THE CONSUMER ELECTRONICS RETAILING – TENDENCIES, MODELS, STRATEGIES

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Abstract: The article presents the notion of e-commerce and factors of its development. Web based retailing is growing fast and at the same time the whole structure of the market is going through significant changes. The aim of the paper is to describe different models of retailing and analyze current market tendencies and prevalent marketing and development strategies in the consumer electronics sector. Used methods: literature study, reports overview and online research concerning websites of polish consumer electronics retailers and auction platforms. Results: Consumer electronics in Poland is one of the most consolidated channels. The Junction box model represented mainly by Allegro.pl seems to be a good option for the start-ups because it helps with critical processes and grants access to 12.5 million users. In the long term it is recommended to launch a fully independent online shop and keep on using auction sites as additional channels of sales.

Keywords: Consumer Electronics, e-commerce, retailing, development strategy

JEL Classification: D44, L11, L22, L81, M13

1. INTRODUCTION

Favourable demographics, rising consumer incomes, and evolving more interconnected lifestyles are anticipated to boost the global consumer electronics industry. The market is expected to reach an estimated €932.2 billion in 2017 with a compound annual growth rate of 5.4% over the next five years (2012-2017) (Global Consumer Electronics Industry Analysis 2012-2017: Industry Trend, Profit, and Forecast Analysis, 2012). The most popular products which come under the category consumer electronics are: TVs, DVD/Blu-ray players, mp3/mp4 players, radios, hi-fi stereos, home theatre systems, digital cameras, mobile phones, computers and game consoles. The notion consumer electronics implies that those products are manufactured rather for casual use and entertainment than for professional use.

The consumer electronics industry is consolidated at a high degree. There are top ten global players with 50% of total market share. The industry is capital intensive and price sensitive, it is also very dynamic and there are rapid changes in the environment in this sector. Recently the costs of raw materials such as steel and copper have increased, which had a significant effect on the price of the final products. The industry has essentially recovered from the recent recessionary condition globally and is in the growing phase; the industry witnessed high growth since 2010 due to a greater demand for electronics equipment, especially smart phones, continuous improvement in capabilities that reduced costs, and increased profit through mass production (Global Consumer Electronics Industry Analysis 2012-2017: Industry Trend, Profit, and Forecast Analysis, 2012).

Polish e-commerce market is estimated to be worth €5.6 billion. It is just 3% of the whole retail trade in Poland. In comparison in western Europe e-commerce reaches 10%. This shows that the potential for growth is high and yearly increase in e-commerce sales by 20% isn’t overestimated. Polish consumer electronics market is worth €5.8 billion and almost €0.3 billion of it is online sales (Frontczak, 2012). The consumer electronics market in Poland is expected to grow by 5% in the next few years. Furthermore rapid technological changes concerning consumer electronics influence the demand, marketing policy of producers and retailers. It is an additional incentive for the e-commerce to develop and for the companies to build competitive advantage based on innovative technologies and efficient logistics.

2. CONSUMER ELECTRONICS RETAILING

Consumer electronics products are offered by retailers who (from consumer point of view) can be divided into 5 main categories (Electronics store buying guide, 2012):

• Dedicated websites – a category providing a wide range of products, competitive prices and convenience. Some websites help consumers in making a decision by granting access to advisers via phone or online chat

• Independent stores – which usually offer average prices but the strong selling point is face to face contact, especially for clients who are searching for professional advice

• Warehouse stores – with a limited selection in electronics products and service, at bargain rates and fine quality of goods; membership card required

• Major electronics chains – famous for bargain offers for selected products; wide range of products and accessories at prices above the average, usually unfavourable return policies

• Mass merchandisers – with a limited selection in electronics products and service, average prices, offer attractive for clients who are visiting the electronics department at the opportunity of shopping for basic commodities

