

E-Commerce is more than a Dot Com Address

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1. Introduction

New technology is having a profound effect on our lives. It is already affecting the way many of us work, how we learn, how many people spend their leisure time, and how we shop. In this paper I intend briefly to consider the impact e-commerce might have on existing behaviour and the implications for prevailing planning policies—and specifically those contained in PPG 6 which seek to enhance the vitality and viability of existing centres and those in PPG 13 which seek to reduce congestion and dependence on the private car.

2. Overview of e-commerce

The pace of technological change is startling. For example, the worldwide web was invented in 1989. In the early nineties it is thought that less than 5,000 people had even heard of the Internet. Yet it took just five years for the number of worldwide users to grow from 3–4 million to over 300 million. Business transacted through commercial “.com” domain names has gone from virtually nothing to over \$30 billion in five years. No other medium of business has ever been so successful or enjoyed such phenomenal growth from a standing start.

Consumer e-commerce can be based on a series of platforms—embracing a variety of both existing and emerging technologies—including the Internet (via PCs, PDA or web-enabled TV), or other technologies such as interactive digital TV. At the present time the Internet dominates the consumer e-commerce market, although other platforms—particularly digital TV—are being hailed as the technologies which are likely to pave the way for more widespread online activity.

According to DTI figures¹ the number of people in the U.K. who are currently online (*i.e.* have used the Internet at least once) has risen from 960,000 in 1997 to 4.3 million in March 1998, and to 10.6 million in December 1998—from just 2 per cent to 18 per cent of the population. According to Continental Research 7.7 million *homes* now have Internet access and a third of the population has access to the Internet—either at home, at work or at school and/or college.

At present Internet take-up rates are comparable with those witnessed in the U.S. two years ago: many commentators suggest that e-commerce in the U.K. will follow that in the U.S.—or may even outstrip them because the geographical size of the U.K. means next day (or even “immediate”) delivery is possible. On the other hand, more sceptical observers suggest that, like catalogue retailing and mail order, e-commerce will not enjoy the same success in the U.K. as it already appears to have achieved in the U.S.

Who is currently “on-line”? And who is shopping on “the Net”? Geographically, almost 50 per cent of people in the south-east now have access to a PC—compared with less than 35 per cent in Lancashire, the Midlands and in Northern Ireland. Nearly a quarter of Londoners are online at home, compared with just 13–17 per cent in northern England. KPMG estimate that 25 per cent of Internet users currently buy online. Half of these users expect to increase spending, and over 85 per cent would “consider” shopping online. Evidence also suggests that familiarity with technology increases people's

¹ See “Clicks & Mortar: The New Store Formats”, DTI Retail e-commerce Task Force 2000.

propensity to shop “online”. For example, a survey by “Which? Online” revealed that around 25 per cent of Internet users who have been on the Net for less than one year actually shop online, but this increases to 58 per cent amongst those users who have been on the Net for more than two years.

At present online shopping tends to appeal to those for whom time is at a premium (*i.e.* high earning professionals working long, possibly unsociable hours, who are already online and value their leisure time). On the other hand, concerns are already being expressed about the potential social divisiveness of new technologies—particularly for the elderly or “socially excluded”. Research is already underway to investigate how older people can take full advantage of these advances in technology.

Projections concerning the likely growth of e-commerce vary enormously. The Government’s own projections suggest that the market for e-commerce will grow substantially and will probably be worth around £2.5 billion by 2003 (but possibly as high as £7 billion).

It should be stressed, however, that e-commerce may therefore only represent a small proportion of all businesses—even in 10 years’ time. However, its impact on the property market is expected to be significant. According to Verdict Research less than 7 per cent of online sales will be incremental—most will be diverted from physical shops. Given net margins across the industry average just 5 per cent, the prospect of losing 3 per cent in sales volumes will have a significant impact on the profitability of many existing store-based retailers. Existing retailers are now seeking to use the strength of their existing brand, together with their physical—“bricks and mortar”—assets as part of their e-commerce strategies.

