than like transient shoppers.

Cost preview

The actual costs of operating a telecommunication offering system are difficult to estimate on an average basis, because of the diversity of the systems. However, the costs of three functioning prototypes may foreshadow the cost structures that will develop.

A *media capital-intensive system,* incorporating interactive cable television, such as Warner Communications' Qube, costs the consumer subscriber $11 per month. Retailers who have advertised on the system have paid between $1,000 and $5,000 for a 60-second commercial. Several experimental commercials shown over Qube have permitted consumers to order merchandise directly from the sponsoring retailer (such as American Express, Lazarus Department Stores, and Readmore Book Store).

The system represents an investment of approximately $15 million by Warner Communications. Currently Qube serves 30,000 households in the Columbus, Ohio area; it will be expanded to Houston and Cincinnati later this year. Qube's subscribers come from all socioeconomic groups and are quite close in demographic composition to the nation as a whole.

In contrast, a consumer *capital-intensive system* might require a household to purchase a video cassette recorder (approximately $785 to $1,250) or a video disc player (approximately $1,500 to $2,000). The retailer could produce catalog discs or cassettes of product offerings that would be sent or sold to subscribing customers at a cost potentially lower than the cost of advertising the items. The video catalogs would be superior to present catalogs not only in color reproduction; they also could offer motion and music for "mood setting." Presumably, the price charged to subscribers would vary according to the dollar amount of the order generated. Consumers purchasing more than, say, $100 per year in merchandise may be given free video catalog cassettes or discs.

In a *retail capital-intensive system,* the retail entrepreneur may assume primary responsibility for initiating a televised promotional program that could handle telephone, mail, and electronically generated customer orders coupled with an automated warehouse/shipping facility. Using such a system, the K-Tel International Corporation headquartered in Toronto, Canada had sales of over $125 million in 1978, with operating costs of $114 million. Its primary merchandise lines include record albums, motion pictures, and personal and household items.

Thus the costs involved in telecommunication retailing systems are calculable but likely to vary greatly depending on the structure of the systems. The organizations may be media-, consumer-, or retail-capitalized, or financed by a combination of those sources.

Responses of retailers

What do retail executives think about the future of telecommunication shopping and offering systems? We have discussed the possibilities with a number of executives, often asking for their reactions to the various scenarios possible. Their opinions range from extreme skepticism to confident belief.

Some executives doubt the viability of telecommunication assistance in retail transactions. One manager of a major national retail chain told us:

"It seems that every ten years the 'experts' forecast the advent of electronic in-home ordering which is 'sure' to come during the next ten years. It has not happened yet, and frankly, we don't see it happening anytime soon. Those who prefer to shop at home can use our catalog instead of their television set."

To be sure, a substantial proportion of consumers are using catalogs for retail purchasing assistance. For example, in 1977, 9.1% of Sears, Roebuck's business originated from its catalogs, with a corresponding figure of 11.4% of sales coming from catalog counters in Sears stores, making a total of about 20% for catalog-generated sales. This sales proportion has remained constant at Sears for the past five years.

A contrasting perspective is the belief of some retailers that telecommunication retailing will complement, but not replace, existing forms of nonstore retailing, such as catalog, door-to-door, and direct-mail selling. An executive affiliated with a communication corporation asserted: "We see telecommunication as one important way to extend retailers' contacts with consumers. It can supplement their traditional promotion and distribution tools. Some retailers will find it of more use than others, depending on who their customers are, what products they are selling, and what other avenues are available to them."

Although, industry executives differ in their opinions of the applicability of telecommunication to their own retailing operations, most tell us they do not rule it out and state that alternative systems are under study. One manager of a specialty chain summed up this view: "Yes, we are actively considering telecommunication systems. We make every attempt to keep abreast of technological developments which may affect our business. One major factor in any decision we might reach concerning telecommunication would, of course, be competitors' use of it. We don't want to be the last to implement it."

Will retailing be transformed?

What will be the specific effects on traditional retailing brought about by the emergence of offering systems? We foresee many important changes. It seems likely that traditional retailers will become increasingly vulnerable as telecommunication shopping catches on.

First, the effects of current social trends should be perplexing for mass-merchandise retailers. As consumers crave more uniqueness and individuality, fewer and fewer products will be purchased as staples, that is, without regard to style, fashion, or social meaning. This implies that the present movement into apparel and soft lines by discount and mass-merchandise stores may be partially stymied by the consumer's desire, backed up by affluence, to buy something that no one else has. The atmosphere and assortment in discount and mass-merchandise stores will fall far short of the individuality that consumers increasingly will demand. Small local stores will be at a disadvantage to diversify and individualize their merchandise mix.

