

E-commerce vs Physical Stores

Written by Steve Marr
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Most people know that new sales online have been increasing. In 2018, e-commerce increased 14.2% from 2017. The increase has been steady for years while we see retail stores struggling with stores closing in large numbers. This includes large retailers like Kmart and Sears but also involves smaller stores in strip malls.

However, an interesting statistic is that, though retail sales in brick-and-mortar stores have been stagnant while e-commerce has increased; the increase is clearly at the expense of growth that would have occurred in traditional stores. It is also true that while traditional stores have suffered decline, there is still a tremendous amount of retail activity. Over 90% of sales are still conducted through traditional storefront locations.

About 50% of retail sales are mostly immune from e-commerce competition. These include businesses like gas stations, grocery, service orientated businesses or restaurants. Anything that cannot be delivered by second day UPS will not face a threat.

However, other retail stores will continue to struggle to fight e-commerce. I know people who order clothing in three sizes, the size they think is correct, one smaller and one larger thinking they will return the two they don't need. While the extra expense goes back to the e-retailer, the local store that offered the traditional walk-in and try-on services receives no benefit in this transaction. I personally do not like to order a lot of clothing online. I don't like the uncertainty of whether it will work for me. I don't want the hassle of sending packages back. When I walk into my local UPS store, I see the stack of returns waiting to go back on the truck that afternoon.

Another trend to keep in mind is that stores like Walmart and Target are effectively shifting into e-commerce along with stores who offer curbside pickup. These stores offer these services as a way of maintaining and possibly building business. However, there's another side to this coin. First, Walmart may be cannibalizing their own sales because when a customer purchases online and uses curbside delivery, they don't walk around the store and place other things in their carts. There is a reason that special treats are within your reach while you wait your turn at the check-out counter. Impulse buying doesn't show up on electronically placed orders.

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There are several takeaways from my perspective. First, while brick and mortar store sales are not increasing; neither are they decreasing overall. However, the competition will become fiercer. I remember one lesson from business school that counteracts this reality. In a struggling environment that may take down one or more businesses who fail to compete, it doesn't have to be you. You can innovate, outwork your competition, survive and even thrive while businesses fall around you. I've talked to some store owners who tell me they *can't* compete. They either struggle or fold up because they *don't* compete.

An example is the Christian bookstore industry. Many struggle to compete with online purchasing, Amazon's inventory or online stores like Christianbook.com. However, my local Christian bookstore works very hard to create an experience by bringing in local authors, serving coffee and refreshments to encourage folks to drop in. If a Christian bookstore tries to compete purely as a bookstore, they will lose. However, when a Christian bookstore endeavors to create an experience; success may follow.

Starbucks is an example of a store that creates an experience. If you only want a shot of caffeine, go to a local gas station where the price is cheaper. However, Starbucks offers an experience which brings in customers. Starbucks knows it's not just about the coffee and their products; it's about creating an overall atmosphere and experience for customers.

Successful retailers must find ways to offer products and services that cannot be sold and delivered over the Internet. Additionally, there will be continued pressure to sustain occupancy in retail space. Landlords will face pressures to lower rents. Those looking for business space will have additional opportunities to bargain and get much better deals in the future.

I was talking to a landlord about renting some space which had been vacant for three years. I asked if the landlord was open to negotiating the price. The short answer was "No." The owner explained the reason this way. "I know what my building is worth, and I've had a number of bottom feeders offer to rent it at a low price. I know what the property is worth, and I will get it." Of course, the landlord has lost two or three years of prospective rent even at a lower rate. Besides, the vacancies all around his property emphasize that this is an example of an unrealistic property owner.

King Solomon wrote, "There is a time for everything, and a season for every activity under the

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heavens.” (Ecclesiastes 3:1, NIV). In our businesses we need to remember that our customers and their ways of doing business will ebb and flow. We need to understand and embrace the trends we identify or risk becoming the next empty store.

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