It is worth considering briefly how the development of e-commerce is likely to affect different retail sectors:

- **Banks/Financial Services**

Whilst all the major clearing banks now have an Internet strategy this has been relatively slow in coming. However, we are now beginning to witness the physical impact of over-capacity in the industry and the impact online financial services are having on banks’ ability to support the existing retail banking structure. According to Deloitte Consulting the number of bank branches in the U.K. is expected to fall from around 14,000 in 1985 to around 5,900 by 2005. In announcing its intention to close 200 branches earlier this year Barclays (which has the greatest number of Internet accounts amongst the U.K. clearing banks) revealed that it already had 450,000 online customers in the U.K. and believed that this would increase to around 1 million customers by the end of the year. The company also predicted that around 10 million people will be banking on the Internet by the end of this year.

- **Travel**

The travel industry is under acute pressure from e-commerce. The diversion of business to new online competitors has already been significant. For example:

- Selling and marketing is one of the travel industry’s biggest overheads (at BA it accounts for 18 per cent of the company’s total overheads). In an effort to reduce this BA (like many other U.S. airlines such as American) has already announced that it aims to sell 50 per cent of its tickets over the Internet by 2001 and will stop paying commission to travel agents.
- E-Bookers.com recorded a doubling of sales last year and is now taking over 200,000 bookings per week. In January 2000 it handled 10,000 passengers compared with 1,400 at the same time the previous year.
- Ryan Air launched its on-line booking service in January 2000; within four weeks

Ryanair.com was generating nearly a quarter of all ticket sales (at around 35,000 bookings per week).

These sorts of developments are likely to place further pressures on the profitability of a significant number of high street travel agents throughout the U.K. Industry experts are already suggesting that Lunn Poly and Thomas Cook could be forced to close up to a third of their shops over the next 10 years as the travel industry adapts to the cost advantages offered by on-line services and seeks to add value through physical outlets in different ways.

- **Books, videos/CDs**

Despite the well-publicised growth of companies such as Amazon.com, at present just 1.5 per cent of all books, music, video and software sales are undertaken via the Internet. However, it is predicted that by 2004 around 20 per cent of all such sales will be online. HMV Media (owner of Waterstones) has already warned that such growth could hasten the closure of hundreds of existing bookshops. Some have already conceded that the rapid growth in bookstores in recent years may have been a mistake in the light of online book selling.

- **Food retailing**

The operations associated with the ordering, fulfilment and delivery of food are obviously more complex than many other items. Nevertheless grocery retailing offers one of the biggest areas of potential for e-commerce—despite the fact that food safety legislation and the onus on grocery retailers to ensure satisfactory delivery of perishable products presents particular problems about delivery.

Tesco Direct has undoubtedly grabbed the headlines; the company currently has over 200,000 customers on-line in the U.K. and continues to champion the system of order fulfilment from stores rather than dedicated warehouses. Tesco has already announced plans to roll-out Tesco Direct to 300 of its 600 stores by the end of this year.

Rather than fulfil orders exclusively through existing stores, Sainsbury's has opted for the development of a dedicated home shopping warehouse—or "Picking Centre"; this opened in June at Park Royal in west London. It is planned that this facility will complement the company's existing store-based fulfilment operations at nine London stores and offer comprehensive cover within the M25. Through a combination of picking centres and expansion of in-store picking throughout the country, Sainsbury's plan to offer coverage to 60 per cent of the population by the end of the year.

Tesco is already claiming that its Tesco Direct Service is generating new sales from competitors and is proving profitable—to the extent that it has announced plans to launch the Internet business (Tesco.com) as a separate company. Furthermore, Tesco has indicated its intention to expand the range of goods offered beyond food and sell both brown and white goods online as well as computers and travel tickets.

3. Implications for planning policies

The present Government is clearly committed to the development of e-commerce² in the U.K. However, this may well have consequences which might run counter to existing planning policies for retail development and the protection/enhancement of existing centres, on the reduction of congestion and social exclusion.

