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**THE CHALLENGES OF TRADITIONAL ELECTRONICS
RETAILERS IN THE AGE OF ONLINE SHOPPING**

Bachelor's thesis

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I declare I have written the master's thesis independently.

All works and major viewpoints of the other authors, data from other sources of literature and elsewhere used for writing this paper have been referenced.

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ABSTRACT

This thesis takes a closer look into the world of electronics retailing sector in the US. The work is describing the complexity of distribution channels employed by electronics manufacturers to get their products to end users. The main focus is on the role of physical retailers in this distribution and the changes that have happened in the industry with the wide spread of online shopping.

Using openly available statistical data and combining the finding from different researches, the work is analyzing the changing trends in consumer behavior and their shopping habits. Based on the findings it provides advice to brick-and-mortar retailers on how they should change their overall business strategies to remain competitive in this changing environment. For better illustration, real live examples and case studies are being used throughout the paper.

Keywords: trading intermediaries, consumer electronics, electronics retailing, online shopping, changing consumer behavior, practical advice, case studies, statistical data

INTRODUCTION

In the recent years the popularity of online shopping has been growing at a fast pace. The main contribution factors to this phenomenon are considered to be the ease of market access, low overheads and the convenience to the consumer. People, as a mass, are always eager to try out new thing, to be able to have the latest hip dress, a more luxurious car or the latest model of the popular mobile phone. It is not a secret that in the modern world consumerism is the big part of the modern society.

One of the product categories, on which billions of dollars are beings spent worldwide, are consumer electronics. With the new technologies developing, there is never ending flow of modern flat screen TVs, latest laptop models, luxurious mobile phones, and millions other electronic devices. The world today is changing faster than ever and those electronic items that were high performing a couple of years ago are considered to be outdated today. Another factor is the invention of totally new technologies. For example, while in 2006 smartphones were used by 1% of the world population, in 2013 this number has risen above 22% (Joshua Pramis 2013). New exciting things are constantly being developed to make lives of people both more comfortable and entertaining. The rush towards having better consumer products at home and at work, plus the overall growth of purchasing power in the developing world have influenced the growth of the global electronics manufacturing, as well as retailing.

The consumer electronics market is growing rapidly. According to the US Consumer Electronics Association, only in the United States consumer purchases of electronic products in 2014 will rise to a record high of 208 billion USD (CE Industry . . . 2014). One would think that with such a big consumer spending in the industry, there won't be any problem for specialized electronics retailers to prosper. In reality the situation is quite opposite. The same forces, that influence people to upgrade their old TVs, laptops and other items for new ones, put the traditional model of electronics retailing at risk. While there is competition from fellow brick-and-mortar retailers and manufacturer branches, this is the influence of online shopping what is

changing the retail industry. Today as competition from online storefronts is as strong as ever and traditional electronics retailers in developed countries are struggling, there are voices calling for their possible extinction in the near future (Adam Ozimek 2012).

This is exactly the research subject of this paper - the problems traditional brick-and-mortar electronics retailers face in the age of online shopping. The goal of the thesis is to find and evaluate real working methods traditional electronics retailers could use to increase their sales.

The paper is divided into four main parts. The first part talks about the nature of the product distribution as a whole, and electronics in particular. In this part the role and importance of intermediaries in whole process of product distribution is analyzed. In the second part, the focus is on the traditional electronics retailing business specifically. The pros and cons and the common practices among modern retailers are analyzed as well.

While the previous two parts are focusing on traditional retailing, in the third part of the thesis focuses on the changing shopping habits of people and the role Internet has played in this change. The strategies of the most innovative online retailer, who has changed the way people do online shopping today, are also being discussed in detail. In the fourth and final part of the thesis, traditional and online retail channels are being compared to one another. The goal of this final part is to offer various solutions that traditional retailers could implement to stay relevant and prosper in this changing environment.

The research objects of the thesis are US electronics retailers, both traditional and ecommerce. Traditionally, electronics retailers were selling appliances as well, however in this paper the focus will be only on consumer electronic products. While the paper analyzes the problems of electronics retailing as a whole, all the analysis is done mostly based on US data. The United States have been chosen for analysis, because there is a lot of openly available information regarding sales through brick and mortar retailers, as well as online stores. It is also the land of some of the biggest traditional retailers, as well as online companies.

Part of the researches conducted in the thesis have been done by the author, based on openly available statistical and sales figures, obtained from the third party sources, like companies Financial Reports, US Consumer Electronics Association (CEA), US Census Bureau and other US government agencies. In other cases the information from published researches, articles and books related to the subject has been used.

1. DISTRIBUTION CHANNELS FOR ELECTRONIC PRODUCTS

The experience of big and small manufacturing companies and commercial organizations around the world clearly shows the positive effect from using intermediary firms in their product distribution channel. These companies, which connect suppliers with customers, have historically been much more efficient, than the manufacturer's own branches and the consumer electronics industry is not an exception to this rule.

1.1 Product distribution through intermediary channels

One of the main reasons why using intermediaries for distribution, rather than selling products directly, is the cost of savings for manufacturer – they don't bear huge structural costs, because the infrastructure has already been established for them. Manufacturers in many different industries base their business directly or indirectly on hundreds and even sometimes thousands intermediary firms all around the world for the following reasons:

Involvement of the intermediaries increases the efficiency of goods distribution, thus increasing profits for the seller through an accelerated turnover of its capital. Marketing intermediaries through their own contacts, experience, specialization and scale of operations, offer the manufacturing firm more than it can usually achieve on its own.

Mediators, being closer to the customer, know the market better and are able to respond more quickly to the changes in their home environments. For the exporter this means that he is able to sell the goods on more favorable conditions. The troubles involving product distribution somewhere abroad doesn't concern him anymore, allowing to concentrate solely on developing his core business. Working through an intermediary who specializes in mass marketing of certain product lines or services has an additional benefit by reducing distribution costs per unit of traded goods or provided services.

Involvement of intermediaries creates the possibility to increase the competitiveness of products by reducing delivery times and warehousing storage costs. Generally the trading companies are able to offer better storage facilities, transport solutions, as well as providing pre-sale services, maintenance and special labeling in accordance with local regulations.

Intermediaries ensure that products are available on a timely basis where they are needed. They make it easier to the exporter to reduce or eliminate credit risks, to save on bookkeeping and clerical costs, optimize the costs of marketing and advertising.

Intermediaries also help manufacturers by providing them with the widely dispersed geographical presence. As compared to manufacturers, the distribution intermediaries are much more widely distributed. Even the biggest auto companies in the world don't have more than a dozen or so final assembly plants, but dealers selling their automobile numbering thousands have their presence in many different countries.

Despite the development of electronic shopping channels trading mediators play a key role in foreign trade in such developed countries, like US, UK, Netherlands, Scandinavian countries and Japan. In developing economies, the situation is identical. For example, in China, intermediaries account for 22% of total countries exports (JaeBin Ahny, Amit K. Khandelwalz, Shang-Jin Wei 2010, 10).

Based on the openly available data, obtained from US Census Bureau, a 10 year historical chart was built (Figure 1). It shows the percentage of goods sold by manufacturer directly in comparison with the total number of retail sales in the US. The simple logic would suggest that if the traditional independent retailers and wholesalers were losing it, the ratio of products sold directly through manufacturers channels would only increase. However, the figures tell a totally different story.

For the period from 2002 to 2012 the ratio of goods sold through manufacturers' branches, was in a range of 25% – 27% in the US. The average for 10 years was 27.5%, meaning 72.5% of goods were sold through traditional retail channels. The fact that the ratio has dropped 2 percentage points during the most difficult economic period of that decade – financial economic crisis – is a good indication that manufacturers are not as efficient in reacting to a sudden economic climate changes, as their distributors.

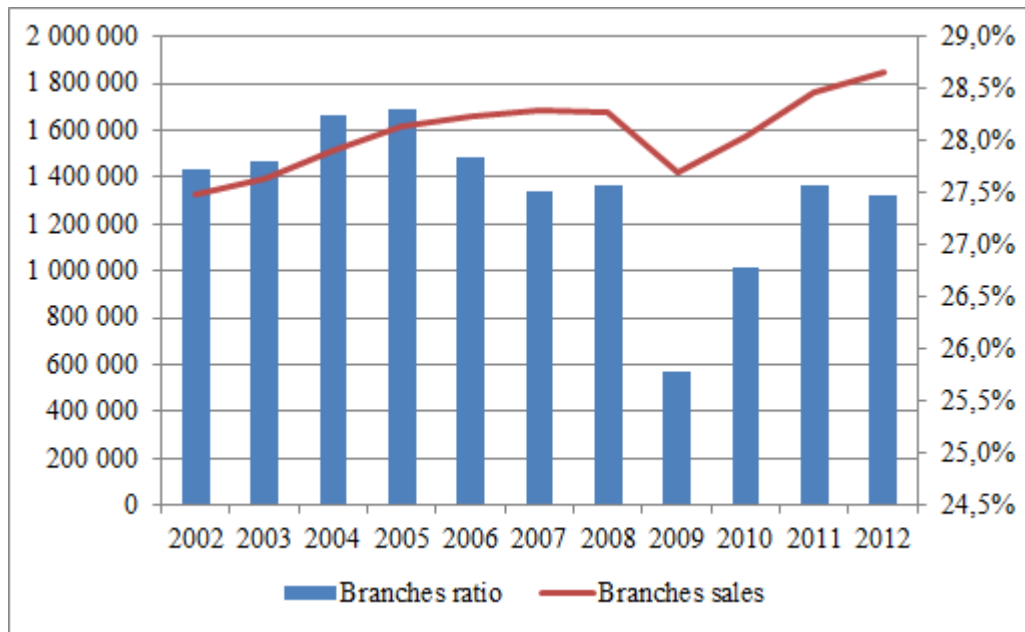


Figure 1. The share of goods sold annually through manufacturer branches and their cost in thousand USD

Source: (Appendix 1)

While all sectors of economy suffered during that challenging time, manufacturers preferred to rely on their intermediary partners much more. Their own sale branches were just not as effective as their distribution partners. This fact supports the idea, that intermediaries are more efficient in product distribution, than manufacturer doing this directly instead. Even such innovative manufacturer as Apple, only receives a smaller sale portion from its direct channels.

In most cases, before the product gets to the end user it bypasses several intermediary channels. This is known as a multi-tiered distribution. In this case more than two intermediaries are being involved in getting products from manufacturer to consumer. Multi-tiered distribution is often used in countries with complex geography and vast population (Juliant Dent 2011, 13). A good example would be the United States, which is divided into 50 states. As doing business nationwide from one location for a single company might be quite problematic, the following model is usually employed - an abroad supplier will sign up a contract with a big distributor, which will then sell products to smaller distributors located in regions, which then provide

product to local retailers. It is not uncommon in some cases to have 6-7 intermediaries involved in product distribution.

The distribution channel, where only two parties are involved, is known as a two-tier distribution. This is really common in tiny niches, where a specific knowledge is needed from an intermediary. This is common in computer or telecommunication industries, where a supplier would provide equipment to the local distributors and they would sell it further to customers. Two-tier channel could also be used by big retailers, who source products from the manufacturer directly. This strategy is heavily used by the US retail store chain Walmart to provide consumers with better prices, than most of its competitors (Don Soderquist 2005, 98).

