In hindsight, many of the original predictions made at the dawn of the internet era have not become a reality. Retailers are not cannibalizing their own custom, virtual merchants do not dominate the market place, and the high street has not been put out of business. By contrast, other predications have come to pass: electronic intermediaries are playing an increasingly important role, “one-to-one” marketing has become a reality, prices are more competitive, and, perhaps most importantly, the consumer has become more powerful.

By and large, consumers have responded enthusiastically to these innovations, and online retail sales have grown significantly over the past 15 years and are predicted to continue rising into the future.

Internet retailing: where are we now?

One area in which early commentators have been ostensibly proved right, is with respect to the dramatic growth of internet retailing. Although the growth rates might not have been as dramatic as some of the more bullish pundits had previously predicted, it is still significant and sustained.

With regard to the early predictions that the market positioning of the established retailers would be under threat from the disintermediation of the supply chain, most commentators now believe that the early concerns were rather overblown. Mostly, the high street has weathered the storm, and the global economy has been left with the reality that the impact of retail disintermediation has been fairly modest. Although in overall terms, disintermediation may not have had a marked impact on the high street; there are particular segments, such as music, entertainment, printing/publishing and traditional travel agents, in which its impact has already been hugely significant.

Against this backdrop, many academic studies are beginning to play down the chances of the internet having a significant destabilising affect on the viability of the high street. Fears that the internet will kill off the traditional retail arena seem, at least at this point in time, overblown and exaggerated. Although consumers often consult the internet before going shopping, it is unlikely, at least in the short term, to have a significant effect on demand levels in city centre stores. The consensus view is that an effective and well-aligned internet channel enhances the performance of retailers, and in so doing, it helps to protect their place on the high street. The strength of the “clicks and mortar” strategy is that it allows established retailers to leverage their existing physical assets and brand, whilst also allowing customers to enjoy the personal and sensual pleasures of going shopping.

The future of internet retailing

Whilst it may not be possible to predict with any degree of certainty how the internet will shape the design of markets, the practice of marketing or the behaviour of online shoppers, in the future, it is very clear that the market-share and influence of online retailing will continue to rise. For example, in the UK, it has been estimated that the number of customers being served by the UK online and catalogue retail industry, which currently stands at 26.9 million active online consumers, will rise to around 30 million by the year 2013, representing over half of the UK population. In a similar vein, statistics for the USA also provide evidence of the rapid growth of internet retailing, in recent years, and a strong expectation that this growth will continue, well into the future. This continuing
expansion of online retailing will inevitably draw renewed attention to its likely affect on the high street.

So who will be getting the lion's share of these rapidly expanding online markets? One thing seems clear, in a retail environment in which brand is getting more, rather than less, important, it is likely that the big names will continue to dominate internet retailing. At least in the immediate future, the majority of these big names will be established retailers who will continue to retain a very strong position within the electronic market place.

Moreover, given the consumers' desire to use the internet as a flexible tool for researching products and locating stores, as well as purchasing merchandise, it would also seem likely that the multi-channel format will be the preferred design. However, the established retailers will inevitably continue to face stiff competition from the successful and high profile "virtual merchants" and "disintemediators", such as Amazon.com, Apple.com and Dell.com. It is also very likely that the established retailers will face growing pressure from a variety of completely new businesses, keen to get their share of the electronic market. If one thing has become very clear, from the first 15 years of internet retailing, it is that there is always the opportunity for the innovative and dynamic company that has read the market well and has an effective business model to make a strong impact, and, in so doing, grow very big and powerful very quickly. As we have seen from the experiences of organisations such as Amazon and eBay, the internet can prove to be a very fertile environment if organisations have good ideas, supported by an appropriate set of core competences and capabilities.

In the future, it is very likely that there will be a significant struggle for power between the retailer and the consumer. On the one hand, all internet retailers will want to get even more out of their customer database, so that their “one-to-one” marketing initiatives will deliver even more value. This wealth of consumer-oriented data will also allow retailers to better predict their customers’ requirements, and, in so doing, provide a better level of customer service. The most obvious consequence of this may very well be that in future, it will be the most technologically adapt and internet savvy retailers who will dominate online markets, as they have a far richer and deeper understanding of their customers' needs and wants. This scenario will, however, only come to pass if consumers remain happy to form long-term relationships with particular retailers and are prepared to act on the tailored promotional advice, to which they are being subjected.

An alternative, and perhaps more likely, scenario is that in the “Web 2.0” era consumers will become less susceptible to the power of one-to-one marketing. Word of mouth has greater impact on product judgements, attitude formation, and decision making than formal marketing communications. This view is strongly supported by practitioners who find that word of mouth referrals have a more significant impact on new customer acquisition than traditional advertising mechanisms. With millions of people around the world, from an ever widening age profile, spending ever more time communicating with their “friends” via sites such as Facebook, it is very likely that the power of social networking will continue to expand, and have a far greater affect on the modern consumers’ online shopping behaviour. However, as social networking is but one element of the “Web 2.0” environment, retailers will also face increasingly intense pressure from consumers. Overall, it is likely that the power of the consumer will continue to grow, as they become increasingly willing and able to seek and use information, and then either directly or indirectly exert pressure on retailers. In parallel with this trend, it is also likely that the power of the electronic intermediaries will continue to grow, as consumers become more reliant on their information providing capabilities.

**Implications for retailers**

Online shopping is now an everyday part of most peoples' lives. From the perspective of the here and now, and looking forward, there is plenty of evidence to suggest that this internet-enabled revolution has much more life in it yet. The revolution has moved from a phase in which the innovation and ideas were primarily flowing from the supply-side to one in which the consumer, from the demand-side, is empowered to direct the way in which the revolution unfolds.
What are the implications of an increasingly vibrant and sophisticated internet marketplace?

It may be tempting to stand back and congratulate retailers on a job well done. However, there are still many significant challenges that they need to confront and overcome. All retailers will need to develop strategies for responding to enhanced consumer power, possibly with initiatives such as:

- marketing via social networking sites
- growing their brand
- differentiating their product offerings
- working hard to ensure that their websites provide consumers with an enjoyable and reliable shopping experience.

The established retailer will also need to consider how they can more effectively integrate their online and off-line channels to provide customers with the very highest levels of service. By contrast, the virtual merchants need to develop strategies for effectively promoting and developing their brands, so that they are in a position to compete on more equal terms with their established, high-street counterparts. For the consumers, the big message must be to make more use of their increasingly powerful position, to become better informed, shop around and ultimately drive a harder bargain.

March 2011.

This is a shortened version of “Internet retailing: the past, the present and the future”, which originally appeared in the International Journal of Retail & Distribution Management, Volume 38, Number 11/12, 2010.

The authors are Neil F. Doherty, and Fiona Ellis-Chadwick.