LUND UNIVERSITY
School of Economics and Management

Department of Business Administration
FEKN90, Business Administration
Examensarbete på Civilekonomprogrammet
Spring 2014

From Know-Nothings to Know-It-Alls

How today's well-informed consumers affect small physical retailers

Authors:

Pernilla Svensson

Susanna Thomasson

Supervisor

Christine Blomquist

ABSTRACT

Title:	From know-nothings to know-it-alls – How today's well-informed consumers affect small physical retailers
Seminar date:	22nd of May 2014
Course:	FEKN90, Examensarbete på Civilekonomprogrammet
Authors:	Pernilla Svensson & Susanna Thomasson
Supervisor:	Christine Blomquist
Five key words:	Retail, Consumer Behavior, Transaction Costs, Information, Beauty Industry
Purpose:	The purpose of this essay is to investigate if small physical retailers within the beauty industry encounter any problems due to consumers' increased access to information through the use of the Internet.
Methodology:	The essay is based on a qualitative investigation based on semi-structured interviews.
Theoretical framework:	The theoretical framework is centered around four theoretical fields; Porter's Five Forces, Transaction Cost Economics, Switching Cost Theory and the Consumer Buying Process. Combined, these theories create an analytical framework.
Empirical foundation:	The empirical study is based on seven semi-structured interviews; six with small physical retailers, and one with a representative of an industrial organization.
Conclusions:	The conclusion from this study is that small physical retailers face three main problems due to consumers' increased access to information. In addition, a new model of the consumer buying process was presented to explain how the consumer behavior has changed through greater access to information.

ACKNOWLEDGEMENTS

We would like to start off by thanking our advisor, Christine Blomquist, for valuable input throughout this process, as well as encouragement when times seemed rough. We would also like to express our gratitude towards our interviewees, who welcomed us with great enthusiasm and openly told us about any problems their businesses might be facing. In addition, a thank you to Bengt Hedlund for shining a light on the situation for small physical retailers in today's retail industry.

Lund, 16th of May 2014

Pernilla Svensson Susanna Thomasson

WORD DEFINITIONS

Beauty products	Skincare, make up, perfume, hygiene products
Buying process	A process consisting of specific steps that a consumer has to go through when making a purchase
Free riding	When consumers, through the use of more than one channel for a single purchase, obtain the services from one retailer and place their business with another
Small, physical retailer	A privately owned retail store that has no more than five employees, could not be seen as being part of a retail chain and only has a few physical outlets
Switching costs	One-time economic and psychological costs, which are perceived, anticipated or experienced by a buyer when switching from one supplier's product to another's, that might prohibit him or her from making the switch
TCE	Abbreviation of "Transaction Cost Economics"
Transaction costs	Activities related to a transaction that cause additional costs for the consumer

TABLE OF CONTENTS

1. INTRODUCTION

In the following chapter we discuss the background to the market situation for small physical retailers today. How this situation could lead to problems for physical retailers is then discussed, which results in a research purpose of this essay as well as a research question.

1.1 Background

Over the past couple of years, the physical retail industry seem to have been exposed to a number of competition-changing elements, causing many of today's retailers to struggle for survival. This industry change is affecting the Swedish market with empty shop premises growing every month in many city-centers (Lööf, 2013; Stenkvist, 2013; Jacobsson, 2014) and even some of the large shopping centers are having major problems attracting customers (Pedersen, 2013). The number of bankruptcies in the retail sector in Sweden increased with 2 % in 2013, which means that 1,5 % of the country's retailers were affected – a number that makes the retail industry the industry with the highest frequency of bankruptcy in Sweden (Karlsson, 2014). Larger retail chains seem to have the ability to survive this change since they are maintaining their presence, however smaller privately owned shops are continuously diminishing in numbers. The market is therefore being taken over by retail chains that leave any surviving small retailers struggling to stay afloat (Fürstenberg, 2007).