1.2 Electronic product distribution intermediaries

Global competition among electronics manufacturers, as well as new technological innovations is constantly driving prices down for electronics products. In addition, consumer electronics have very short product lifecycles and uncertain demand, making it essential for manufacturer to be able to sell them fast. A good example is a global PC market, where tablet PCs, a category that didn't exist 5 years ago, today account for 65% of global shipments (Gary Price 2014). Manufacturing companies that were first to recognize the changing trend and build an effective distribution network have been able to get a bigger share of the profits.

Consumer electronics manufacturing companies must continually become more cost-efficient to remain profitable. This is business with very thin margins, where an operator must constantly be adding new products to fulfil customers' demand. In this environment, the use of the right distribution strategy could mean the difference between success and failure.

The biggest electronics manufacturers, like Sony, Samsung, Apple are using both direct roots to reach end users, as well as a vast network of mediators all across the globe to help them reach the bigger share of the market. Nowadays, mediators act not only as product resellers, but also as important partners in all aspects of distribution. Their services include research, marketing, logistics and finance. Depending on their operations and characteristics intermediaries can be divided into several categories:

Trading houses – buying products from local manufacturers or wholesalers and reselling them abroad. Another part of their business activities is buying components for the industry abroad and selling them to the local manufacturers. Trading houses could specialize in one or many different product categories. They could act both at their own expense, as well as on commission.

Specialty Exporting Companies – these are type of trading houses that are only selling one type of product abroad, without importing anything. They are typically located near big industrial areas and have access to big manufacturing companies in the region. They very often act as selling departments for small manufacturers. In the electronics industry, while big companies have their own sales force and known brand, a lot of smaller companies do not have the knowledge or expertise of selling abroad. Exporting companies combine these small manufacturers together and resell their products abroad under its own brand. Sometimes exporting companies also act as an agent for a particular manufacturer. In this case they are called EMC – Exporting Management Company.

Export Management Company (EMC) - designed to handle the export operations for any domestic company that is interested in selling its products and goods overseas, but that does not know how to do it. The Export Management Company is responsible for doing pretty much everything including hiring dealers, hiring distributors and hiring developers, handling the marketing, promotions and advertising, overseeing the packaging and marketing, arranging for shipping. In many cases, the Export Management Company may be responsible for taking title to whatever goods are being sold, in essence behaving as a private distributor for those goods.

Importing companies – are the reverse of exporters. They purchase goods in foreign markets and sell them domestically. These intermediaries buy products at their own expense in abroad and then resell them on a domestic market to manufacturers, wholesalers and retailers. These companies have large quantities of product in their warehouses and are able to supply it immediately. Only for the month of March of 2014 a total of 45 billion USD worth of consumer goods were imported into the United States. Cell phones, photo, stereo and video equipment amounted total for 10.5 billion USD or 23% of that amount (Imports of Goods . . . 2014).

Import Management Company (IMC) – these firms represents domestic buyer, usually a retailer, and perform operations at his expense. They source for the product, conduct negotiations

and organize transportation. In some cases they also offer a range of additional services, like warehousing and advertising. Acting as an overseas sales agent-representative such a firm is granted the right to act at her client’s expense and on his behalf.

Merchandise wholesalers - another group of trading intermediaries that play an important role in distribution of finished goods. According to the Census Bureau data (Figure 2), in 2012 electrical goods wholesalers, which also deal in consumer electronic products, accounted for about 500 billion USD of sales, which is about 16.5% of total durable goods sold through merchandise wholesale channels that year.

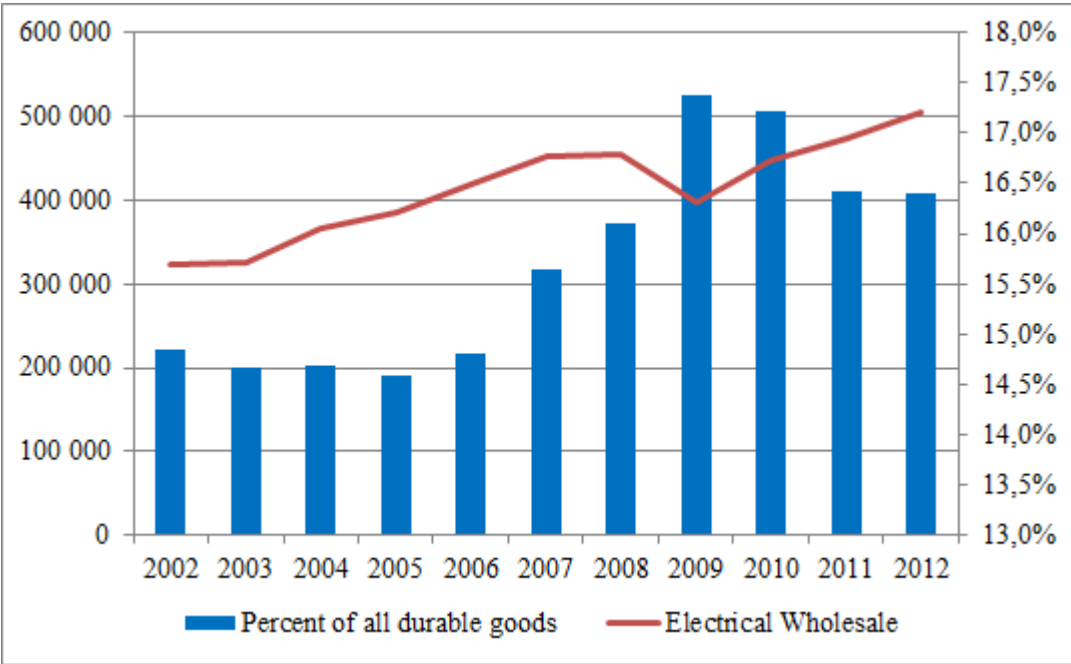


Figure 2. Electrical goods wholesale in the US in million USD

Source: (Appendix 1)

Most often merchandise wholesalers act as mediators between the supplier and a retailer. The main characteristic of wholesalers is that they buy large amount of goods and after dividing it into smaller parts sell further for profit. Very often these companies are used as logistical partners by manufacturer and retailer, as those often have limited storage space. In case of a retailer, the primary allocation of space in this business is its shopping floor. Manufacturers prefer to allocate their floor space to production operations, rather than logistics. A wholesaler,

on the other hand, has large warehouses designed for storage. Retailers can purchase goods in smaller lots from a wholesaler than they can from a manufacturer, allowing them to purchase only what they need.

Distributors - an independent agent who is entered into an agreement to offer and sell the product of another company but isn't entitled to use the manufacturer's name as part of its business name. Depending on the agreement, the distributor may be limited to selling only that company's goods or it may have the freedom to market several different product lines or services from various firms. Often they get exclusive sales rights on a clearly defined territory.

Retailers – the final link between consumers and other intermediaries or manufacturers. Very often perform importing and exporting operations without the help of any other intermediaries. For example, some big retail chains have a wide range of international branches and purchasing offices abroad, constantly in search of new supply sources to expand the retailer's assortment. Retailing is a huge industry, in the United States an estimated two-thirds of the national gross domestic product (GDP) comes from retail consumption, amounting for 4.3 trillion USD in 2012.

2. TRADITIONAL ELECTRONICS RETAILERS

While the trading intermediaries are in fact more efficient than manufacturers' branches, the competition and challenges in the space is very big. The business of intermediaries, especially retail, that is relying on consumer trends more than any other intermediary, is very volatile. Consumer electronics retailing is a great example of the industry that has seen the great days at the beginning, faced challenges in the past and now is standing at the crossroads.

2.1 The history of electronics retailing in the US

To better understand the challenges of traditional electronics retailers today in the US and other parts of the world, it is important to review how the industry has been developing over the years and what its main obstacles are today.

The development of the retail industry in the US could be divided into five main phases. First started in the 1900-s with the growth of local corner type of stores all across the country. The modern electronics industry was small at that time. The only consumer products were first radios and gramophones. However the first specialized electronics retail chains started to form exactly in those years. One of them, RadioShack, quickly grew to encompass a handful of stores in the Northeast, as well as a successful electronics mail-order business. Today the company has over 4000 retail location though the US. The trend continued during the 1920-1940. Along with the local stores big department stores, also offering radios and different transistors, started to appear through the US. A self-service model was first introducing at that time. The manufacturers of electronics mostly were European and US companies.

After the Second World War, from the 1940 till 1970 the growth of US economy and population increased the number of people living in suburbs. The explosion of suburbia led to open air malls, strip centers, and mass retailers. This was the time of the true mall, as well as the

growth of television advertising. During this period the development of the classical marketing concepts took place – “the customer was always right”. Certain policies were affected the most, such as: customer service; refund policies; hours of operation; pricing of specific products. During these years the foundation for the future big box electronics retailers, including Circuit City and Best Buy, was laid. At that time these were just small specialty stores, which grew quickly in size fueled by a growing demand from consumers. The products variety has also increased. During this time RadioShack has already been offering more than 40,000 different items through its catalog business division from over 500 different suppliers (RadioShack 1960 Guide . . . 1960). A lot of new electronics products have been introduced to the market as well, including color TVs, first stereo systems and compact cameras. By the end of this period the majority of consumer electronics products were now imported from Japan by Sony, Canon, Fuji and others.

The 1970 – 1990 could be named “the era of consolidation and positioning”. It is the time when the big box specialized retailers really burst onto the scene. An explosion of value players, club stores and category killers took place. The business of retail organization began to be defined more and more in terms of the segment of the market to which it appealed. Big specialized retailers were able to serve the customer better, by focusing on a narrow segment of retail market (A. M. Findlay, Leigh Sparks 2002, 49). These stores drove a lot of the smaller local merchants out of business (Figure 3). The trend caught up with electronics retailers as well. The first company to pioneer the big box concept in electronics was Circuit City, opening its first 3,700 sq. meters store in the beginning on the 1970s. The store, carrying more than 2000 products, was more than any of competitors was offering at that time. In addition to revolution in retail, the evolution in the consumer electronics industry also took place. This was the era when Apple presented its first personal computer and RadioShack was the first major retailer to present personal computers to general public. At the same time Sony has presented its ultra-small Walkman player in 1979 and four years later the first commercial mobile phone was presented by Motorola. The introduction of new products and the overall growth of the economy helped big box retailers to prosper during these two decades.