² See "Our Competitive Future: Building a Knowledge-Driven Economy", DTI 1998.

(a) *PPG 6 and the vitality and viability of existing centres*

The revision of PPG 6, and rigorous application of the “sequential approach” towards new development has undoubtedly influenced the development activities of many retailers and shopping centre developers.

However, the growth of e-commerce—combined with possible attempts to limit access to centres by the private car—has the potential to divert trade/expenditure from existing centres to an extent which might undermine these policies. In turn, this may influence the willingness of many retailers or developers to invest in such centres. Realistically, such developments are unlikely materially to affect major established regional or sub-regional shopping centres, which are likely to continue to be able to offer a wide range of attractions to customers. However, e-commerce is likely to exacerbate the problems being experienced by “middle order” towns and shopping centres which are already finding it difficult to offer the diversity of attractions and product choice which most consumers now expect.

(b) *PPG 13: Transport and reducing the need to travel*

The Integrated Transport White Paper places considerable emphasis on the role “easy and affordable” home delivery services could make in reducing dependency on the private car for shopping purposes.³ However, there is little substantive evidence to support this assertion, and more recent reports have begun to recognise the possible negative transport implications of a widespread growth in e-commerce.⁴

Certainly initial experience amongst food retailers suggests that at present shopping online for groceries does not necessarily eliminate the trip to the supermarket. Tesco have reported that Tesco Direct is being used as an additional service by existing customers, who continue to visit their local store for top-up or discretionary purchases.

Furthermore, it is also clear that, having paid for the service, “online” customers want the goods to be delivered at a time convenient to them. As a result, there tends to be an emphasis on deliveries outside normal working hours, when people are at home to receive/check the delivery. There is heavy demand for deliveries to be made late afternoon/early evening—at times which may coincide with peak periods of congestion on the highway network.

It must also be recognised that increased home delivery will lead to potentially greater use of residential streets by delivery vehicles during the evenings, at night or at weekends—with consequential impact on residential amenity.

Finally, there is anecdotal evidence to suggest that having had the “chore” of the weekly food shopping trip replaced by home delivery, the time “created” for the customer is then used for leisure purposes which, itself, involves use of the car (*i.e.* any mileage “saving” is undermined by a replacement journey for another activity).

4. Some issues in the longer term

To date the facilities which support e-commerce are simply seen as warehouses. However, if the growth of e-commerce began to pose such a threat to established centres, or exacerbate transport problems in urban areas, could there be an argument that they should be subject to the same policy tests as “traditional” retail development?

³ “A New Deal for Transport: Better for Everyone: The Government’s White Paper on the Future of Transport”.

⁴ See “@ Your Service: Future Models of Retail Logistics”, Retail Logistics Task Force, *Foresight*, June 2000.

In the longer term, e-commerce may affect how, when and where online customers choose to shop. This could, in time, have a major influence on the format of existing stores and shopping centres and the location of new retail development. For example, if customers increasingly use e-commerce/home delivery to purchase the bulky elements of their main grocery shop, supermarket operators may well seek to reconfigure existing supermarkets—placing a stronger emphasis on fresh foods and speciality food shopping, offer wider ranges of general, non-food, merchandise, and/or develop the locations as local distribution outlets for a wide range of other goods and services ordered via the Internet or through other technologies. Would existing planning necessarily encourage/facilitate this? If they did, this could lead to the enhancement of many local neighbourhood shopping areas—consistent with the aims of prevailing retail planning policies.

5. Conclusions

This short paper has sought to highlight some of the recent trends in e-commerce and consider the possible implications its growth may have for existing planning and transport policies. It has sought to illustrate that whilst there is enthusiasm for the expansion of e-commerce, there are potential implications which appear to run counter to certain aspects of prevailing Government policy. The planning process—whether through the formulation of development plans or in the determination of individual planning applications for development—may well be the forum within which many of these tensions will be explored. Interesting times may lie ahead