In Poland distribution of consumer electronics is dominated by specialist retailers, which account for the majority of the market share. Retailers with largest number of physical outlets are Neonet SA, Avans, Media Expert, Mix Electronics, Euro-net. Retailers with the highest sales are: Media-Saturn Holding, RTV Euro AGD, Media Expert and
Neonet; however, they continued to see a downward tendency to the favour of internet retailing (Country report - Consumer Electronics in Poland, 2012). All mentioned companies are developing e-commerce businesses and implementing their own “bricks and clcks” strategies. For instance Media-Saturn Holding first step was activating the possibility of reservation of products, which could be purchased and picked up from physical outlets. In November 2012 online shops mediamarkt.pl and saturn.pl were launched. The target for 2013 is to realize € 4.5 million turnover via internet, which would be 5% of total sales (Labuz, 2013). At the same time the holding will be developing the net of the physical outlets. Shifts towards online purchasing is visible. Market Side research revealed that one fourth of the consumers who were visiting shopping malls were searching for goods which they bought online afterwards and it concerned inter alia consumer electronics (Market Side: 3 mln klientów centrów handlowych tylko ogląda rzeczy, a kupuje w internecie, 2013).

Figure 1 Sales channels of consumer electronics in Poland

According to PMR research chain stores generate almost 70% of the market value in Poland. This is one of the most consolidated channels where 10 largest retailers generate two-thirds of the market sales value. At 16%, the internet sales channel is also very strong. It involves sales through online platforms, including Allegro, which is the largest online auction site, as well as via internet shops, also those operated by the largest chains. The remaining share of the market belongs to hypermarkets, supermarkets and discount stores, independent stores and outdoor markets (Frontczak, 2012).

Electronic commerce refers to a wide range of business activities for products and services and is usually associated with buying and selling via Internet. E-commerce can be defined as the use of electronic communications and digital information processing technology in business transactions to create, transform and redefine relationships for value creation (Andam, 2003).

Development of e-commerce is strongly bound with the Electronic Data Interchange standards. EDI was developed to integrate information across larger parts of an organization’s value chain. The cost of implementation of EDI systems and usage of private networks was relatively high and only multinational corporations could afford it and persuade smaller suppliers with subsidies. By 1996 no more than 50000 companies in Europe and 44000 in the USA were using EDI, representing less than 1% of the total number of companies in each respective continents (Tassabehjii, 2003). Since then e-commerce has been redefined by the rapid development of Internet, the term began to include:

- electronic trading of physical goods and intangibles such as information,
- all the steps involved in trade, such as online marketing, ordering, payment and support for delivery,
- the electronic provision of services such as after sales support or online legal advice,
- electronic support for collaboration between companies such as collaborative online design and engineering or virtual business consultancy teams (Tassabehjii, 2003).

It meant that not only business to business (B2B) e-commerce could develop but also new categories of e-commerce appeared and are getting in significance, especially: business to customers (B2C) and customers to customers (C2C).

In the main categories B2B still plays central part and will be the mainstream in the future for the following reasons (Qin, 2009):

- Volume of business transaction of B2B takes up the majority of total trading volume in e-commerce
- The B2B e-commerce companies hold an advantage in lowering operation cost (reducing procurement cost, shortening production period, efficient inventory control, reducing sales cost
- Their logistics compared with other e-commerce companies are fewer in times and large in quantity
- B2B e-commerce companies are competitive in guaranteeing credit and capital security during operation course.

Business to consumer e-commerce is developing very fast. Barriers to entry B2C e-commerce are far weaker than in B2B because there is no need to set an unified standard for document transmission. In addition searching and browsing functions and multimedia supplied by Internet facilitate consumers to look for and give an insight into products wanted. This category requires the support of high-efficient, low-cost logistics (Qin, 2009).

Consumer to consumer is a category where two individuals conduct a transaction with each other directly. Usually third party is involved, but the purpose is only to facilitate the transaction. A common example is the online auction in which the infomediary is responsible just for matching the consumers and is receiving a fee or commission, but is not responsible for the quality of goods or delivery.