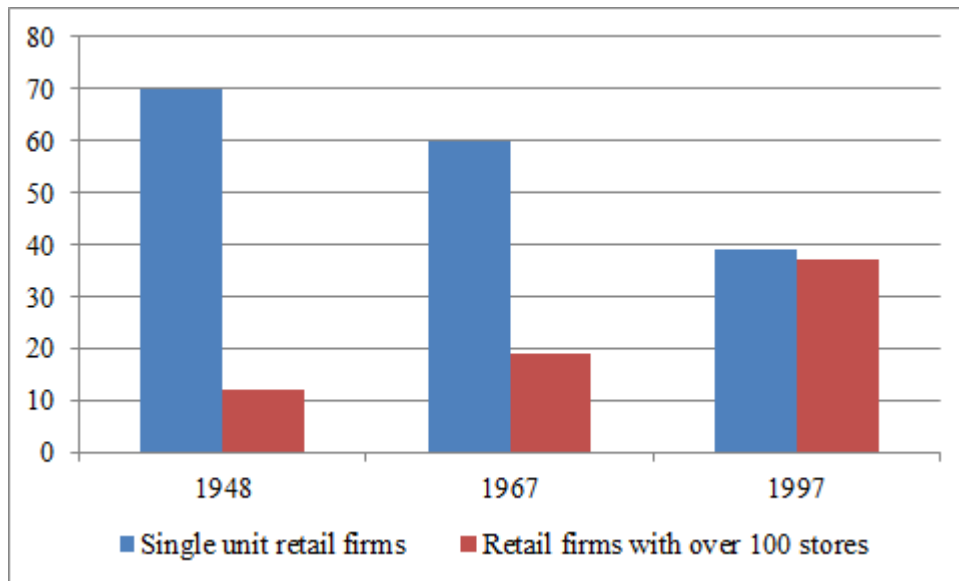


Figure 3: The changing environment of retail over the years

Source: (Art Carden 2011, 8)

Unlike the previous 20 years, the period from 1990 – 2010 has presented nothing but challenges to traditional retailers, mostly because of the competition from their online counterparts. This period has been dubbed as the digital era in the retail industry and the development of e-commerce has shaken the retail world to its core. Despite the overall economic growth a lot of specialized retailers have closed their doors. 7 of the 8 largest retailers in the US in 1980 had fallen from this position by the year 2000 - either bankrupt, acquired or irrelevant. The 1990s presented a long casualty list of either store closing or bankruptcies. The first wave of reorganizations happened in the middle of 1990s, the second one in the middle of 2000s.

This digital era could be characterized by massive and fast changes in the customer behavior. Not all traditional retailers were fast enough to adopt. The concept of traditional big box retailers, which relied on visitors' traffic, proved to be not working anymore. The bankruptcy of Circuit City in 2008 and a sharp drop in number of visitors to other electronics retailers proved that. While in 2014 the overall number of electronics sold in the US should hit the record 208 billion USD (CE Industry . . . 2014), the drivers for this growth will be not traditional brick-and-mortar retailers but rather online stores. Another risk for specialty retailers is posed by big discounters like, Walmart and Target, which use their current purchasing power and knowledge

to diversify in different sectors, including electronics. All this makes the remaining electronic retailers look for various growth solutions to remain in business.

2.2 Challenges of electronics retailers today

There are several challenges that electronics retailers are facing today. These challenges range from the increased competition from big discount chains to the changing nature of electronic products and shopping habits of consumers.

Over the last ten years electronic products have been mostly shrinking in size and became much more multifunctional. Today people very often don't want to have several different electronic devices performing each different functions, they want their electronics to be multifunctional, high quality, affordable and compact. This trend has led to a lot of consumer electronic products that used to be the biggest revenue drivers to perform much worse in terms of revenue for the seller. For example, retailers today have to sell almost twice as many TVs as five years ago to achieve an equivalent amount of revenue - and even more than that to match past profit levels. The average price of a TV sets has fallen about 40% since 2008, from 829 USD to 520 USD (Ann Zimmerman 2012) even as screen sizes have increased. At the same time the gross profit margins have also dropped from 30% on higher quality models to below 10%.

At the same time the sales of gadgets and mobile phones are steadily increasing. Today there is no need to have separate stereo system or even a full TV set. Younger generation prefers the use of smaller and more compact tablet PCs instead, making them a very popular electronics product. However, the rising demand for smaller multifunctional electronics is not enough to outweigh the decline in mature markets, because the margins for such small gadgets, like laptops and mobile phones, are much lower than compared with traditional electronics. TVs, home theater (including DVD players), video game consoles and notebook computers are all experiencing overall sales decline and this trend is set to continue (Gary Price 2014). In addition these items are getting more cheaper, eating into the retailers gross profit margin. For example the gross margins of Best Buy and RadioShack have steadily been getting lower for the past several years (Figure 4).

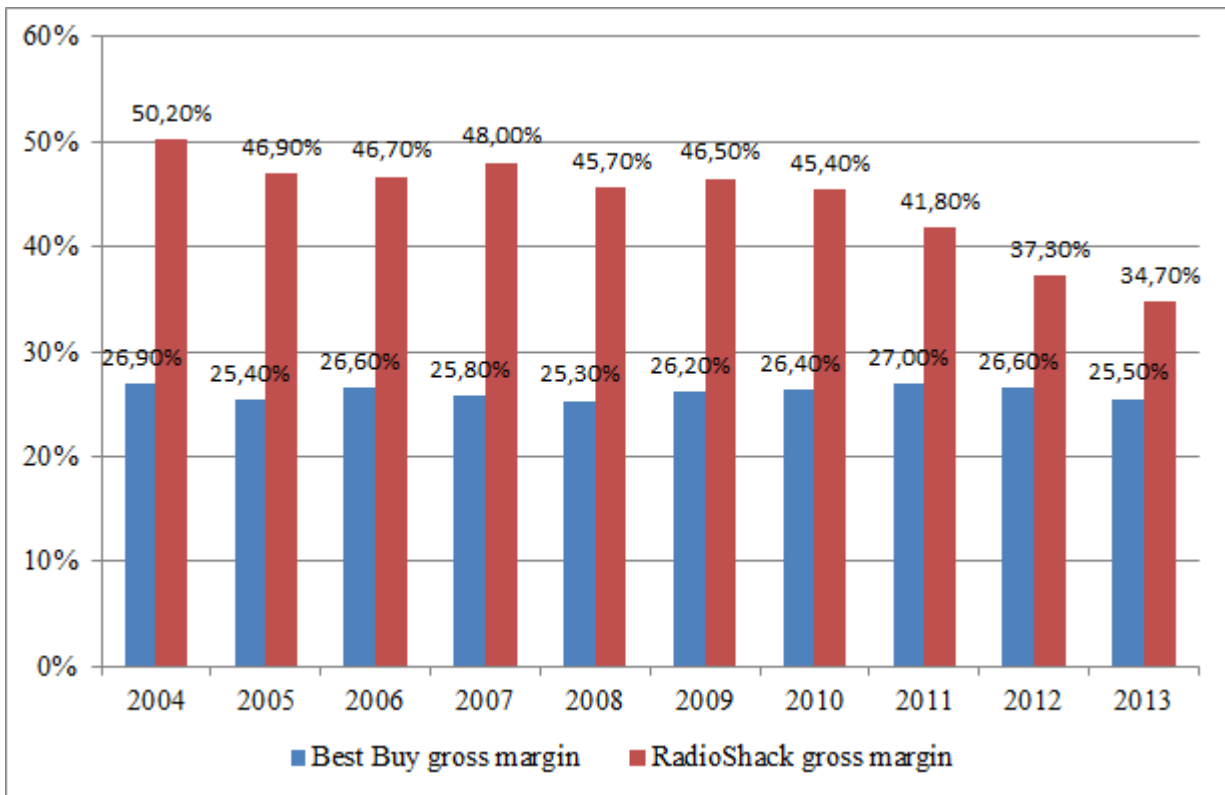


Figure 4: The drop of gross profit margins in BestBuy and RadioShack

Source: (Appendix 2)

In addition to the changes occurring in consumer preferences and rapid development of electronic devices, which has reduced the profit margins, specialized retailers are facing strong competition from big discounters and online retailers. The data gathered by Dealerscope confirmed this trend as well. According to their research of the largest consumer electronics retailers in the United States and Canada, the biggest losers were specialized retailers, both big and small (Laura Spinale 2013). Some smaller retailers had to close their operation entirely, while others had no option than to consolidate their businesses. The electronics only big box companies Best Buy and RadioShack lost their positions as well. Their sales in 2012 have declined -1.86% and -1.14% respectively from the previous year. At the same time the big discounters, like Walmart and Target have both increased their consumer electronics share by 4.35% and 2.94%. Another big winner among traditional retailers was Costco, increasing its

electronics sales by 10.85%. The biggest winner however was online commerce giant Amazon with its 46.15% over the year in consumer electronics category.

Overall online commerce has taken a big slice of the traditional retailers market. Over the course of 10 years the share of electronic products sold through online channels has been steadily increasing, when compared with specialized retailers, reaching 40% of their sales volume in 2012 (Figure 5) or 22% of the all electronics sales that year. The success of online distribution channels has led to many of traditional retailers to start operating their own online stores. However their success is still pretty limited, when compared with Amazon. The latter has been the innovator in the industry and understands online customers much better.

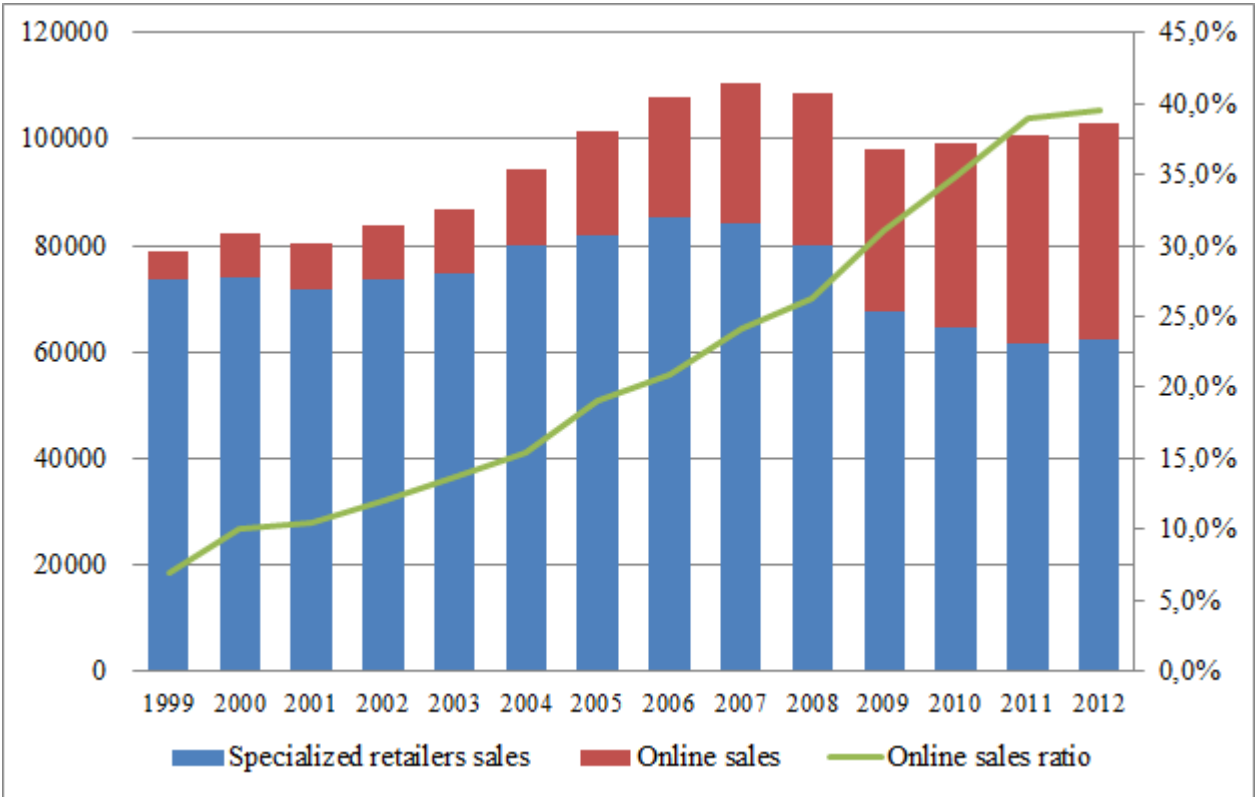


Figure 5: Online sales of electronics when compared with specialized brick-and-mortar retailers
 Source: (Appendix 3)

The development of online channels and the emergence of smartphones, has led to the new trend among consumers, known as “showrooming”. The showrooming is a practice of

buying items from online stores after trying them out in the physical stores. The ease of comparing prices online makes it possible to buyers to shop around and find the lowest priced item they liked from a competing online retailer. Online retailers support the trend with both hands, creating different tools for people to compare prices in physical stores with the prices on their sites on the go. A great example is Amazon's mobile app, which matches any product a customer scans using his mobile phone with the listings on the retailer's website. After such innovative approach, it's not a surprise, that share of consumers that have purchased items online after trying them out in the brick-and-mortar stores is 63% for consumer electronics or about 30 billion USD. The lower price was the main factor why 83% of respondents chose online stores to complete their purchase (e-Commerce and Consumer . . . 2011, 43).