Second, the movement toward in-home purchasing will prey on traditional retailers. As consumers rely more on shopping at home to save time, the retail systems now in the direct marketing arena should prosper. Those retailers who refuse or are slow to develop to-the-home approaches will inevitably suffer.

Third, as consumers become more discerning and produce a higher rate of product returns, repairs, and exchanges, many retailers will feel greater pressure on profit margins. The success formula of many retail enterprises requires high volume to offset low prices. Increased product returns effectively lower net volume and push up operating costs, perhaps substantially. While it is doubtful, for example, that many department stores will fold because of mounting product returns, it is likely that their profitability will be reduced. This problem should weigh more heavily on smaller retailers with fewer units over which to spread costs.

Fourth, the key conditions underlying traditional retailing seem to be eroding. The lifeblood of many store-based companies is a steady stream of automobile-driving consumers who visit an outlet, select a product, and take it home. The waning of each of these habits seriously threatens the retailer's competitive health. Consumers are more reluctant to spend time inefficiently searching for products among the long, crowded aisles typical of many stores, when instead they can order many of the same products from a catalog or by telephone. Similarly they are less inclined to view themselves as delivery systems for transporting products from the store to their homes when retail alternatives exist to take care of delivery.

Energy shortages and costs, especially for gasoline, will serve to reduce further the willingness and ability of consumers to shop as they traditionally have. Frequent trips to a store to restock a few items will be sharply curtailed. Major shopping trips will be more carefully planned. As the opportunity for comparison shopping by visiting multiple stores decreases due to energy restrictions, the in-home perusal of electronic catalogs becomes an increasingly valuable and desirable shopping alternative.

Changing landscape

In the territory of retail markets, the arrival of offering systems will have some impact on the downtown competitive structure. But many types of stores in the suburbs will fare worse.

As for downtown areas, a historic relationship has linked the prosperity of a city's main commercial district to the activity of its cluster of downtown stores, especially department stores and major specialty stores. The ascendancy of offering systems could jeopardize efforts to revitalize downtown areas by reducing the need to construct new urban retail areas.

While it is improbable that offering systems will halt downtown renewal, they will force store developers to enhance the attractiveness of urban retail centers. This can be done by emphasizing a unique shopping experience, more akin to entertainment than shopping. Notable examples of the successful implementation of such urban centers include the Faneuil Hall Marketplace on the Boston waterfront, the Peachtree and Omni Centers in Atlanta, the Renaissance Center in Detroit, and the Galleria in PhilaIelphia. A less successful example (at least, as of early 1980) is the imaginative Williams Plaza and related projects in downtown Tulsa; so far, shoppers have not been attracted in large volume.

In the suburbs, on the other hand, offering systems will probably imperil traditional retail stores. Regional shopping malls—composed mainly of efficient, integrated chain retailers—already cater aggressively to the lifestyles and wants of their customers. These large, recreation-oriented shopping environments are filled with a broad and balanced assortment of "ego-intensive" goods and services—fashion clothing, home furnishings, leisure products, and the like. Yet their niche in the competitive structure is not guaranteed.

We fear these stores may be undercut by rising operating costs and customer reluctance to drive great distances, except for high-priority shopping expeditions. Also, the nonstore systems are exhibiting considerable flair in merchandising ego-intensive goods to well-to-do consumers who are pressed for time. Examples of this flair include the enormous array of specialty catalogs mailed directly to consumers, such as the Dallas-based Horchow Collection, Talbot's of Massachusetts, and New York's Hammacher-Schlemmer.

The outlook appears bleaker for stores in smaller and older community shopping centers. Such stores are convenient and good for routine purchases. They will be hurt as consumers place more value on their time and as telecommunication retail mechanisms spread, because their products will be easy to order from home. Many stores in smaller shopping centers, on shopping strips, and of the free-standing type may fold. In this endangered group will be chain and independent outlets such as discount stores, supermarkets, dry cleaners, convenience stores, and potentially a portion of the staple-products volume of the national chain merhandisers (e.g., Sears, K mart, J.C. Penney).

Especially hard hit, we think, will be small, independent stores selling routinely purchased products. Such stores usually are located in strip shopping centers. They cannot match the prices, decor, merchandise variety, and depth of the larger chain competition. Those stores most likely to survive will be small retailers who take shelter in franchised or affiliated systems, thus benefiting from computer hookups, large-scale buying economies, mass advertising, and management expertise.

As the doors close

Offering systems will require sizable amounts of capital and equipment, skilled management and staff, and disciplined administration of all marketing functions and member companies in the coalition. Once formed, these systems should be large, powerful, and quite stable. As a result, new and smaller retailers, wholesalers, and manufacturers will find it increasingly difficult to enter the competitive structure once the offering systems are in place. Barriers to entry may be erected comparable to those in the chemical and automotive industries. This would be a substantial reversal for retailing, traditionally one of the industries most open to new competitors.

