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## **On-line store as a distribution channel of food – the advantages and threats**

### **Abstract**

In the article advantages, disadvantages and threats of internet distribution channel in food sector were analysed. The benefits were divided into real and ambiguous factors in the context of multichannel cannibalism. The key issues regarding logistics management of additional on-line channel were described. Then threats and disadvantages of selling food on-line were presented. The last part of the article contains classification of Polish sector of food online stores.

### **Introduction**

Electronic commerce became present in the Polish economy with the growing number of Internet buyers. The rapid development of e-commerce in recent years with the growing demands of consumers, enforces creation of a new trends and market behaviour [Majchrzak-Lepczyk et al., 2016]]. Nevertheless food online stores still remain the minority of food market. People who shop online encourages entrepreneurs to find new solutions for the distribution of food. This involves, however, significant changes in logistics management.

The Internet can be added as an additional distribution channel on every stage of the supply chain. If the e-commerce channel is used by the manufacturer or wholesaler to sell goods to the final customer, it is the disintermediation [Delfmann, 2002]. If the Internet is used by retailer as an additional distribution channel, the length of the channel remains unchanged and such a situation is mainly taken into consideration in this article.

The paper presents the advantages and disadvantages of the use of the Internet as an additional food distribution channel. While a significant part of the discussion concerns retailing sector it may also relate to distributors and manufacturers. The aim of this article is

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to analyze mutual influence of traditional and online distribution channels. The structure of the article is as follows: the first main part presents advantages ambiguous benefits and disadvantages of using the Internet as an additional distribution channel. The next section of the article presents classification of the market of Polish online stores selling food. The final section of the article contains conclusions.

## **1. Traditional and online distribution channels**

Considering the order of distribution channel creation we can distinguish two types of click and mortar companies [Chodak, 2010]:

- the shops that began selling in the traditional form, and then expanded the sale of a new online distribution channel;
- the shops that began selling via Internet, and then opened traditional distribution channel.

The subsequent analysis will take mainly into account the first group because it is much more common form among online food stores.

It is also important to indicate these features which make traditional and online distribution channels to support with each other but not interfere. In literature the concept of the inter-channel cannibalism arises in the context of the Internet channel [Deleersnyder, 2002]. This indicates that this channel should not be regarded only as a source of benefits, but the problems and threats should be also taken into consideration.

In literature there are many various classifications of the advantages and disadvantages of using the Internet as an additional distribution channel. For example, Geyskens et al. [2002] divide the advantages and disadvantages of features concerning the demand side and the supply side. Authors mentioned as advantages on the demand side: increase of demand, which can be achieved by broadening the market and reaching new groups of consumers, taking customers away from competitors and increase sales volume to the current consumers by strengthening relationships with them. The benefits concerning the supply side are divided into cost reduction of distribution and decreasing of transaction costs [Geyskens et al. 2002].

The advantages of internet channel can be also divided into real benefits (which usually can be considered as advantages) and ambiguous (in some cases apparent) benefits [Chodak, 2010].

## **2. Real benefits of on-line distribution channel**

The important advantage of using the Internet as an additional distribution channel seems to be the ability to reach a wider group of customers. In Internet, there are no geographical barriers, so there is a possibility of acquiring customers, who would not be able to reach the brick and mortar store (e.g. customers from small towns and rural areas) [Adelaar et al., 2004]. However this feature which in many sectors seems to be real benefit, in food sector is not as unequivocal. If the deliveries of orders are carried out by own car fleet of the store (as it is in case of most hypermarkets and supermarkets with online channel), the geographical area of potential clients is limited by the cost of delivery. Nevertheless if the delivery is possible by standard post or courier company, the possibility of acquiring new customers from all over the world is one of the biggest benefit of on-line distribution channel.

It is also worth to mention the reduction of marketing costs in case that both distribution channels inform customers about each other [Steinfeld et al., 2002]. It is, however, ambiguous phenomenon of synergy marketing. The basic question is whether the client, who in brick and mortar store finds information about the possibility of making purchases in the Internet channel, will buy in the long run, more goods in this shop, or just will turn from one distribution channel to another. If the shop offer additional possibility of shopping in online channel it is the advantage to customer, which gives him more choice. From this point of view it is the improvement of quality of service and in this context it can be argued that an additional distribution channel is really beneficial for the company, since the total sale is always a function of customer satisfaction.