2.3 Strategies employed by US electronics retailers

The drop of margins for the electronic products and the use of showrooming practices meant that traditional CE retailers had to develop new strategies to continue their businesses. The main problem is that traditional strategies, like deep discounting, are not that effective anymore. The strategy of deep discounts, where retailers very often sell products even below their purchasing price helps only to increase the sales figures but not improve the positive cash flow. Traditionally electronics resellers used deep discounting as a way to increase traffic to their stores. The idea here is that the more visitors store gets, the better are its chances of selling them additional items or services, like insurance, coverage, etc.

However the bankruptcy of Circuit City, once the second largest US electronics retailers by revenue, showed that this traditional strategy of increasing sales doesn't improve company's bottom line. Circuit City was relying on big sales and discounts but was not able to turn profit the past couple of years before it finally collapsed. One of the reasons could well be that its margins were below industry average and the company was constantly losing cash. Gross margins for Circuit City (20.6%) were well below its main rival Best Buy (23.85%) and the industry average (29.45%), putting it in big disadvantage (Cathryn Camacho, Harry Leshner, Jennifer Wilcox 2007, 20-21).

Some companies that have stayed in the business started to recognize that consumer behavior trends is changing and they turning more attention towards smaller gadget, like smartphones and tablets, as theirs sales are currently on the rise. One of such companies is RadioShack. Today 50% of its sales are coming from the sales of smartphones, which is really difficult market to compete in. The retailer has to compete not only with other brick-and-mortar stores, but with mobile operators and manufacturers of the devices, who all offer their devices through direct distribution channels. While RadioShack is able to keep its sales volume stable the strategy has impacted its profitability considerably – the company has been consistently losing money for the last 3 years and its stock has dropped about -90%.

Other consumer electronics retailers have used another approach and started adding more related products, like furniture, to their stores. Two of the prime examples are Aarons and Conns. Both considered being mid-sized companies, with the annual revenues of about 1.7 and 1.2 billion USD respectively. Consumer electronics and computer sales are forming about half of the sales at these companies. Another half of revenue is coming from appliance and furniture sales (Figure 6). Both companies are planning to put more emphasis on furniture, as it has on average a higher gross profit margin than electronics (46.6% vs 28.6%).

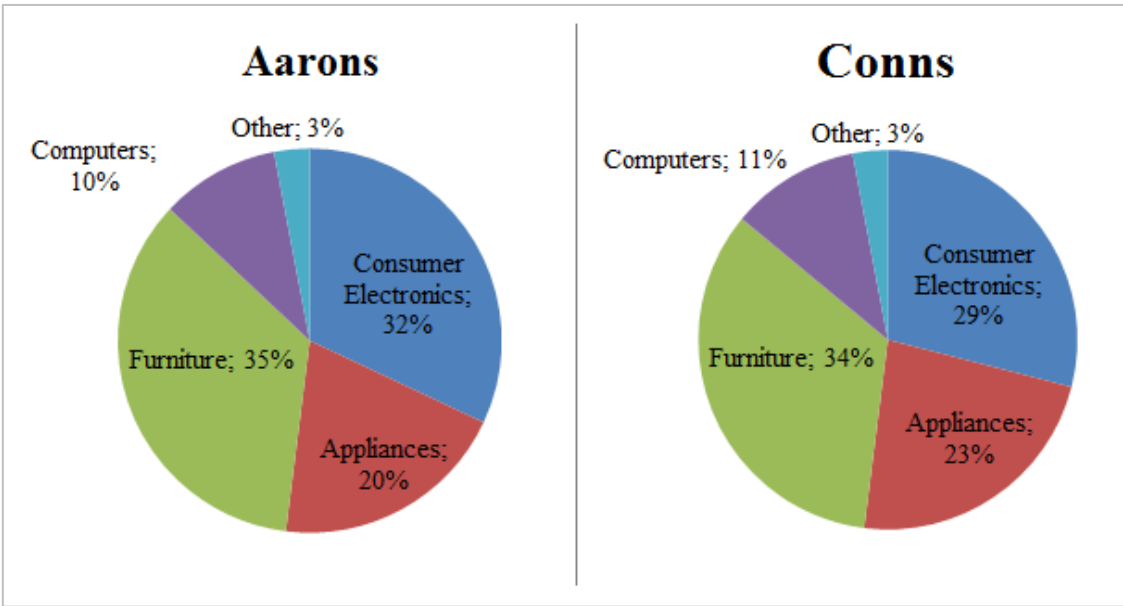


Figure 6: Level of diversification of electronics retailers into other products

Source: (Aarons . . . 2013, 11; Conns . . . 2014, 17)

In addition to expanding the range of more profitable products, companies are offering additional services that could help to increase the overall profitability of the retailer. Among these services is store leasing options for consumers with bad credit rating, insurance packages for electronics and extended warranty plans. Even if retailers don't make money right away on the product they sell, they make their profit by selling services. While a good strategy for the company overall, this tactics have received a lot of complaints from consumers, because of aggressive sales methods by personnel to push these services.

While some retailers are adding new related products to their shopping floor, others, like Best Buy, have decided to go with the “store within a store” concept. The idea is to create a separate area dedicated to one particular brand inside a bigger big box retailer. This will help the big box retailer to optimize its shopping floor better, increases the visitors traffic to the stores and provides customer with better service. Since last year Best Buy has opened over 1,400 Samsung and 600 Windows stores-within-a-store along with completing the first phase of optimizing its sales floor (Matt Burns 2014). Other brands, renting space inside Best Buy, are the seller of kitchen appliances Pacific Kitchen and home theatre system manufacturer Magnolia. To serve the customers inside these dedicated areas Best Buy employs additional knowledgeable staff, known as the Geek Squad. The advantage of having dedicated staff is that they know the products in slightest details and are able to answer all the questions a customer could have.

Electronics retailers use other strategies to better optimize their operations. With the revenues and margins continue to decline, companies are looking to better ways of optimizing their current operations. One of the strategies is to reduce their current big box format stores amount and open smaller versions, oriented on a particular product instead. For example, along with implementing “store inside a store” concept, Best Buy USA is also opening new Mobile Stand-Alone Stores. In 5 years the company has opened 400 of these smaller format stores, which specialize only on mobile phones and their accessories (Table 1). Being 30 times smaller than their regular stores, these outlets are cheaper to operate and are easier to locate near the customer.

Table 1. Amount of Best Buy big box and mobile stores through time

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Best Buy Stores	1,053	1,055	1,056	1,103	1,099	1,069	1,023	923	822	742	668
Mobile Stand-Alone Stores	406	406	409	305	177	74	38	9	5	0	0

Source: (Continuing Operations . . .)

Also it is worth noting, that today already all of the operators of physical retail stores have recognized the digital revolution. The vast majority of big and medium companies have their own online storefronts selling the same products they sell in their brick-and-mortar locations.

These are classical multichannel distribution setups, making convenient for customers to buy products either inside the store or at home through the Internet. While at the beginning, traditional retailers were opposing the digital revolution and reluctant to implement it as part of their distribution channel, today these companies are competing for the share of the online shopping market as well. While still being quite far behind online only retailers, the operators of traditional brick-and-mortar electronics stores are trying to catch up.

3. ONLINE DISTRIBUTION CHANNELS

Online distribution channels are relatively young compared to traditional retailing, but they are already representing a very strong competition to brick-and-mortar retailers. Today this sector of retailing is growing faster than traditional distribution channels. This offers opportunities to brick-and-mortar retailers as well, who want to expand their business. However, the totally different specifics of online distribution channels and their complexity give pioneers in this field a big edge when compared to latecomers.

3.1 Introduction to online retail channels

Since the start 20 years ago, online commerce has been divided into three main segments (Timothy M. Laseter, Elliot Rabinovich 2011, 48). The first segment is made of portals and search engines sites that capture visitors' traffic and redirect it to other site on the web. Google.com, Yahoo!, Delfi.ee are some of the examples that come to mind. They could be compared with the traditional newspapers or magazines, which provided plenty of fresh and interesting content, targeted at the reader. The second segment consists mainly of social networking websites and online marketplaces. Their goal is to facilitate the exchange of information, products and financial flows among Internet users. Various review sites, forums, as well as auction sites could be also included in this category. While not all them are marketplaces per se, the ideas and though customers exchange there very often lead to the future purchase. Some of the noticeable examples include PayPal, Facebook, eBay or a price comparison website like Price Grabber. The third segment includes different product and service providers. It consists of all kind of financial, transportation and other personal service companies, as well as retailers. Among retailers there are organizations selling either physical or virtual products, like Amazon.com or iTunes Apple store.

All three segments are tightly connected and dependent on each other. Products and service providers depend on traffic they receive from search engines and portal websites. The opinions and reviews shared on social networks and forums also influence their sales and brand recognition. The content rich websites are all depending on the revenue provided by product and service sellers. Today however, some of the bigger players in the field started to integrate other segments into their core business (Figure 7). Examples would include Amazon.com adding review section for each of its products, so people could share their experience right on the merchant's website, or Facebook eyeing to move into the world of online payments (Victor Luckerson 2014).

