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The Globalization Efforts of Small Internet Retailers

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INTRODUCTION

The Internet has played a vital role as a key enabler in the adoption and execution of global business strategies and has affected many business fundamentals (Hopping, 2000). In particular, the world-wide proliferation and advances in Internet and eCommerce technologies have led to new paradigms in retailing. Power has shifted from the retailer to increasingly demanding consumers, who are further changing the face of retail by rapidly adopting the Internet into their lifestyle.

This global growth of Internet usage and eCommerce technologies has led to greater opportunities for consumers and retailers worldwide. For consumers, benefits such as the availability of detailed and relevant information and convenience of access warrant the use of the Internet as a shopping medium. Likewise for retailers, the ease of setting up shop, lower overhead and stock-keeping costs, and the ability to disintermediate justify the adoption the Internet as a channel or medium for retail (Kalakota and Whinston, 1996; Turban, Lee, King and Chung, 1999; Rosen and Howard, 2000).

Furthermore, adopting Internet strategies eliminates geographical boundaries, and the lure of cheap and easy access to an expanding customer base is too great to ignore. Research agencies stress that Internet users are willing and able to purchase goods online, and the organizations that do not market to international users are ignoring potential revenue streams (IDC, 2000).

However, literature pertaining to the adoption of global Internet strategies in retail is scarce. While literature on Internet retail (*e-tail*) and globalization is disjointedly abundant, Yip (2000) calls for a need to understand both Internet and globalization strategies ***together***, rather than separately, because "*the impact of the Internet is more multiplicative than additive*" (pp. 1). This article explores the issues pertinent to the globalization of Internet-enabled retail by *small* Internet retail enterprises and investigates how these *e-tailers* are expanding their operations across national boundaries. Three case studies were conducted with Singaporean book e-tailers to examine the various models in their expansion to international operations. This exploratory study draws attention to implications for future research by focusing on the commonalities across the cases and does not deal with any specific set of hypotheses.

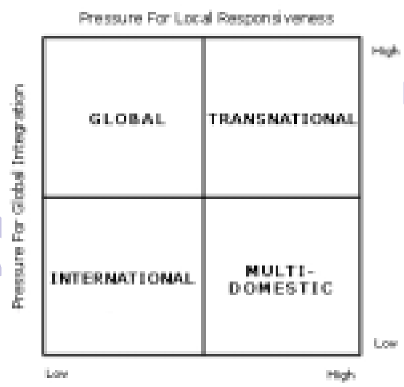
EXISTING LITERATURE

E-Tailing is driven by numerous benefits to both the retailer and the consumer (Auger and Gallaugher, 1997), therefore becoming a strategic and critical medium and channel for retailers. Yip (2000) proposes a framework whereby the Internet affects industry globalization drivers, and in-turn, directly affects an organization's global strategy. Industry globalization drivers, including market, cost, competitive and government-behavior drivers, have been accelerated due to the proliferation of the Internet internationally. For instance, the Internet has enabled customers to be global, supports global marketing, exploits cost differences between countries, avoids trade barriers and increases a commonality in consumer demands across countries.

Organizations need to adapt to these changes innovatively to survive. The Internet has made it easier for organizations to infiltrate global markets by enabling an instant global reach and global marketing. Furthermore, the Internet enables easier competitor monitoring, quick response and effective inter-organizational linkages (Yip 2000).

Business literature dictates four categories of multinational strategies (Fig. 1), based on pressures for global integration and local responsiveness (Griffin and Pustay, 1998). The *international* strategy utilizes a firm's particular core competency as a competitive force in foreign markets. The *multi-domestic* firm operates with independent subsidiaries, each focused on a particular domestic market, free to customize its product and strategies to the needs of the local customer. The *global* strategy views the world as a single marketplace, and strives to create standardized goods and services that will meet the needs of customers worldwide. A *transnational* strategy seeks to combine the benefits of global-scale efficiencies with the benefits of local responsiveness.