The ability to quick search of products is one of the main advantages of electronic commerce. A well-designed search engine allows to seek through the long tail of products. Brynjolfsson et al. [2011] claim that the Internet channel exhibits a significantly less concentrated sales distribution when compared with traditional channels. The recommendation system in online store facilitates buying process of food [Gaikwad et al., 2017], [Ricci et al., 2011]. Customers of traditional store, aware that this shop is also available in Internet, may choose online store because of the simpler and faster searching of goods. The additional online channel may cause the increase of sale of niche products like for example special kinds of cheeses or tea for the connoisseur.

The ability of using social media in online store is very important benefit in food distribution. Traditional stores can not offer customers the ability to read and write product reviews. Such facilities give only online distribution channel. Traditional shop may refer to the reviews and customer feedback contained in the online store or Facebook fanpage. The

fanpage posts may refer to the brick and mortar store or online store. Social community connected with some ideas such as healthy food or vegetarian food enables exchange of opinions about products or recipes. The social media are very popular in advertising the eco food and all kinds of diets. The “viral effect”, when customers share information about special kind of food on their Facebook fanpages can increase the turnover of on-line food store very rapidly. The food blogs also are the good marketing tool for food on-line sellers.

The existence of a traditional distribution channel increases the trust to the online channel. This is particularly important for stores that do not yet have a recognizable brand. Customers of the online store, seeing that this shop has also physically existing store, are concerned that they are dealing with a virtual reseller who can not quickly disappear from the network [Chodak, 2010].

### **3. Ambiguous advantages of on-line distribution channel**

It is worth to analyze the apparent savings associated with launching an online store as an additional distribution channel. It seems that having inventory items on-stock in a traditional shop, the retailer is able to deliver on-line orders and does not have to incur additional logistics costs. This is an illusion that can be a source of trouble for a traditional shop that does not have the knowledge and experience of selling on-line and wants to find a new effective distribution channel at minimal cost.

Another advantage of internet channel in many sectors are lower labour costs as the consumer does himself the part of the shopping process - client finds, compares the goods, take the information about the goods in electronic form, then put products into e-shopping basket and completes the checkout process with the electronic payment. In self-service markets which sell food this advantage is ambiguous because pick and pack process (which is carried out by customer in brick and mortar store) takes human resources in internet channel.

The Internet is commonly associated with lower sales costs. Without the need to have an exhibition space in an expensive area (e.g. the centre of the city), online sales are cheaper than traditional trade. However, in the case of an additional distribution channel, this advantage does not seem to be important since the retailer is already bearing the aforementioned costs. Therefore the real advantage would be only if the traditional distribution channel infrastructure allows to run online sales without incurring additional costs. Unfortunately, the internet channel requires an order fulfilment process which, like any other form of sale, engages the company's resources. If shop assistants from traditional distribution channel can

do the packaging process of goods ordered by customers, it can be considered as a synergy effect. However if employees are able to carry out extra work during their working hours, this means that they had not enough workload before.

Likewise, the apparent savings can be seen in the context of the use of a portion of store rooms or warehouses area to an online customer service. It should be noted that these surfaces will not be used for traditional sales, so it is just a transfer of the resources used by one distribution channel to another channel, which can be named the inter-channel cannibalisation [Chodak, 2010].

It is also worth mentioning the possibility of personal receipt of goods ordered in the online store in its traditional counterpart. This is a clear benefit for the customer, who does not have to bear the cost of shipping the goods ordered in the online store. This leads to customer service improvement, however, increases the cost of the store, which faces a new logistical challenges. The problem is more complicated when we consider the frozen food which can not wait in standard packages until customer take them home and need special temperature and humidity. The order issuing process is even more complex when the order contains goods with different holding temperatures (e.g. meat and vegetables) and a shop assistant has to complement the order just when customer come to take it.

It should be noted, however, that if there are unused resources in the traditional distribution channel, the on-line channel may be a good way to take advantage of them. This situation can be met when there are free warehouse space. Likewise, employees who, due to irregular sales at certain times of the day, have no work to do, may be directed to on-line channel. However, if the resources are fully utilized, redirecting their portions to web sales can have the effect of inter-channel cannibalism.