As the number of physical stores seems to be constantly decreasing, the number of new e-businesses entering the retail market is continuously growing. There is no doubt that the emergence of e-commerce dramatically has changed the rules of the retail industry for companies as well as consumers. For instance, the technological development has created new opportunities for retailers to reach their customers through new sales and marketing channels, such as online stores, smartphone applications and social media (Alba et al., 1997; Neslin et al., 2006). However, using these different channels often requires financial investments that often are difficult for smaller retailers to make. They might therefore not have the same possibilities to reach new customers as bigger retailers do, which may affect their ability to compete.

Additionally, the enormous flow of information that can be accessed through the Internet has empowered today's consumers. Before the existence of online retailers, consumers had to visit multiple physical stores or do their research in catalogues in order to find the right product at the right price. Today, when product reviews and price comparison sites are a few clicks away, consumers easily have access to all the information they need regarding their buying decision via the Internet (Alba et al., 1997). The Internet has also made products much more available to consumers, which means that they are no longer dependent on physical stores to supply them with the products (Porter, 2001). Today's consumers are therefore much more knowledgeable and less dependent on geographical surroundings.

One of the industries that had the highest growth rate in e-commerce during 2013 was beauty products and about 36 % of the European consumers used the Internet to find information about a beauty product before making a purchase in a physical store (Global Cosmetic Industry, 2014). Within the business literature, this behavior is known as "free riding" or "research shopping" and describes a customer who searches one channel (for example a physical store) for information regarding their buying decision, but uses another channel for making the actual purchase (for example an online store) (Chiu, H-C. et al., 2011; Heitz-Spahn, 2013). This indicates that the Internet is an important source of information as well as an important purchasing channel for consumers that are potential buyers of beauty products.

We believe that the increased use of the Internet for finding information and performing purchases could be one of the reasons behind so many physical retailers going bankrupt in Sweden. With the increased access to the Internet and multiple price comparing sites, today's consumers are becoming more price sensitive (PWC, 2012), which might reduce the importance of service. Since providing great service and advice seem to be one of the main selling strategies physical retailers use, they are investing money and effort in something they will not get any return from, unless they manage to retain their customers. Consumers' increased price sensitivity due to more information through the Internet might therefore have negative consequences on physical retailers' profitability.

1.2 Problem Identification

The observed situation on the Swedish physical retailing market of many smaller actors going bankrupt, while the amount of e-businesses continues to increase every day, could reflect a change in the industry. Something is happening that causes privately owned retailers to lose business and shut down their stores, while the large retail chains still stand strong. We believe that the reason for this may be that the steady emergence of the Internet might have initiated some changes in the retail industry that are causing problems for small physical retailers to attract and retain customers. One reason might be consumers' increased price sensitivity as a result of increased access to information through the Internet, but there might be something else contributing to the decreasing number of physical retailers.

The increased use of the Internet has made it easier and less time consuming for consumers to find information that is relevant for their buying decisions (Alba et al., 1997). This increased access to information has therefore changed the consumers' behavior since it makes the consumer buying process more flexible, which lowers their switching costs (Chiu et al, 2011). This means that it is easier for them to change channels during the buying process, from physical retail stores to online stores or vice versa. Lowered customer switching costs makes it more difficult for physical retailers to retain customers in-store and make sure they actually perform the purchase there, since it is so easy for the customers to receive the information and knowledge the sales people are offering and then leave the store without the product, only to buy it somewhere else. We therefore wonder if the increased access to information through the Internet has changed the consumers' behavior in a way that somehow affects small physical retailers. For instance, access to more information makes consumers less dependent on the information provided by salespeople, which in turn could lead to a decreased value of that service for customers.