3. E-COMMERCE MODELS

A business model allows a company to capture and deliver value to customers, it is “a unique configuration of elements comprising the organization’s goals, strategies, processes, technologies and structure, conceived to create value for the customers and thus compete successfully in a particular market”, it should have 4 crucial elements (Creating Internet Strategies for Competitive Advantage, 2000):

- Scalability: Information assets, which dominate the e-business world, have a unique property -they are
generally costly to produce in the first place, but once produced, very easy (and relatively inexpensive) to reproduce. As a result, first movers in a market have an enormous advantage. They can flood the market, and essentially create a winner-take-all situation.

- Complementary resources and capabilities: A company with an innovative business model can initially use its technological prowess. The web sharply lowers barriers to entry, and rivals can soon catch up with the first mover so this advantage isn’t long-lasting. In order to protect their competitive positions, companies that lead in the digital arena may have to acquire physical assets to keep their competitors at bay.

- Relation-specific assets: No individual firm can hope to dominate the Internet, which is a complex network designed precisely to avoid such dominance. As a result, networks of alliances become increasingly important. Business models on the web must recognize that competitive advantage in e-business is often based on managing collaborative relationships with key partners well.

- Knowledge-sharing routines: This condition follows from the previous one, which emphasizes the need for strong collaborative relationships. These relationships can only become truly effective if the collaborators develop mechanisms through which they can share knowledge with one another. Such knowledge-sharing will help the partners to enhance their collective competitive advantage over rivals and their partners.

Bernard Marr has described 5 e-commerce models in his overview ‘The new business models’ (Gavan Duffy, 2002):

1. The logistics and cash flow model (an organization looks to use the benefits of e-commerce to change the rules of engagement and use the new technology to reduce stocks, increase cash flow, maximize choice by increasing the available sourcing options, and to reduce the accounts receivable risk).

2. Customer lifetime value model (an organization seeks to develop long-term loyalty-based relationships with its customers).

3. Customer aggregator model (used by an organization seeking to create a virtual community around an area of interest, the organization’s main asset then becomes the customer aggregation).

4. Channel harmonization model (companies can reconcile the opposing forces between their traditional business and an on-line service).

5. Junction box or “infomediary” model (an organization which wants to be infomediary seeks new markets with lots of buyers and sellers and then provides a Web-site where business can be conducted and overseen by the independent third party provider) that underpin the emerging e-commerce culture.

All presented models apply to Business to Consumer category. The customer lifetime value and customer aggregator models are the only ones which are hardly possible to use in Business to Business category, but they represent only a small fraction of the potential e-commerce market anyway. The only model which can be applied to Consumer to Consumer category is the Junction box model. Table 1 shows the relationship between e-commerce models and e-commerce categories. According to research carried out by Gavan Duffy and Barrie G. Dale there are 10 key processes in e-commerce activity (Gavan Duffy, 2002):

- Order generation,
- Revenue generation,
- Business processes,
- E-integration,
- 24/7 operation,
- Order fulfillment,
- Financial control,
- IT/Web changes,
- Call centre integration,
- Consumer behavior analysis.

B2C is without doubt the most difficult mode to get right but it does not necessarily mean that it is the most difficult to be successful in, as the profit margins within B2C will be higher than B2B, however consumers now expect a certain minimum level of performance when purchasing goods or services. The fickleness of consumers, coupled with the ease that e-commerce provides in contrasting prices and value added services, requires that B2C sites must work hard to exceed customer expectations. As traditional business has discovered, drastic improvements in performance can only be achieved by using robust and effective quality tools and techniques. To succeed in B2C an organization not only needs good products and marketing, it needs excellence within its processes, with a culture of continuous improvement and excellence (Gavan Duffy, 2002).

4. ALLEGRO CASE STUDY

Allegro.pl is a Polish auction website formed in 1999. It is part of Allegro Group which owns also a finance portal: bankier.pl, advertising services: otomoto.pl, otodom.pl, lokalo.pl, oferia.pl, team buying portal: citeam.pl and a few other websites e.g. fashiondays.pl, istore.pl, payu.pl, sendit.pl. The Allegro Group runs auction websites in 8 other countries: Belarus, Bulgaria, Czech Republic, Kazakhstan, Russia, Slovakia, Ukraine and Hungary.