Even certain larger retailers, wholesalers, and brand-name manufacturers may be excluded from participation. Those who maintain a cautious attitude toward starting or joining one or more major offering systems may later find themselves shut out from full membership; once completed, the systems will not be interested in more members.

Responding to customers

Offering systems will have to take proconsumer policies seriously. Most successful retailers today have realized that it is sound business to anticipate and satisfy consumer demands. Not only will offering systems be wise to share this customer-oriented philosophy, but also they should emphasize it at the outset. That is the only way they can overcome the skepticism of their initial customers—so vital for positive word-of-mouth communications.

Some typical proconsumer approaches by offering systems should include:

> Assuring the safety of products sold, probably through a testing program operated by the offering system.

> Providing complete, accurate, and straightforward information through advertising, especially televised catalogs.

> Protecting the privacy of personal data on customers in the system's information bank.

> Engaging in consumer education in such areas as nutrition, self-medication, and family budget management.

The broader issue is how responsive offering systems will be to their subscribers regarding specific complaints as well as expressions of satisfaction or dissatisfaction with products and services. Given the complexity and sophistication needed to interact with the offering system, two different scenarios can be constructed:

¤ In the responsive scenario, the offering system will react positively to customer discontent. Using the detailed data available on particular customers and products, management can process complaints fully and personally and authorize the appropriate funds or exchanges rapidly. Because operating problems will be spotted early and corrected quickly, there will be a high level of consumer satisfaction.

¤ In the nonresponsive scenario, complaining customers would confront an overpowering offering system whose very size and complexity would be intimidating. Feeling the futility of obtaining an adequate response, many customers might not bother to report product failures. Faced with the alternative of totally withdrawing from the system, some subscribers might decide to live with the frustration. Other subscribers might stay with the system because their bank accounts and retail purchasing accounts are tied together. In both groups, resentment would be high.

Which scenario will become the reality? The answer depends largely on what the offering system defines as its priorities. Management may choose to perform the role of a beneficent provider, recognizing the primacy of sensitivity to customers. This would entail extensive, continual research on customer satisfaction and special communication networks for questions and complaints. But if management becomes preoccupied with mastering the potential efficiencies by routinizing operations, the shopper will be expected to play by the system's rules, as dictated mainly by its data-processing technology.

The importance to sales and profit growth of having a satisfied customer base-backed up by watchful government agencies—should favor the responsive scenario. Obviously, this will be the route chosen by companies interested in long-run growth.

Appeal to consumers

There are two ways to look at the impact of offering systems on social stratification. One view holds that becoming a member in an offering system is likely to be easiest for consumers who are above average in income and education. These individuals possess the sophistication and willingness needed to cope with the system's requirements as well as the affluence that will make them attractive to marketers. By contrast, other consumers may be excluded from offering system membership. These are the people who are less able to deal with complexity, to comprehend change, and thus to function effectively in the new retail environment. Likely to be drawn from the lower socioeconomic groups, they may fail the creditworthiness tests of the offering system or fear the technical equipment used.

A second view is quite different. In this view, the offering system serves as a leveling device; it works to reduce social class distinctions by making a diversity of products and services available to all consumers, not just to a privileged few. If implemented properly, an offering system could actually help to educate consumers by making them aware of more product attributes and alternatives.

What might motivate an offering system to function as a source of consumer education? For one thing, the desire to operate as a mass merchandiser may spur it to educate a broad audience of participants. For another, it may be prodded by government policies concerning affirmative action and equal access. (In this respect, it is worth noting that the offering system linkage with financial systems could aid disadvantaged consumers by helping them manage and budget their limited funds. Consumers who have trouble keeping accurate records of their spending on several credit cards could be aided by a system that consolidates all their bills and keeps running tab of expenditures.)

The potential for both harm and help is present in these systems. Which potential becomes reality can only be answered by management.

Conclusion

We see as a virtual certainty that the era of widespread telecommunication shopping is approaching. We predict that this era will witness significant alterations in the concept of retailing and the nature of retail competition. Like all predictions of great change, this forecast is subject to uncertainties. However, it is worth stressing that our picture of the post-revolution retailing scene is based partly on evidence available today, as well as our reasoned opinion of probable outcomes.

Corporations involved in any way with retailing cannot afford to ignore the developments described. Nor can executives of storebased retailers, shopping center developers, brand-name manufacturers, broadcasters, computer manufacturers, telecommunication suppliers, banks, and credit-card companies wait for the future to unfold before formulating appropriate strategies. The challenge to management in all these retail-related industries is to grasp the dimensions of the coming telecommunication revolution. Soon it will be time to participate in that revolution.