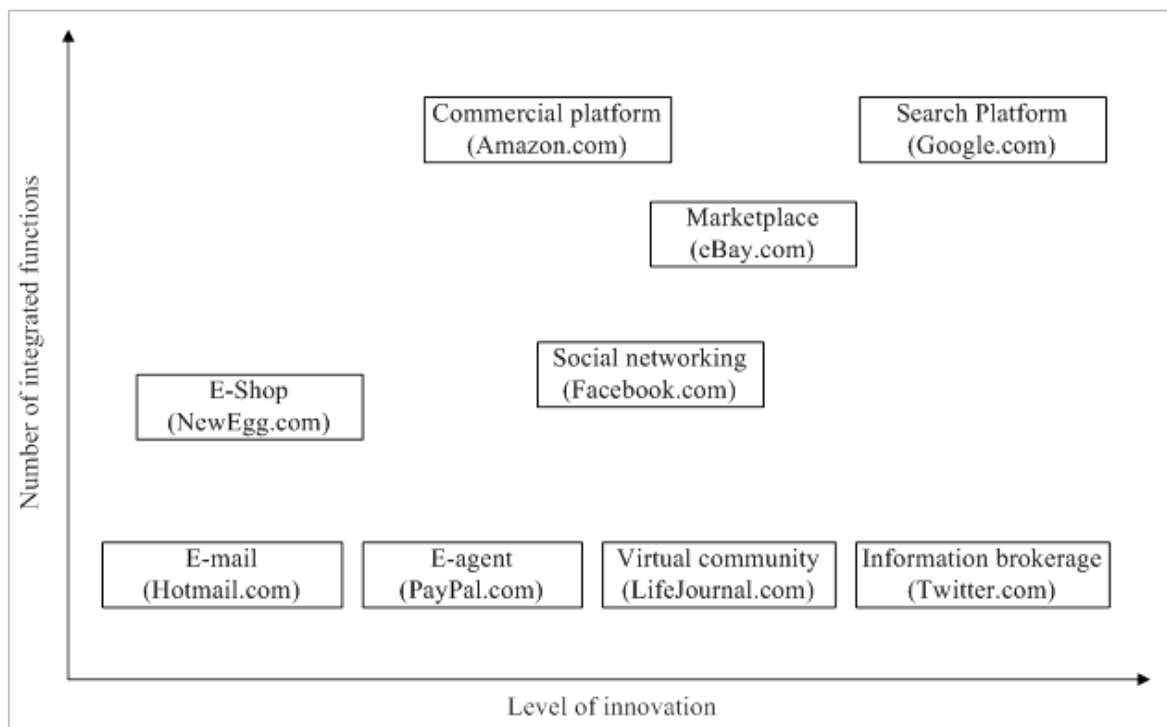


Figure 7. Classification of internet business models

Source: (Paul Timmers 1998, 8)

Not all internet retailers are alike. Companies engaged in internet retailing differ in different categories, depending on their size, amount of merchandize, promotion methods and user interface. There are newcomers and already established companies, large and small online retailers and those that specialize only on one type of product vs wide range of different products.

According to these characteristics online retailer's sites could be classified by four different categories:

- Megasites - stores with the broadest merchandise, the most comprehensive array of services and promotions. They offer customers fast and easy shopping experience and user interface tools. Retailers that operate these sites tend to be those with the highest levels of sales and include quite a few firms that also operate brick and mortar stores to sell their products. In 2013, top three megasites – Amazon, Staples, Wall-Mart - accounted for 30% of all online shopping in the US.
- Focused sites - include only websites that specialize on a very few product categories. Some examples include NewEgg.com, BestBuy.com, Apple.com, which all specialize in consumer electronic products and computers. Some of this websites are owned by retailers that also own brick-and-mortar stores. This makes them attractive in promotions, particularly related to shipping and handling.
- Basic sites – unlike the previous category their main advantage is competing on price. The retailers behind these websites don't focus their effort on creating a better navigation or shopping experience for the buyer. Costco.com is a good example of such website.
- Display sites – operated by retailers with brick-and-mortar stores their main goal is to showcase the product selection online but forward the buyer to the physical location to complete the purchase. They are used as advertising vehicle and to help customers get information about new products available in their physical stores.

Internet provides buyers with an easy way to customize the level of detail in the information they obtain about a prospective purchase, presented a tremendously convenient medium for the consumer. Geographic boundaries have been eliminated, instead of spending time going to the store to obtain information about the product a potential buyer can just get all the needed information online, including the unbiased reviews from others, as well as compare prices among various sellers. Store hours have become irrelevant, since it is always possible to surf the Internet from the comfort of your home regardless of the time - one only has to access a search engine to find what they need. All this makes the entire process more flexible and less bothersome for consumers.

All of the above clearly shows the convenience of online shopping to the customer, especially in case of consumer electronics, with thousands of different product from different brands presented in the market. Still, the picture won't be complete without comparing electronic retailers with the traditional counterparts.

3.2 Online stores compared with traditional retailers

Open boundaries benefit not only the customer but the companies operating retailing websites as well. Particularly, it allowed some electronics and computer products manufacturer to eliminate the need for traditional intermediaries, which gave them a better control over distribution process. The pioneer in this field was Dell, which moved all of its operations online to the corporate website, where it allowed customers to specify exactly the configuration of computers they order on the Web. Dell created value by designing its entire business around offering this high degree of configuration flexibility to its customers. As of 2012 Dell was the 10th largest online retailer in the US, with the web sales of over 3.6 billion USD (Figure 8).

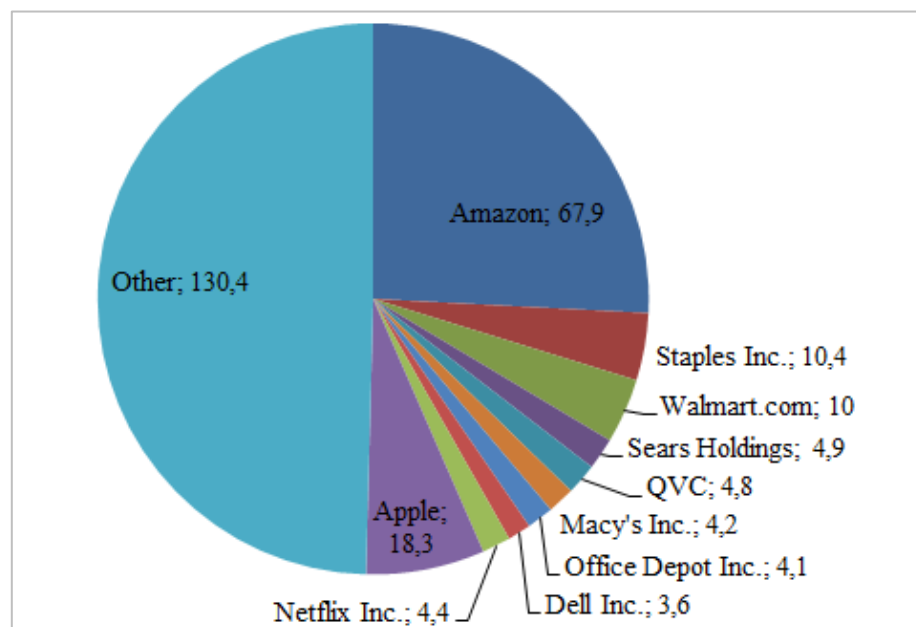


Figure 8. Retailers by revenue from online sales in the US

Source: (US Retail Ecommerce . . . 2014; Big Data . . .)

Another company that has become a pioneer and a leader in its industry thanks to the development of the Internet is online marketplace Amazon.com. Started in 1994 as an online bookstore retailer, in 2012 it accounted for over a quarter of all online sales in the US, over 67 billion USD (Figure 8).

Both Dell and Amazon are generating all of their sales through online channels only. Neither of these companies has a physical store. They are however more of exclusion to the rule, with 7 out of top 10 online retailers using their website as additional distribution channel alongside their brick-and-mortar stores. This fact brings up an interesting point, that online commerce may not be suitable to all types of products for a number of reasons.

First of all, to be profitable for the online retail company, items must have an attractive shipping profile to be sold online. A product's shipping profile is the collection of attributes that affect how easily that product can be packaged and delivered. A high value-to-weight ratio can help by making the overall shipping cost a small fraction of the selling price. An MP3 player is an excellent example of an item that has a high value-to-weight ratio. Products that are consistent in size, shape, and weight can make warehousing and shipping much simpler and less costly. In the contrast, a plasma HDTV, which has totally different shipping profile, could pose a challenge to a web-only retailers from the logistical points of view.

At the same time big brick-and-mortar retail chains already have an established distribution channels across the US. The transportation costs for them are much less, than for online only retailers, which have to build distribution centers from the ground up. Shipment of such bulky items as TVs, Monitors and Music Centers through full-truckload distribution network of traditional retailers offers significant savings over a small-package shipment directly to a consumer's home via an express delivery. This additional charges to the consumer could result in confusion and him cancelling the purchase altogether. In fact, unexpected delivery charges were the top reason why customers cancelled their purchase in the online store (UPS pulse . . . 2013, 16)

However, for a web only reseller, logistics only pose a challenge in case of a scarcely populated areas or when the number of people doing online shopping is relatively small. In the densely populated areas with a lot of online shoppers the shipping costs are greatly reduced,

which leads to even more customers for the online retailer (Kenneth Button, Aura Reggiani 2011, 107).

Second drawback of online shopping is that not all products could be convenient to purchase online and not for everyone. Generally, physical retailers, rather than online stores, can be a better way to sell items that rely on personal selling skills and need a personal consultation from a store associate. This is especially true for people over 55. When shopping in physical stores they like the fact that they can touch the product with their own hands and get a demonstration (e-Commerce and Consumer . . . 2011, 46). Another category of shoppers that prefers to see things before buying them are wealthier consumers, earning over 100,000 USD per year, 36% of online shoppers in this category would prefer to see the product first (Table 2).

Table 2. The percentage of online shoppers that strongly agree with the following statements

	Earnings in thousands USD				
	Less than 25K	25K - 40K	40K - 60K	60K - 100K	More than 100K
Afraid to provide personal and credit card info online	26%	23%	25%	28%	32%
Prefer to see things before buying them	22%	24%	22%	28%	36%
Shopping cart is complicated	18%	19%	18%	24%	31%

Source: (Jason Miletsky 2009, 306)

It is interesting that for the people earnings less than 60,000 USD the importance of seeing items before buying was not that important. One of the reasons for that could be that wealthier customers are looking for more expensive items to buy in general and they have to be sure about quality in the first place. According to Rob Report people earning over 250,000 USD have a twice higher chance of purchasing electronics for 50,000 USD (Jamie Rhind, John C. Anderson 2013, 8).

The third major problem with online retailing is their bad customer service. While companies with established reputations in the physical world often create trust by ensuring that

customers know who they are and can rely on their established brand names to create trust on the Web, for new companies it is more difficult to achieve. They face a more difficult challenge because a kind of anonymity exists for companies trying to establish a Web presence. Thus creating and maintaining good customer satisfaction for online resellers is crucial to their success. However, maintaining it at good levels has been a problem for online retailers.

The American Customer Satisfaction Index for online retailers for 2013 fell by -4.9% from previous year to 78 points, the lowest figure since 2001. In contrast, the customers' satisfaction with specialty retail stores has risen by 2.6%, reaching the highest figure since 2001 (Table 3).

Table 3. Consumer satisfaction with Internet Retailers and Specialty Retailers

Year	01	02	03	04	05	06	07	08	09	10	11	12	13	13/12 change
Internet Retail	77	83	84	80	81	83	83	82	83	80	81	82	78	-4.90%
Specialty retailers	73	74	74	75	74	75	75	76	77	78	79	78	80	2.60%

Source: (Internet Retail Customer . . . ; Specialty Retail Customer . . .)

The main reason for a low customer experience online is usually bad customer service and the lack of integration between the companies' call centers and their website, posing a big problem for many ecommerce websites. As a result, when a customer calls with a complaint or problem with a Web purchase, the customer service representative does not have any information about Web transactions and is unable to resolve the caller's problem (Gary Schneider 2012, 149). Many major companies are slow to respond to e-mail inquiries about product information, order status, or after-sale problems. If the company will not be able to provide the level of support customers seek, it may result in a loss of a customer and refunds. Eventually resulting in lower reputation and worsening brand image.