Figure 1: Strategic alternatives to balance global integration and local responsiveness (adapted from Giffin and Putsay, 1998)



From the global e-tailer's perspective, the multi-domestic strategy represents decentralized websites, for each country served, localized to the culture and customer needs. The global strategy is the opposing model, where the website remains centralized, and standardized goods and services are offered throughout the world. The transnational strategy aims to combine the benefits of a global strategy with that of a multi-domestic strategy.

Internet retailing literature is, additionally, riddled with studies on the tradeoff between online-only retailing (*pure play*) and physical retailing (*brick-and-mortar*). Otto and Chung (2000) discuss the use of *cyber-enhanced retailing* to provide additional customer value by leveraging eCommerce technologies. However, brick-and-mortar retailers fear cannibalism of existing channels with the adoption of Internet strategies (Chen and Leteney, 2000). While early adopters hypothesize the exploitation of established brand names, physical infrastructure and distribution and logistic networks to nourish e-tail success (Pottruck and Pearce, 2000), statistics and theory have yet to substantiate the claim. Birch, Gerbert and Schneider (2000) perceive synergies between established retailers and their websites to be fewer than anticipated, while the obstacles facing these organizations are substantially greater.

Arguably, e-tailers who wish to succeed globally must find the correct balance between global integration of their operations and

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responsiveness to local consumer demands, while maintaining successful web, or combination of web and physical, strategies. However, studies relating to the issues faced by e-tailers adopting global strategies are lacking. Farhoomand, Tuunainen and Yee (2000) propose a framework for classifying global electronic commerce issues into *technical, cultural/political, economic, legal and organizational* issues. However, none of the case companies in the study were in the retail industry.

METHODOLOGY

A multiple-case study methodology was chosen to explore the globalization efforts of three e-tailers in Singapore. Yin (1994) iterates the applicability of case study methods when conducting exploratory research in contemporary themes, and in investigating the "how" and "why" of phenomena. The case study methodology is appropriate when observations need to be explained with regard to their natural settings and where experiences and contextual conditions are important to the phenomena being observed. Multiple case studies are suitable for descriptive and theory building research (Benbasat, et al 1987).

The well-defined and non-perishable natures of books have made them ideal for retail over the Internet. Book retail also represents a sizable and growing market in Singapore. With the maturing of workers into knowledge assets and a competitive advantage for organizations, habits such as reading, lifelong learning and constant improvement are becoming established as cultural values. Relative to other B2C eCommerce ventures, book e-tailers hold a high potential for growth and the possible operationalization of regional and global strategies. Successful e-tailers, such as Amazon.com, provide evidence of the high compatibility of books and Internet retail.

The three cases provided a unique opportunity as the backgrounds of each company varied substantially. Each case company stemmed from a spectrum of backgrounds, and each adopted distinct strategies in its e-tail and expansion approaches. Data was collected primarily from 13 semi-structured interviews with key personnel at the top and middle management levels in the companies during the period of November 2000 to January 2001. Each of the interviews lasted approximately 1½ hours, and was tape-recorded and transcribed prior to analysis. The interviews and documentation provided rich contextual data that is presented in the following sections. Further data regarding the cases was accumulated from documentary evidence such as press releases and news and business reports. The case companies and their URLs have been withheld for anonymity.

CASE DESCRIPTIONS

Company A is an Internet company that utilizes the retail of books as a supporting function to its core consulting activities. Aiming to be a knowledge source for customers in the Asia-Pacific region, its online bookstore is the essence of the organization's services. The bookstore operates on an online basis only, but a supporting physical office in Singapore acts as the organizational headquarters and service point for its local customers.

The company began its operations in 2000, and consists of 20 full-time employees, with 40 temporary *virtual* employees and partners situated worldwide. These virtual employees provide much-needed and necessary information and expertise of markets around the world.

While the organization does not have its roots in the book industry, it is privately funded by individuals, and headed by a core management group, with strong backgrounds in eCommerce and publishing. The organization caters to both corporate and individual clients, providing a source of knowledge to its clientele through the sale of books, R&D information and audio and video artifacts.

