

# Channel Watch: Will The Internet Escape The Retailing Downturn?

Contributed by Euromonitor International  
Monday, 18 May 2009

While retailers operating in the majority of channels now concede that the global economic downturn is having an effect on sales, internet-based companies remain conspicuous by their absence in terms of complaining about a drop off in sales.

In the US, two electronics specialists that have failed, CompUSA and Circuit City, have seen their brands survive on the internet, underlining how the internet is increasingly becoming a home for famous brands that have seen their brick-and-mortar stores fail.

Ultimately, therefore, can the internet channel continue to grow in the face of the current economic difficulties?

Internet retailing still expected to advance in 2009

While red pens have been taken to many of the forecasts made before Lehman Brothers collapsed and took the banking crisis global, internet retailing is expected to be one of the least affected channels.

While grocery retailing is expected to show minimal growth in value sales in 2009 and 2010 and the non-grocery channel could shrink before showing a small increase in 2010, non-store retailing overall is likely to grow by between 3.5% and 4.5% in both years, with internet retailing playing a big part in the channel's continued health.

Growth expected to rise

In 2009 sales growth in internet retailing is likely to be driven by similar trends seen in recent years: convenience, competitive pricing and consumers' ability to compare prices across a number of channels. With pricing becoming an increasingly important factor in consumers' buying decisions, so the channel should benefit.

The notion of convenience is increasingly being linked by consumers with the idea of saving money, not only in terms of lower prices, but also in not paying for the petrol to get to the store. In the UK, growth in internet retailing in 2009 is expected to be driven by consumers outside the country's largest cities, with people benefiting from the low cost of delivery being offered by retailers.

In established markets, like the UK and US, large-scale e-commerce and multi-channel retailers are likely to leverage their buying power in an attempt to undercut prices available at competitors. In the UK, Tesco and Asda have both pushed into the on-line environment in a big way, promoting their non-grocery product ranges.

Utilising the purchasing power inherent in their group companies (Asda is owned by Wal-Mart), they have both been able to price goods so aggressively that they are able to compete with established large-scale, non-grocery retailers like Home Retail-owned Argos.

This point becomes increasingly important as large-scale companies utilise their marketing budgets to promote their e-commerce sites and offer money-off promotions and discounted delivery charges as a way to tempt consumers on-line.

In the US, searches for on-line coupons have more than doubled since the beginning of the recession in the country, with on-line aggregators bringing together the best deals for consumers looking for an easy way to garner the best prices.

In a similar way, price comparison websites have seen strong growth during 2009. These sites enable consumers to evaluate pricing across a number of companies, thus providing shoppers with a greater level of pricing transparency.

As consumers look to save money, these sites are enabling them to do so, while also forcing retailers to compete evermore on price.

Ultimately, these trends should support the continued growth of internet retailing as a channel even after the economic downturn has passed. Consumers who use the channel become accustomed to it and have faith that it works, which leads many to use it more often.

Therefore, the downturn may ultimately prove beneficial to internet retailing as consumers are being driven towards the channel at the moment in an attempt to save money, with many of these likely to remain internet shoppers even when conditions improve.

but so is the competition

As these various factors intertwine to the benefit of consumers, the level of on-line competition rises and swings in favour of the larger multi-channel retailers and pure e-commerce companies.

These businesses are invariably able to offer the best prices, while they are also able to ally this to a higher level of marketing and on-line advertising that places their brands in front of consumers on a more regular basis.

The increasing transparency of pricing for shoppers also means that they are able to take control of the purchasing process like never before, enabling them to remove a large number of retailers very simply without having to put in much effort. As the economic downturn lasts longer so these points will grow in importance and increasingly favour these companies.

While much attention is likely to fall initially on multi-channel retailers leveraging their brick-and-mortar stores to drive on-line growth, the downturn may also favour pure e-commerce companies which will become better able to compete more effectively with the mid-market brick-and-mortar retailers which do not have the same purchasing power or have considerably higher overheads.

In these examples, the pure e-commerce companies will be able to compete aggressively on price, undercutting mid-market retailers or causing them the pain of competing, but shrinking their margins as a result.

Some also suggest that brick-and-mortar retailers' decision to cut back on staffing levels provides internet retailers with an opportunity to show that they can offer service that is as good or maybe even better than their store-based counterparts.

Longer-term picture looks favourable for the internet channel

If consumption patterns are changed by the present economic downturn, with people shying away from mass consumerism, underpinned by debt, then the internet channel could be one of the longer-term beneficiaries of the difficulties being felt.

If consumers continue with these their "economic downturn" buying habits once countries have returned to growth, the internet could support their attempts to check prices, save money and benefit from researching before making purchases. All these are items that play to internet retailing's strengths and are likely to underpin the channel's growth far beyond the present economic downturn.

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April 2009