Despite all the negative points, online retailing overall has been growing rapidly. Since 1999 till 2012 the growth in the US has been over 18% on average. According to US Census Bureau in 2012 the percent of online sales has reached 4% of overall sales volume (Figure 9). According to the Forrester Research Group, by 2017 this proportion will reach 10%. While the

stable increase in proportion could be seen for the US market, it is even more noticeable in other parts of the world. For example, in the UK, online retail already accounts for 13% of the total economy, and is expected to increase its share to 15% in 2017 (Lauren Indvik 2013).

The ratio of online sales to the sales in brick-and-mortar stores is not the same across different industries. US highest online sales are for consumer electronics and apparel, the lowest is for food and beverages (US Retail Ecommerce . . . 2014).

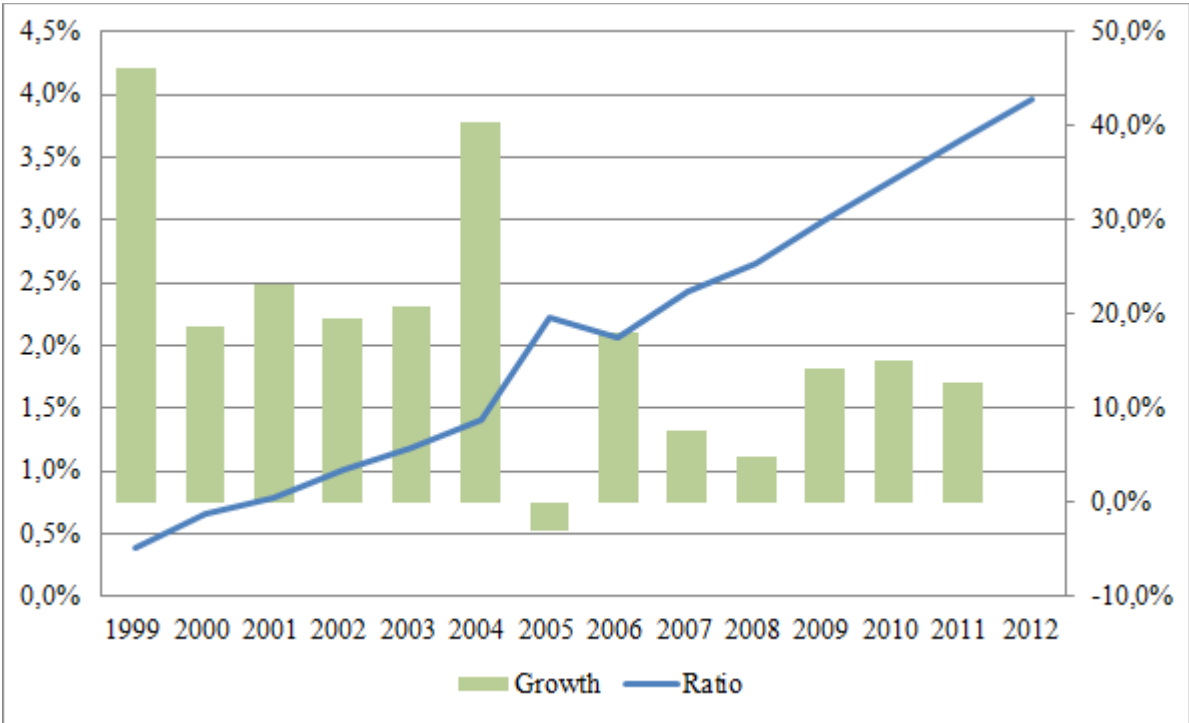


Figure 9. The growth of electronic commerce sales, compared with the overall retail sales in the US

Source: (Appendix 3)

There are three main reasons why online retailing is growing at such a fast rate. First of all, online retailers have much lower overheads than traditional stores, thus they are able to offer lower prices for their inventory. For example, almost all of Best Buy stores and a majority of their distribution facilities are leased. Terms of the lease agreements generally range from 10 to 20 years. In 2012 this electronics retailer has spends over 1 billion USD on retail property and equipment leases. In addition to leases Best Buy has spent over 400 million USD on its remodel

and expansion activities (Best Buy Fiscal . . . 2013, 44, 99). Finally, there is operational cost of retail personnel. Best Buy employs 30,000 people more than the biggest online retailer – Amazon. Considering that the average pay for store associates in the company is about 10 USD per hour (Best Buy Salaries . . . 2014) and the cost for employer is even higher, the additional cost for workforce at the electronics retailer is somewhere from 500 million to 1 billion USD annually. Putting all figures together, Best Buy has at least 2 billion USD in additional cost when compared to Amazon. While Amazon and other online retailers don't have to worry about these costs, they are able to win more consumers with their more competitive prices. In fact, the 2011 survey carried out by NPD group revealed that lower prices were the leading driver for bringing in-store shoppers to ultimately make their purchase online (e-Commerce and Consumer . . . 2011, 43).

Another important factor that makes online retailers more attractive to consumers is the convenience of making a purchase without the need of going anywhere and a wide availability of different product choices. 44% of people aged 34-54 prefer to buy online because it is convenient and they are able to read other people reviews about the product as well, 22% cited bigger product selection and options variability as the key deciding factor (e-Commerce and Consumer . . . 2011, 58).

The third component of online retailer's success is their ability to target potential customers better and then track all of their activities. Internet retailers are much better at tracking their visitors and personalize their offers to any particular visitor. They have the means of tracking visitors and know how to do it efficiently. The more often shoppers make purchase in a particular retailer, the better retailers software knows that particular customer and is able to offer more personalized choices.

While a number of leading traditional brick-and-mortar retailers is also starting to use data analytics to better serve their customers, they still have a long way to go. Online retailers are able to keep track of all customers previous purchases, their know much time visitors are spending on their websites, , how did they get there in the first place, what product descriptions or images make them to finalize the purchase and many more additional information. Combining information about its current customers online retailers are able to better target future customers as well, making their advertising campaigns more effective and continue better target their

current visitors on an individual level. Online companies that have mastered these techniques to the perfection are regarded to be the leaders in online commerce.

3.3 Biggest online electronics retailer

At first sight it is thought that online retailing is a fair field game, if all online resellers would have started at the same time with the same tools and methods, they all would have the same chances of success. Basically all companies are selling the same products with slightly different approach. Still, there is a huge gap between the leaders of online commerce and the laggards. The reason for that is not all online electronics retailers' sites started at the same time.

The pioneers of this field have had a big advantage over latecomers. In the online world, while the learning curve is very long, the things are moving fast. One has to be always on the rush to keep up with the progress - things are happening much faster than ever before. There is no need to consumer to go the physical store anymore. All the research and comparison could be done at home. Paying for the order and filling the delivery information is taking only a couple of minutes. Companies that better understand and know how to convert their website visitors into customers have a great competitive advantage nowadays.

The research conducted by the Forrester Group confirms that experience in selling online makes a difference: companies selling online for 10 years or longer reported average conversion 3.8%, notably higher than the 2% average for those selling online between four and 10 years (Fiona Swerdlow 2014). These companies have had years of experience and have an established reputation and well-known brand. A pleasant shopping experience has confirmed into repeated customers for this online stores. On average, 51% of online sales today come from repeat customer. It is also worth noticing, that the average purchase size for repeat customers was 178 USD, or 20 USD more than non-repeat shoppers.

There are several online only companies doing business in the US, all using advanced techniques for driving sales and brand promotion. The biggest one and the most respectable is Amazon.com. The company is the synonym of efficient online operations. In 2012 it surpassed Best Buy as the biggest electronics retailer in the US (David P. Schulz 2013).

The company has been increasing its sales slowly and steadily, constantly adding more and more products to its list of available merchandise. It has not reached success overnight, and it took 6 on 6 years for this online retailer to turn profit. Today the company has grown out of the ranks of traditional retailer, acting also as a marketplace, which other users can use to sell their merchandise. This again adds to the price pressure for the competition.

There are two main advantages Amazon has over its competitors. First of all, to support its rapid growth the company has been gradually building fulfillment centers all over the US. As of today, the company operates 55 fulfillment centers in North America (Amazon Global . . . 2014) and has even more than that outside the US. Having a big network of fulfillment centers all across the globe, makes it possible for the company to organize same next day delivery for many of its products, fulfilling the customer's desire to get his purchase as soon as possible. To operate fulfillment centers Amazon uses the latest technology in storing and selecting items. A lot of processes are automated and performed by the elaborate IT system.

Another advantage of Amazon over online and brick-and-store retailers is their sophisticated data analysis algorithms. The company's website gets 162 million monthly visitors, compared with only 28 million for Best Buy website. The additional visitors give it more data, which could be later transferred into a more sophisticated algorithm. The retail giant tracks every move all of these visitors, where does they come from, what makes them leave, what are their shopping habits, etc. All of this information collected and analyzed on a constant basis and later is being used to improve the customer experience.

The analysis of data gives online retailer a strong weapon. Having enough information, the system can detect when a visitor is reluctant to make a purchase and can offer him a personalized discount. Already today Amazon and some other online retailers are able to send personalized emails with coupons and deals specially designed for a group of clients, who share the same profile. In the future the shopping will be much more personalized than that, being able to provide individual prices to each visitor separately.

4. THE FUTURE OF ELECTRONICS RETAILING

The history of the past 10 years has shown that retailers of consumer electronic products have been struggling to keep with the changing shopping environment. The falling margins on electronic products and rising competition from online retailers have driven a lot of retail companies out of business and led to consolidation of others. All this pushes biggest brick-and-mortar players to start rethinking their overall development strategies to stay relevant to consumer.

4.1 Changing trends in consumer behavior

“Consumer behavior entails all consumer activities associated with the purchase, use, and disposal of goods and services, including the consumer's emotional, mental, and behavioral responses that proceed, determine, or follow these activities“(Frank Kardes, Maria Cronley, Thomas Cline 2010, 8). In the today's competitive electronics retailing environment understanding customer's needs, habits, feelings and reasons behind the purchase means the difference between success and failure.

Determining common characteristics among groups of consumers could help to improve the overall targeting and increase sales results. A good example of such approach is Best Buy, which in 2004 has divided its customers into 5 categories, depending on their shopping habits and characteristics. The company has remodeled 67 of its stores to better cater to one or two of the consumer categories. The strategy proved to be a success. These stores that underwent this change have experienced 6.3 percentage point gain over other Best Buy stores in the US (O. C Ferrell, Bryan A. Lukas, Sharon Schembri, Outi Niininen 2012, 105).

Consumers are influenced not only by social and economic environment they live in but also by the overall technological development. The development of new technologies influences consumers in two ways: what they buy and how they buy it.

What consumers buy – all products, including electronics, have their own life cycle. On each of the phases of this cycle, different types of consumers drive the sales of different products. Depending on how early they purchase a new product after it was first introduced, consumers are divided into innovators, early adopters, early and late majority, and laggards. The more people are interested in the new product, the closer it is to maturity phase (Ronald D. Michman, Edward M. Mazze 2001, 167). Let's take Google Glass as a one example. The product was first available only to the developers and selected people in April 2013 at a limited quantity. At that time this so called Explorer Edition was offered to innovators, who used the gadget to review it, test and suggest changes. Earlier this year the company has already released a Consumer Edition of a product, oriented at the mass market. The people who bought it are early adopters. Today Google Glass is available for purchase to everyone. However as a totally new and ground breaking product it will take some time before it will start reaching maturity. The examples of products that have been at the stage of early adoption not long ago but have already entered the maturity stage are smartphones. Even though smartphones have been available for over 10 years already they only gained traction with introduction of the first iPhone in 2007.