The website operates globally, not turning down deliveries to most parts of the world, e.g., it's occasional orders from Vietnam and the US. However, because the organization has not marketed itself internationally, it has received few international orders. The company's strategy is to establish a critical mass in Singapore and use this as a test bed, while marketing itself aggressively in high-growth countries around Asia, including Malaysia and China, and eventually into the US in the future.

Company B is owned by a large multinational conglomerate with a diverse business background in telecommunication and manufacturing. To reinvent itself for the digital economy, the conglomerate spawned a virtual bookstore in Singapore, believing the country has a large growth potential in book retail.

Also launched in 2000, the online retail company aims to transform the attitude towards reading to a lifestyle choice, by providing a personalized and enriching online shopping experience, and by enhancing its customer service to exceptional standards. Headquartered in Singapore, the *pure play* e-tailer operates with a nucleus management team of 7, and another 16 full- time employees.

The e-tailer operates in 3 countries – Australia, Singapore and Malaysia – and prides itself on its price competitiveness, value proposition and high standards of customer service and satisfaction. The company markets itself aggressively in all 3 countries, emphasizing on branding. Striving to remain virtual, the organization does not have any physical infrastructure in place, apart from its headquarters in Singapore, and a fulfillment centre in each Malaysia and Australia.

The organization is researching possible countries in the region to expand its operations, while trying to shorten delivery cycles, capture greater market share and improve fulfillment.

Company C is owned by an organization with a history in retailing, publishing and distribution in the Asia-Pacific region. With over 20 retail stores in countries around the region, the organization was forced to reinvent its strategies to deal with consumer demands. In 2000, it launched an online subsidiary to fulfill the need for an e-tail channel.

The e-tailer operates with a workforce of 60 employees in various functional departments, and maintains a strong but independent relationship with its parent company, operating with a synergistic *click-and-mortar* strategy. The e-tailer works closely with the network of physical stores around the region to promote its activities, provide a personalized shopping experience and exceptional customer service, and to leverage off the existing distribution and fulfillment capabilities.

The e-tailer mainly serves customers from Singapore, Malaysia and Indonesia, but is technically and logistically capable of fulfilling global orders. It is attempting to establish itself in other countries around Asia, particularly China, Philippines, India and Thailand, through strategic partnerships and co-marketing.

FINDINGS

The case companies revealed a multitude of viewpoints and considerations in their efforts to expand operations regionally and globally. All three companies have adopted some form of globalization strategy, varied in their needs for global integration and local responsiveness. The strategic issues identified from the experiences of these e-tailers have been classified into the following categories: **market access**, **infrastructure** and **localization**. A discussion is conducted in each category.

Market Access

Gaining access into a foreign market and to market information was identified as a key issue. Strategic partnerships with in-country companies can ease the transition into that country, as well as increase the efficiency of operations, while providing the e-tailer with a sustained source of information. A physical retail outlet location in the country would also serve that purpose, while providing an organizational presence, generating consumer awareness and confidence.

In adopting a global strategy, an executive from Company A found that "*the biggest issue is market access and the unique value proposition*". The company believes the first step is to find partners in foreign markets that can provide market intelligence, allowing them to ultimately decide if the location is suitable for access, and then to slowly customize their website and operations to incorporate the new market. "*We're going to establish partnerships with partners doing very focused work in Japan, Australia and Malaysia. So our next target is to offer local currencies for these countries and use these partners to do our marketing.*"

Company B leverages off its parent company's international market experience and information to launch e-tail capabilities in Australia and Malaysia. The fulfillment centers in these countries play critical roles in acquiring sustained market information: "*They should know the local conditions better than us, so we rely on them for a lot of market feedback and reports. We are dependent on them to a large extent – without their eyes and ears on the ground, we're operating fairly blind.*"

However, the company still finds difficulties in planning access to new markets. "*Each individual country's market is different. For Singapore, fiction and mass-market books sell very well. The case is very different in non-English speaking countries. We'd like to use the same model – all this takes a lot of time.*"

To avoid start-up and promotion costs, Company C extended its influence in China through a series of strategic partnerships – first by investing in a leading book operator, then by creating a strategic alliance to establish itself through joint marketing and co-branding. The partnership will, in effect, optimize the company's opportunities in China, reduce start-up and access risks, and enable the company to leverage off existing and established physical and online networks, domain knowledge and market information.