Likewise, if marketing efforts will only result that customer will change one channel to another while maintaining the same level of turnover, this is demand inter-channel cannibalism [Chodak, 2010]. Kollmann et al. [2012] claim that higher degree of customers' convenience orientation in contrast to the degree of risk aversion and service orientation encourages the selection of the online channel over the traditional channel. If the customer desire for service, rather than risk aversion, could potentially cannibalize customers away from the online channel [Kollmann et al. 2012]. Considering the inter-channel demand cannibalization the additional on-line channel has a positive impact on the company profits only if it is less costly.

#### **4. Disadvantages of additional on-line channel**

The first important problem of on-line channel is the packaging and shipping process. In traditional retailing, the ordering process is usually carried out either by the shop assistant providing to the customer the ordered goods or by the customer in the self-service store. An on-line order requires packing and delivering of the goods or providing to the customer's possibility to personally take the order. The process of fulfilling on-line orders requires appropriate organizational solutions [Chodak, 2010]. The traditional retail food store has two types of inventory: in the store warehouse (usually just near exhibition area) and on the exhibition area. Where all the assortment items are available in warehouse, the packing process of on-line order is simple and can be carried out by an employee without disrupting the sales process in traditional channel. However, the availability of all assortment items in a warehouse proves that the food store has high inventory level, which entails significant storage costs (including frozen capital costs). It happens often that the entire stock of some food inventory items is located on the exhibition area (especially in case of last inventory items). This can cause significant disruptions in the sales process, as well as inter-channel conflicts caused by, for example, the situation where the shop assistant who collects the ordered vegetables in on-line store takes the last item which customer in traditional shop just wanted to buy.

The problem of selling food online is connected with the transport. Many kinds of food (like frozen meat, ice-cream, vegetables, dairy) need to be transported in special temperature and humidity. Standard delivery services provided by post or courier companies does not offer services suitable for food. Therefore many food products can be delivered only by own fleet, what is much more expensive way of transport considering deliveries for long distance.

The problem of returns is also significant. Usually on-line sales are regulated by the law and allows the customer to return the ordered goods without giving a reason (in Poland within 14 days after order is placed). Returns in the case of on-line sales may be considerably higher not only due to the law which enables it, but also due to lack of physical contact between the customer and the goods. In case of hypermarkets delivering food by own fleet, usually customer can return part of order if the quality of food is not satisfying (e.g. vegetables or fruits are not fresh enough, eggs are broken etc.). Managing returns from on-line store requires extra work and storage space. Returns of food products usually cause losses associated with a damaged goods during packing and transport process.

It is also important the problem of price unification or differentiation [Wolk & Ebling, 2010]. Theoretically the prices in the internet channel should be lower due to the shipping

costs which are usually added to shopping cart value, and because of higher price elasticity of demand in internet channel as customers can easily compare prices in different e-shops. This raises the customers dissatisfaction of traditional channel who, seeing lower prices online, can take it as price discrimination (and it is really price discrimination). Differentiation of prices may require the use of two virtual warehouses.

It is also worth to mention the problem of adjusting information system to additional online distribution channel. This involves costs and can cause software and hardware problems if the existing IT system is not flexible enough.

## 5. Polish food online stores

Polish sector of food online stores is growing during last few years. According to Sklepy24.pl catalogue there are almost 350 online stores which sell food [[www.sklepy24.pl](http://www.sklepy24.pl)].

The online shops selling food can be classified in the following. The examples from Polish market are placed in the brackets:

### 1. specialty e-stores:

- Organic food, ecological food e-stores ([biosklep.com.pl](http://biosklep.com.pl), [ekologicznysklepik.pl](http://ekologicznysklepik.pl), [freshandeco.com.pl](http://freshandeco.com.pl))
- E-stores with one kind of food:
  - Coffee, tea ([herbaciany24.pl](http://herbaciany24.pl), [tommycafe.pl](http://tommycafe.pl), [cafeamor.pl](http://cafeamor.pl))
  - Spices ([przyprawowo.pl](http://przyprawowo.pl), [przyprawy24.pl](http://przyprawy24.pl))
  - Meat ([wedlinek.pl](http://wedlinek.pl))
  - Beverages, Alcoholic beverages ([vinoteka13.pl](http://vinoteka13.pl))
  - Sweets ([pyszne-krowki.pl](http://pyszne-krowki.pl), [sklep.manufakturaczokolady.pl](http://sklep.manufakturaczokolady.pl))
- Food from local producers ([lokalneprzysmaki.pl](http://lokalneprzysmaki.pl))
- Regional food from different parts of the world ([pomodolio.pl](http://pomodolio.pl), [smakiturcji.pl](http://smakiturcji.pl))
- Shops with a specific diet ([vegekoszyk.pl](http://vegekoszyk.pl), [www.vegabutik.pl](http://www.vegabutik.pl), [bezgluten.pl/sklep](http://bezgluten.pl/sklep), [diabetyk24.pl](http://diabetyk24.pl))

### 2. E-stores of hypermarkets and supermarkets ([ezakupy.tesco.pl](http://ezakupy.tesco.pl), [e-piotripawel.pl](http://e-piotripawel.pl), [leclerc24.pl](http://leclerc24.pl))

### 3. General e-stores selling food ([internetowysupermarket.pl](http://internetowysupermarket.pl))



The variety of online food stores means for consumers a wide and deep offer. Especially interesting are niche stores offering products of local producers or selling only one kind of food (e.g. only sweets or many different chips to beer).

E-shops can be also classified in another way. Some of them called click and mortar are additional distribution channel of brick and mortar shops (or traditional channel is additional to the on-line one). There are also e-shops which exists only in on-line environment and these are called pure play businesses.

Another classification can divide online stores selling food into:

4. e-shops which operate only locally;
5. e-shops which operate on Polish market;
6. e-shops which operate globally.

The first kind rarely exist in e-commerce in other sectors, but food is special sector, therefore some e-shops offer delivery only in small area. The reason is that for these local e-shops, food is delivered by own car fleet of a company, not external courier or post service. All hypermarkets e-shops (such as [www.leclerc24.pl](http://www.leclerc24.pl), [ezakupy.tesco.pl](http://ezakupy.tesco.pl)) offer delivery of order only in small area near the hypermarket. These e-shops enable to check by post code if the delivery is available for given localization.

It should be also mentioned that despite the on-line market growth, some companies are out of the market and on-line stores are closed, both among large entities (e.g. [alma24.pl](http://alma24.pl)) as well as small and medium enterprises (e.g. [ogrodysmaku.pl](http://ogrodysmaku.pl)). This is a normal phenomenon in the free market, but it also demonstrates that just selling online does not guarantee success yet.

## **Conclusions**

Businesses expanding the distribution of additional online channel should be aware of the benefits and risks caused by the combination of channels. As it was mentioned, there are a number of ambiguous advantages of additional online distribution channel, as well as some of them may turn out to be illusory benefits. Presented lists of advantages and disadvantages should not be regarded as complete, but the most important issues have been mentioned. Summarizing the above considerations it can be stated that before opening an additional online distribution channel, the company should examine deeply whether and how to integrate this channel with the existing one. Leimstoll and Wölfle [2017] claim that introducing cross-channel commerce many experts see a need for organizational adjustments, but only a few

companies have already implemented such transformations. Managers should consider how channels can support marketing and pricing strategies they use - whether unify or reduce prices in the online channel.

The company should also consider the possibility of use resources in the new channel, keeping in mind the possibility of the inter-cannibalism phenomenon. Considering to open online channel there is also very important to take into account characteristics of food distribution such as short expiry dates, specific conditions of transport, seasonality of supply etc. The success of the Internet channel as well as the traditional one is the result of many different factors.

### **Abstract (in Polish)**

W artykule przedstawiono analizę korzyści i zagrożeń dotyczących internetowego kanału sprzedaży żywności. Korzyści podzielono na jednoznaczne i pozorne. Scharakteryzowano również problem kanibalizmu międzykanałowego. Omówiono istotne z punktu widzenia zarządzania logistycznego problemy związane z dodatkowym kanałem internetowym. Następnie przedstawiono zagrożenia i problemy dotyczące sprzedaży żywności on-line. Ostatnią część artykułu stanowi autorska klasyfikacja polskich sklepów internetowych z żywnością.

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