For electronics retailers it is very important to recognize the trends in the technological development for the next five to ten years to better plan their own execution strategies - whether to shrink store sizes, add additional services inside a store or find a way to improve customer experience. The faster companies recognize the needed changes and realize them, the better their competitive advantage and ability to adopt will be. In the past retailers were very good at adapting to the changing environment, with the first introduction of specialty stores in the 1960s and then big box retailers in the 1970s, following the changes in technological, social and economic development.

How consumers buy – the technological development also has changed the way people do shopping today. Nowadays people want to make their purchases in the most efficient manner possible and their shopping experience to be personalized and pleasant at the same time. Advances in technology mean that products are able to reach consumers and give them what they want – sometimes without even being asked. People expect the same behavior in their shopping experience as well.

Switching between shopping channels, as well as showrooming has become the new norm. When in store, consumers constantly checking prices online, looking to compare prices with other retailers and to read online reviews on products they consider buying. According to the survey, conducted by NPD group 80% of consumers consult websites before they go to retail stores, 19% are utilizing smartphones inside the store to check reviews or compare prices (e-Commerce and Consumer . . . 2011, 22, 9). While only 4% are making online purchases inside the store using smarhpnes, a lot are going home to complete their purchase there.

Showrooming however is not precisely a bad thing. As the research from Business Insider suggests it can work both ways, stating that a reverse trend is also very common these days, as a lot of people research products online first and making a purchase in the brick-and-mortar location later (Emily Adler 2014). The reverse showrooming could be popular due to the fact that today’s shopper wants to get his product right now and not to way for it sometime in the future. For these people that practice reverse showrooming enjoying the product right away outweighs in many cases the higher price it could cost.

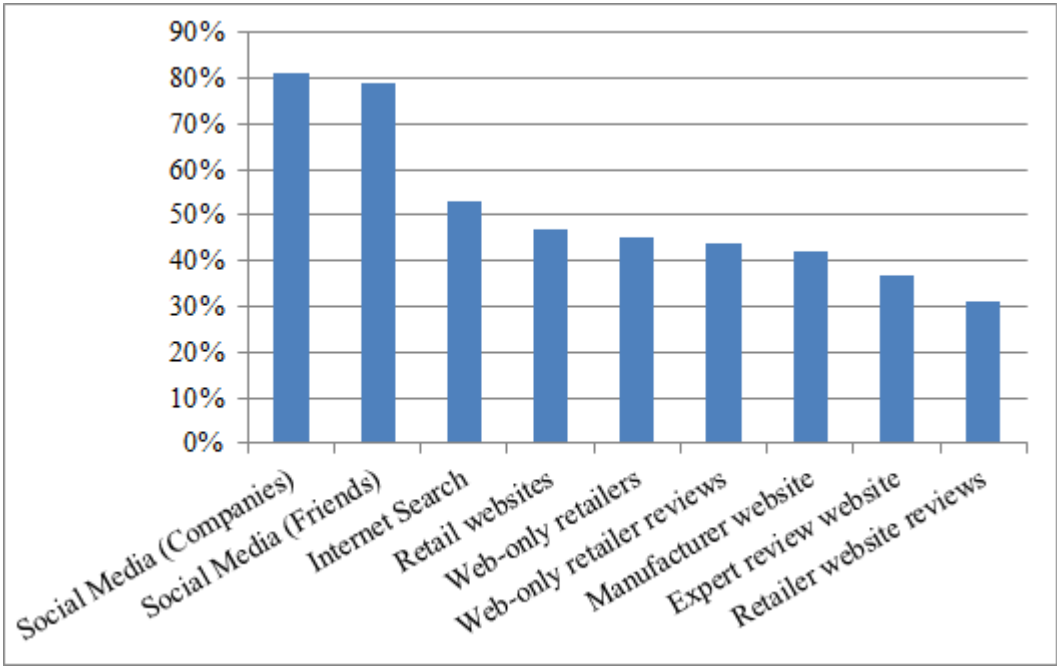


Figure 10: The influence of expert opinion and social interaction on buying decision
 Source: (Steve Olenski 2012; e-Commerce and Consumer . . . 2011, 9)

The importance of online reviews and recommendations from social networks is also influencing buyers' decisions very heavily. Nowadays people turn to online review websites and their connections in social networks for recommendations for the wide variety of things, from which laptop model to purchase to a more important, career choices or a finding a contractor for home remodel. 31% of consumers consult expert review websites before purchasing new electronics and 42% read customer reviews on online-only retail websites. 78% of consumers say that the posts made by companies on social media influence their purchases. Posts by their friends could influence their purchases in 81% of cases (Figure 10).

What this statistics rally show is that all retailers truly have opportunity to influence consumer purchase decisions through the content their business creates and publishes on social media. The users of online social networking websites trust the content generated by companies almost as much as they trust their friends. For the big consumer oriented retail companies this is a big opportunity to build a trusted relationship with the customer, which will later on transfer in real revenue. Not all companies understand this however. According to the 2011 research 68% of US retailers said that "Facebook went away, it would not hurt their online sales." (Newton Lee 2013, 94), which means there is still room for improvement.

4.2 Omni-channel retailing

The success of retailers depends on a combination of different factors and the most important of them is the customer satisfaction with the shopping experience. As Jeff Bezos, the founder of Amazon, has said it: "Be afraid of your customer and not your competition, because he is the one putting money in your pocket". If customers prefer buying from a brick-and-mortar store, talking with associates and trying out new products, then retailers should provide this opportunity to them. If a customer wants to make a purchase from the convenience of his own home online, he should be able to use retailer's website instead. Such a diversity of shopping options is known as multichannel retailing - the use of a variety of channels in a customer's shopping experience including research before a purchase. Multichannel retailing consists of different channels through which a customer can finish his transaction either it is a website, a

store or a catalogue. While the channels are not connected with each other, the idea here is to make easier to reach customer in a convenient way for him.

However, the classical model of multichannel retailing is becoming obsolete. Consumers don't want to engage in different channels separately, but they want to interact with all channels at the same time. They want to go into the brick-and-mortar store and compare prices with over retailers right there on the spot, read reviews and finally make a purchase inside the store and get their product right away. This type of shopping experience is known as omni-channel retailing, "a strategy to synergize the strengths of online, brick-and-mortar, and sometimes catalog, phone, or other channels" (Daniel J. Flint, Chris Hoyt, Nancy Swift 2014, 60). All channels are integrated and are designed to drive traffic to each other. Today demographics of shoppers are divided between five main distribution channels, the biggest of which are retail stores (Figure 11).

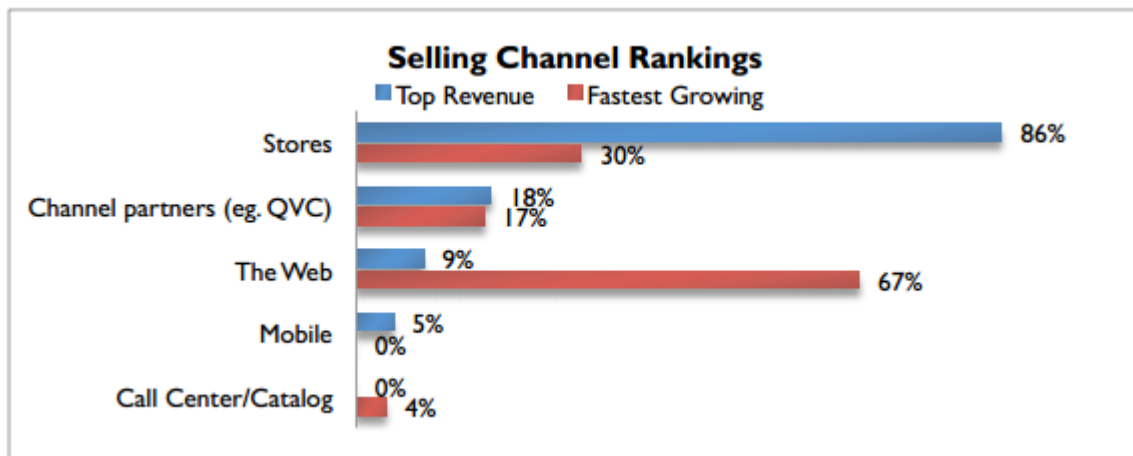


Figure 11: The use and growth of top five distribution channels

Source: (Nikki Baird, Brian Kilcourse 2011, 1)

The research firm Accenture has estimated that this year 196,6 million people in the US will be shopping online, however only 163,2 million who will go on to complete a purchase digitally. The 31,6 million that don't make the purchase digitally complete their purchase in a brick-and-mortar store (Retailers Look to . . . 2014). Those who do purchase items online tend to gravitate towards digital media, software or accessories. Only about 19% of people researching

bigger items, like TVs and stereo, actually complete their purchase online (e-Commerce and Consumer . . . 2011, 9).

This statistics are encouraging for the electronics retailers, as it is a clear evidence people keep shopping in physical stores even for small sized gadgets. This means a real opportunity for these businesses, as it is evident people still like to see product they buy and talk to the real life person inside a store. Among the first electronics retailers to the first recognize this change in consumer behavior was Best Buy. As described in the article by the “Wired” magazine: “When a customer comes in to test out a few high-end cameras, a sales rep with a tablet can meet them to compare specs on the various models.” (Michael Copeland 2012) Specially trained sales staff – people trained in a particular product category – can then provide the kind of hands-on service that customers can’t find online. Basically this big box retailer is encouraging its customer to practice “showrooming”.

The company has already done first steps by launching pilot projects in 50 of its current stores. By encouraging the customer to check its competitors’ prices and read online reviews with the help of the store associate Best Buy wants to avoid situations where customers go to its stores to get an in-person feel for a product, but then go online to buy it for a lower price. Another part of this strategy is that the company promises to match the prices of online competitors if they are lower. All these initiatives should help the company to increase its current traffic.

Best Buy is not alone in its initiatives. Another electronics retailers, like hhgregg, are also starting to understand the importance of omni-channel customer experience implementing new store remodeling initiatives as well (Alan Wolf 2014). However the biggest retailer in the US, Walmart, has gone a slightly different route, betting on improving customer’s online experience on their website and providing seamless and convenient pickup option inside one of its US stores.

To make this initiative work, the company has invested in development of its own set of technologies. The company has invested in a proprietary search engine that should allow its online customers find products online more easily. Walmart has also invested in search capabilities that allow it to search the Internet, see how competitors are pricing items, and then dynamically change prices on its product offerings. These new initiatives are poised to make shopper’s experience better and easier. In addition to search engine Walmart is investing into

sophisticated distribution and inventory management software that will be determining which products customer will be able to receive in the nearest store and which will be delivered to his doorsteps. The software will be using complicated algorithms to make a decision, based on such factors, as customer choice, profitability and inventory levels (Steve Banker 2013).

With the established logistical system and the chain of retail locations across the country brick-and-mortar retailers have a good chance of implementing the omni-channel initiatives that will improve their customers' satisfaction and bottom line in the long run. Retailers are already making first needed steps in that direction and using the combination of modern technology and old fashioned good customer service to achieve positive results.