The global e-tailer would find many advantages from forming strategic alliances with in-country partners to help minimize and handle the effects and complexities of communications with a new language and culture, local laws, financial issues, and also provide an avenue for the e-tailer to monitor what happens after the transaction occurs in that country. Partners can provide quick and reliable market access, information. E-tailers can adopt strategies with suitable local partners, such as co-branding, or can merge with or acquire the local partner as well. However, in choosing a partner, e-tailers need to ensure the partners have sufficient financial and personnel resources, demonstrated success, a willingness to form a partnership, familiarity with the e-tailer's practices and knowledge about the obstacles to the e-tailer. The partner should also have good reach and reputation. Only then will the e-tailer be able to gain insight and access into the new market, and effectively localize itself at a more rudimentary level. Company A selects partners based on these: "*The criteria is that they have something that is complementary with us, and they share the same vision with us, same passion, and certainly have very good knowledge about their markets.*"

Infrastructure

The issue of *pure play* and *clicks-and-mortar* retail modes frequently surfaced in the each company's globalization strategies. Would a physical outlet be critical in a foreign market regardless of its existence in the local market? The issue was reliant on the function played by the physical outlet and closely linked to the supply chain and logistics network of the e-tailer. Companies A and B rely strongly on a virtual strategy, the advantages of unlimited virtual 'shelf space', and low infrastructural costs and risks. Company C, on the other hand, claims success with a multi-channel perspective.

Company A operates on a completely electronic JIT (just-in-time) strategy. The moment an order is placed on their website, it is placed electronically to the closest supplier worldwide and delivered via courier to the customer. The electronic integration with suppliers is deemed as a critical factor in increasing efficiency and lowering operating costs significantly. In effect, Company A does not maintain any warehouses, nor does it carry any inventory, keeping its operating expenses low. Furthermore, the electronic integration speeds up order processing, and ensures the flexibility needed to change processes easily. The organization believes this is sufficient at this point of time, using its partners to handle customer access. However, in moving full-scale into a foreign market, it believes the physical location is imperative. "*We could use our partners' addresses to handle access for us. But when we're ready to move into other countries, we'd certainly need the physical office space. How else would we support our customers?*"

Although Company B does not utilize a completely electronic logistics and supply chain, it is not convinced that a physical infrastructure is necessary. "*Rental for a retail outlet is exorbitant, and there's never any guarantee that the location would be profitable...and then if inventory gets damaged, lost or outdated, you have to write it off.* [The warehouse] *has to be well maintained and air-conditioned. And that's expensive – just the day to day operations cost is too expensive.*" However, one manager believes the issue lies in priorities and implementation. Company B believes in minimizing physical asset costs and passing the savings on to the consumer. Its physical infrastructure in Australia and Malaysia act as points for reverse logistics, order consolidation and breaking bulk, with minimal staff at each location.

Company C, on the other hand, operates in synergy with its existing physical retail outlets around Asia to provide promotions on website activities, personalized customer support and an access point for customer service. "*Our offline and online integration offer our customers avenues to reach us. The physical and virtual businesses are inter-dependent for us. Without the physical facilities, we can't do the fulfillment, customer service and offer the warm human touch…We have counters at the physical bookstores to help our online customers who choose to pick up their ordered books or make exchanges.*" One executive attributes the lack of cannibalism to a close relationship between the physical and online stores: "*Channel conflict is not an issue at all. We are after all the same shop and there's profit sharing between the two operations.*"

A globalization strategy requires that e-tailers consider the implementation of physical infrastructure in the foreign markets. Offline assets affect customer service, branding, reverse logistics and warehousing functions. With a physical store, shoppers can enjoy the ability to see, touch and try merchandise and have instant gratification on purchases, and the ability to interact with in-store personnel. (Rao, 1999; Calkins, Farello and Shi, 2000). E-tailers adopting a click-and-mortar approach must find synergies between their websites and stores in each country, as well as customer service.