Allegro, which is controlling 90% of the auction websites sales in Poland has become essential in the online sales not only for C2C category with which allegro.pl is strongly associated. 70% of online shops in Poland sell also via allegro.pl website, and make on average 20% of the turnover via this channel of sales (Sylwia Czubkowska, 2011). Consumer electronics is one of the most important categories for allegro.pl. Last year 3 companies with highest turnover at Allegro were offering electronic goods and services associated with consumer electronics. Furthermore this is one of few categories were also B2B category appears (mainly spare parts and accessories).

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<thead>
<tr>
<th>e-commerce models</th>
<th>The logistics and cash flow model</th>
<th>Customer lifetime value model</th>
<th>Customer aggregator model</th>
<th>Channel harmonization model</th>
<th>Junction box model</th>
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<td>Business to Consumer (B2C)</td>
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<td>Consumer to Consumer (C2C)</td>
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Source: Own work
Last year 90% of the items were sold at a fixed price; this indicates a clear shift of allegro.pl from C2C to B2C. Thereupon Allegro is promoting a new service: tablica.pl which is dedicated for private offers (mainly second hand products). Allegro grants access to millions of customers so it is a good solutions for start-ups, but recently it works also the other way round. Even online shops which began their activities outside the service, are increasingly turning to open their “Allegro branches” because of increasing popularity of the service. Allegro.pl has 12.5 million users and some of them got used to buying via allegro.pl so much that it is hardly possible to reach them by own website.

**Figure 1 Online sales structure in Poland**


Allegro is an example of a junction box/infomediary model. The core principal of this model is customer and supplier aggregation. The critical processes for this model are: revenue generation/collection; financial control; IT/Web changes; business processes; e-integration; and 24/7 operation. The remaining four processes are non-critical (Gavan Duffy, 2002). Order generation is not significant for a junction box model, as transactions take place between customers and suppliers; the only consideration is marketing to create brand awareness. With respect to order fulfillment, there are no logistics requirements as transactions take place at a third-party level between suppliers and customers, with responsibility for logistics lying with one or the other. Nevertheless Allegro is promoting auctions with free deliveries. Call centre integration is also not an issue. Consumer behaviour is also not crucial, but each allegro auction has a counter so customers can check how many people had been interested in the product so far and number of units which are still available. For the offerer it is also a valuable information which helps to verify marketing efficiency.

5. **CONCLUSIONS**

The financial crisis brought about a considerable decline in the value of retailing in Poland, especially in consumer electronics, which was growing at a double-digit rate before 2008. Over the following two years, the market has seen a noticeable correction due to significantly stricter bank loan policies. This applied to both consumer loans, which affected all segments, and mortgages which decelerated the housing market and thus, decreased demand especially for large home appliances. The financial crisis also had a negative influence on consumers, who are more cautious when buying a given product, are more price sensitive, and need more time when deciding on the purchase. First signs of recovery could be noticed in 2011 and currently the market is in the growing phase (Frontczak, 2012). Shift towards online purchasing is visible and even retailers with the highest sales like: Media-Saturn Holding are forced to develop their own “bricks and clicks” strategies. Chain stores generate almost 70% of the consumer electronics market value in Poland. This is one of the most consolidated channels where 10 largest retailers generate two-thirds of the market sales value. At 16%, the internet sales channel is also very strong. It involves sales through online platforms, including Allegro, which is the largest online auction site, as well as via internet shops. E-commerce enables to enter the market fast. Allegro seems to be a good option for the start-ups because the Junction box model helps with critical processes and in gaining experience before launching a fully independent online shop; however even well established online shops are using Allegro as an additional sales channel which grants access to 12.5 million users.

**REFERENCES**


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