4.3 Improving same store sales

Same store sales are considered to be a key metric of retailer's performance. The higher is the number of same store sales, the better is the overall company performance, meaning company is able to attract customers and move products off the shelves. To be able to attract customers it is important that store operators continue to be relevant to the customer. Old tactics, like selling outdated products at big discounts, having large products selection and aggressive TV ads, are not as effective as they used to be. This changing reality has already pushed some retailers to start undergoing major changes.

Despite the negative comments from some of the industry analysts, electronics brick-and-mortar retailers are well positioned in the current market. Traditional stores are still a preferred destination for high valued and bulky items, like TVs and stereo systems, people still enjoy seeing and touching products before committing to buy them. Also, buying from the store they can get a product right away. However, to take full advantage of these strengths, retailers need to undergo an even bigger transformation.

First of all, the whole concept of electronics retailing is needed to be changed. Electronics retailers today are not the places where people go to see the new products and buy what they like there. Consumer electronics retailers are stores where people already know what they want. They have already done their research on the Internet, consulted with their friends and checked online

reviews from the expert's website. Now they want to see the product, just to be sure that this is the right product for them. Many come to the store, thinking of purchasing the product from a competitor on another website. However for a smart retailer in reality this is an opportunity to make the sale inside the store and not let the customer go empty handed.

To make it possible, first of all the retailer should be able to match the prices of their online competitors. If the product is being offered at a cheaper price online he should be able to match it, eliminating the biggest reason, why most people leave store empty handed. Instead of fearing showrooming, the retailer should be encouraged, as this means a free traffic for the stores.

Such an approach changes the whole role of store assistants, who will need to be very knowledgeable about the products they are selling. In addition they should know where the product could be purchased online, know how to explain advantages of buying from the current store and know other useful information. Consumers are interested in a particular product or product category and could have specific questions they were not able to find online. The store assistant's job should be to answer these questions. A knowledgeable staff will be additional reason the retailer will be getting returning customers again and again.

Today companies are already using "store inside a store" electronics retail concept. Next step is to change the formats of the newly opening stores entirely. Again, looking from the client's point of view, people interested in one electronics category are not looking to buy another one. Those who are looking for stereo systems are not interested in computers, the whole retail space used for computers is being wasted to them. To stay focused on the needs of a particular customer, electronic retailers should be developing more specialized smaller size retail stores. For example, one location could be specializing only on computers, another one only on stereo systems, and third one on TVs. This approach will help to solve several problems simultaneously. First, all customers inside these stores are more targeted. Second, the staff is more qualified, because it specializes on a selected product category. Third, smaller store formats will allow better targeting at a local level.

The approach to localized targeting was first used by Best Buy in 2004. Since then the technology of acquiring important demographical and social data has considerably advanced and retail companies could use this information to better plan their store expansion. For example, there is no need to build stereo system stores in the area, where people are mostly interested in

computers and vice versa. Also the use of advanced data technologies allows a much better targeting from a marketing point of view. Already today retailers are able to target consumer in the areas near their stores based on their browser search history. For example, if a person was searching for a new camera on his smartphone, when near a camera shop he could be sent a special personalized discount offer on a camera he was searching for online.

Online retailers have mastered the use of their visitors' data to own advantage. To stay competitive brick-and-mortar retailers should learn how to do that successfully too. Targeting customers on a local level will bring them inside, but the individual approach to each customer is what will make them to complete a purchase and come again. Having the information about the clients previous purchase history and providing him additional discounts based on that information will help to increase customers' loyalty.

Of course some of the strategies, like matching prices with competitors and offering special discounts, will increase traffic to the retail location but not the profits. One solution here would be a better optimization of distribution channels and product inventories. There is no real need to have all products in stock all the time. It will be enough that there is only one copy at the display. If the buyer likes the product and makes a purchase, then it could be simply delivered to his home address by the time he gets back. All items could be stored at a distribution center from where shipments will be made. The same approach could be used, when the person makes a purchase online, where he could decide whether to receive a product to his home address or he will get it from nearby store by himself.

In the fast changing world of electronics retailing companies must be more flexible and fast in their decisions. To stay ahead of the competition, retailers will need to learn how to synchronize their online operations with their brick-and-mortar business, how to provide customers with seamless experience of omni-channel shopping and how to optimize their backend operations, like logistics and inventory control, for bigger returns. To make this all possible retailers should implement a data driven approach across all of their channels.

CONCLUSIONS

Electronics retailers have seen a lot of changes in the last 70 years. Their store format has developed from the single individual stores to the big box retail chains with thousands of individual stores. In the past consumer electronics retailer's sales have been fueled by the fast growth of economy, resulting in the high consumer demand.

During these times, electronics retailers were places, what people visited if they wanted to know more about the latest advances in electronics and rarely went home empty handed. For manufacturers, electronics stores were perfect distribution partners, able to sell their product to consumers. Manufacturers with strong retail partners were able to move goods faster than their competitors, which allowed them to invest into research and development to fuel further growth.

The spread of the Internet and smartphones has changed the whole purpose of retail stores to consumer. Majority of customers entering electronics store today, already know what they want to purchase. They basically view retail locations as showrooms for manufacturers. People go inside the store to see and feel the products they like, but not necessarily to make a purchase. In many cases the purchases are being done over the Internet from an online only retailer.

The rise of online shopping was not noticed by traditional retailers at first. Being in the traditional retail business for a long time, they were slow to recognize the changes in consumer behavior. The activities of traditional retailers in the online space were limited, which led to the rise of online retailers. The fall of second biggest electronics store operator and decreasing sales of others indicated that an immediate change is needed.

Some of the biggest players in the industry became experimenting with store sizes, product selection and developing their own online websites to smoothen the falling sales in their brick-and-mortar stores. However this didn't help to increase sales through their core channel, which are retail location. What electronics retailers need to realize is the changing perception of customer towards retailers overall.

To the customer a retailer is first of all a place, where they can see the product physically, and maybe talk to the store associate about product's characteristic. A typical electronics buyer today is entering store in many cases already knowing what exactly he wants. Visiting a store for him is like visiting a website, with the difference he can see and try a product. He is not necessarily thinking of making a purchase. Modern consumer is not distinguishing between physical retailer, where he tried the product and another online retailer, where he is actually making a purchase from. To him, this is all one shopping experience.

Those electronics retailers that will recognize the changing trend in consumer behavior will have a real advantage over their competition, both physical and online. By combining online operation with physical stores, a retailer will be giving exactly what the customer wants an omni-channel shopping experience.

To make it possible, retailers will need to push themselves beyond the comfort zone of their own stores. They will need to learn how to acquire important information about their visitors, how to use this information and make data driven decisions, much like online retailers do it today. To stay ahead of the competition retailers will need to be able to recognize future trends in electronics, analyze local markets and customers shopping habits. Electronics retailers will have to be much more flexible in their product selection and expansion strategies.

All in all, traditional retailers have to become more customer oriented and the whole shopping experience needs to be viewed from the client's points of view. By combining their know how in logistics, physical presence, data driven approach to decision making and omni-channel shopping experience brick-and-mortar electronics retailers will be able to continue grow their operations and stay relevant to consumer going forward into the twenty first century.

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APPENDICES

Appendix 1. Sales through different distribution channels (in millions USD)

	Electrical Wholesale	All durable Goods	Ratio	Manufacturer branches	All retail sales	Branches + retail sales	Branches ratio
2002	322 376	2 171 268	14,8%	1 326 641	3 459 077	4 785 718	27,7%
2003	325 080	2 217 870	14,7%	1 391 219	3 612 704	5 003 923	27,8%
2004	365 654	2 490 069	14,7%	1 514 469	3 847 125	5 361 594	28,2%
2005	386 376	2 649 378	14,6%	1 613 820	4 086 625	5 700 445	28,3%
2006	418 304	2 824 140	14,8%	1 657 315	4 296 871	5 954 186	27,8%
2007	453 031	2 897 475	15,6%	1 686 586	4 443 807	6 130 393	27,5%
2008	454 331	2 821 376	16,1%	1 676 067	4 402 508	6 078 575	27,6%
2009	398 242	2 292 449	17,4%	1 417 524	4 082 092	5 499 616	25,8%
2010	447 767	2 601 529	17,2%	1 575 288	4 307 947	5 883 235	26,8%
2011	474 761	2 892 366	16,4%	1 761 849	4 627 809	6 389 658	27,6%
2012	505 937	3 083 316	16,4%	1 844 872	4 869 032	6 713 904	27,5%

Source: (Monthly and Annual Retail Trade)

Appendix 2. Annual financial results for Best Buy and RadioShack (in billions USD)

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Best Buy	Total Revenue	24,5	27,4	30,8	35,9	40	45	49,7	50,3	50,7	45,1
	Cost of Revenue	18	20,5	22,7	26,7	29,9	33,2	36,6	36,7	37,2	33,6
	Gross Profit	6,58	6,95	8,18	9,28	10,1	11,8	13,1	13,6	13,5	11,5
	Gross Profit Margin	26,9%	25,4%	26,6%	25,8%	25,3%	26,2%	26,4%	27,0%	26,6%	25,5%
RadioShack	Total Revenue	4,84	5,08	4,78	4,25	4,22	4,28	4,47	4,38	4,26	3,43
	Cost of Revenue	2,41	2,71	2,54	2,22	2,29	2,29	2,44	2,54	2,67	2,24
	Gross Profit	2,43	2,38	2,23	2,04	1,93	1,99	2,03	1,83	1,59	1,19
	Gross Profit Margin	50,2%	46,9%	46,7%	48,0%	45,7%	46,5%	45,4%	41,8%	37,3%	34,7%

Source: (Best Buy Annual Reports; RadioShack Financial . . .)

Appendix 3. Electronics shopping online and through specialized retailers (in millions USD)

	All Ecommerce Shopping				Electronics Shopping			
Year	Total traditional retail sales	Total Sales Online	Percent of online vs traditional	Online shopping growth	Total sales through specialized retailers	Total sales online	Percent of online sales of electronics	Percent of sales through specialized stores
1999	3 086 990	11 707	0,4%	46,0%	78 977	5 425	6,9%	93,1%
2000	3 287 537	21 663	0,7%	18,7%	82 206	8 286	10,1%	89,9%
2001	3 378 906	26 654	0,8%	23,1%	80 240	8 420	10,5%	89,5%
2002	3 459 077	34 665	1,0%	19,5%	83 740	10 022	12,0%	88,0%
2003	3 612 704	43 044	1,2%	20,7%	86 689	11 881	13,7%	86,3%
2004	3 847 125	54 265	1,4%	40,4%	94 416	14 536	15,4%	84,6%
2005	4 086 625	91 080	2,2%	-3,1%	101 340	19 358	19,1%	80,9%
2006	4 296 871	88 347	2,1%	18,1%	107 989	22 574	20,9%	79,1%
2007	4 443 807	107 876	2,4%	7,5%	110 673	26 694	24,1%	75,9%
2008	4 402 508	116 609	2,6%	4,9%	108 663	28 512	26,2%	73,8%
2009	4 082 092	122 680	3,0%	14,2%	98 030	30 444	31,1%	68,9%
2010	4 307 947	143 054	3,3%	15,0%	99 128	34 509	34,8%	65,2%
2011	4 627 809	168 224	3,6%	12,7%	100 792	39 273	39,0%	61,0%
2012	4 869 032	192 619	4,0%	0,0%	102 998	40 774	39,6%	60,4%

Source: (Monthly and Annual Retail Trade)