However, the economic issues of a physical infrastructure pose a large tradeoff, as does the issue of channel management and cannibalism (Katz and Rothfeder, 2000). Considering these issues, e-tailers must decide on an approach in each foreign market. Leveraging off a partner in a foreign market may provide the e-tailer with a "best-of-both-worlds" solution. However, finding a capable strategic partner may be difficult. In the case of Company A, it does not deal with many book distributors for the sole reason that they lack sophisticated system integration capabilities. Similarly, for Company B, its supply chain is not electronically integrated because "*some of* [the suppliers] *do not even use email, how on earth would we integrate systems?*"

Localization

Each e-tailer faced difficulties customizing their strategies, websites and systems to foreign market conditions. Economic, political and cultural considerations, as well as localized content and technical implementations, have to co-exist harmoniously with the e-tailer's unique value proposition for success.

An executive from Company A expresses the importance of a unique value proposition: "*What is unique about your product establishes you, and who you reach out to effectively.*" In providing value to a customer, the organization stresses on the importance of localization of website content, including currencies displayed on the web storefront, and the language used. "*We can view over 30 currencies right away. The key thing is the localization of the content and language, and the knowledge about the customer locally – you can have a global market, but the local customization* [is important]. *The processes and methodologies can be global, but the last leg is that of* *personalizing it – the knowledge of your local customers is a problem*."

The company also includes numerous 'extras' in its value proposition, including the option of delivery to convenient locations, such as petrol stations located worldwide.

Company B, too, emphasizes the need for a differentiated identity: "*You've got zero visibility – you're just a URL. You have to differentiate yourself.*" But the company also stresses on the need for political sensitivity and legal knowledge when entering foreign markets. Before running an editorial on a book accounting a Malaysian minister's court case and conviction, the company first sought approval from its Malaysian branch. The company also realized the need to register a separate organizational entity in Malaysia, while not in Australia. Similarly, books sold to Australia are not charged taxes because they are considered imports, putting the company at an advantageous position.

Company C chooses to localize its content by decentralizing its website, based on the foreign market it serves. In this way, content can be localized, and the website easily maintained.

Entering a foreign market can provide the e-tailer with a number of advantages over traditional retailers because economic and legal restrictions and barriers are not effectively enforced over the Internet. However, e-tailers must be wary of political and cultural sensitivity, as well as manage risks in new and unfamiliar markets. All three companies agree that the key to a successful entry to a foreign market is to promote value and localize website content to the needs of the market, but each company differs on the extent of its localization measures.

CONCLUSIONS AND IMPLICATIONS

The study reveals some interesting and expected issues regarding the globalization of e-tail. Holistic issues such as market access, localization and infrastructure are applicable to traditional retailers as well, but a more atomistic look suggests some differences.

The fundamentals of e-tailing are reinforced with e-tailers adopting a global strategy – they must focus on superior customer satisfaction, and a greater knowledge of the customer. The global e-tailer must also entice global customers with quick fulfillment and a large product range at reasonable prices. To do so, the e-tailer's supply chain network must be prepared and capable before globalization.

However, of particular significance is the issue of adopting a physical infrastructure, and how to implement it. While much research has been done comparing the benefits and drawbacks of the click-and-mortar eCommerce strategy with that of a pure play model, the factors identified may not be suitable in the context of a global e-tail strategy. The innovative and effective use of physical infrastructure in a global setting, necessarily coupled with synergistic web site strategies, may distinguish the successful e-tailer from the mediocre.

Furthermore, a relationship seems to exist between the adoption of a physical retail location and the capabilities of the e-tailer's current supply chain and logistics network. Further research may be necessary to identify the relevant factors in the relationship, possibly including the capabilities of suppliers and couriers, systems integration and fulfillment cycle time.

While the companies are only a year old, and have not completely embraced global strategies, with only a small percentage of customers being from outside the SE Asian region, future research into similar and more established companies may unveil more issues to global e-tailing. Furthermore, it would be of great value to study the changes in strategies as these companies gain experience with global e-tail, depicting the evolutionary process of global e-tail strategy formulation and implementation.

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