However, research has shown that it is more difficult for consumers to search for and compare products that need to be “touched, felt and smelled”, because with those types of products, you do not really know if you like them until you have tried them. Many authors refer to these types of products as “experience goods” (Nelson, 1970; Koch & Cebula, 2002; Weathers et al., 2007). Beauty and cosmetic products fit well into this category since you do not know if you like the smell of a perfume or if a foundation matches your skin tone until you have tested the product in real life. As mentioned above, online sales of beauty products had a very high growth rate last year. However, if it is true that these types of products need to be experienced in order to evaluate their quality, how come the online beauty retail industry, where customers have no chance to try the products before making a purchase, is growing so rapidly? We believe it might be due to consumers’ lowered switching costs, as a result of the expansion of the Internet, which has made it possible for them to enter a store and try out these experience products, only to leave the store and order the products from a cheaper channel. Due to the technological advancement introducing new channels to reach a consumer, the consumers are no longer tied to a specific channel for all the different stages of their purchasing process. This causes an unpredictable customer behavior, which, as a consequence, might result in problems for physical retailers if they do not understand this or are flexible enough to adapt to it.

As the online shopping trend has become more comprehensive and competitive, scholars and researchers have also turned their attention to the Internet to a great extent. There has been a lot of research performed regarding e-commerce, its development and how it affects consumers’ buying process (Court et al., 2009; Diehl et al., 2003; Liang & Huang, 1998), so much that it seems to have captured the full attention of retail researchers, while physical retailing is being forgotten. A report published by HUI research (2014) shows that the revenues of Swedish e-commerce have grown rapidly over the past ten years. However, the report also reveals that only

10 % of all purchases made in Sweden (everyday commodities excluded) are made on the Internet. Naturally, this leads us to the fact that 90 % of all purchases in Sweden are still made in physical retail stores, which should validate a stronger focus on physical retailing in research. The research done regarding how physical retailers experience any problems due to the new generation of highly informed consumers is mainly theoretical (Burke 2002; Gupta et al., 2004). It is therefore difficult to find any empirical investigations about which problems the increased competition *actually* creates for physical retailers. In addition, the existing research is strongly focused on larger companies that have very different resources available to increase their competiveness compared to smaller privately owned firms (see for instance Kalyanam & Tsay, 2013). We have therefore identified a lack of empirical research material regarding how smaller retailers are affected by consumers' increased access to information.

This discussion results in the question if physical retailers actually do encounter any problems due to consumers' increased access to information on the Internet, how it affects them as well as how they handle it.

1.2.1 Purpose

The purpose of this essay is to investigate if small physical retailers within the beauty industry encounter any problems due to consumers' increased access to information through the use of the Internet.

1.2.2 Research Question

We hope to contribute to filling the research gap regarding if physical beauty retailers actually face any problems due to more informed consumers. Through this investigation we wish to increase the empirical research available in this area by answering the following question:

"Do physical retailers face any problems due to consumers' increased access to information on the Internet?"

To be able to answer this question, we need to answer a number of sub-questions:

Has the consumers' purchasing behavior changed because of the increased access to information? How?

Has the emergence of e-commerce affected physical stores within the beauty industry? In what way?

If physical beauty stores face any problems due to consumers' increased access to information – what type of problems?

How do they handle these problems?

2. METHODOLOGY

In the following chapter we describe our methodological approach and how it is appropriate for our research purpose. This is followed by discussions about the collection of our theoretical and empirical data as well as our analytical approach. The reliability and validity of the study is then discussed.

2.1 Methodological Approach

The purpose of this essay is to investigate if the large amount of information that consumers today easily can access through the Internet has caused any problems for small physical retailers. When we decided which method to use when approaching the identified problem in this project, we considered the character and perspective of our research question. When we initiated the literature research about the subject of our choice, we quickly noticed that most of the previously performed research we found was mainly theoretical and did not concern small retail stores. The few investigations we found of a more empirical character were mainly focused on very large and global retail organizations. Thus, no empirical or theoretical research at all could be found about what types of problems small, individually owned retail stores face while running their everyday business.

As we had no previous research that we could use in order to formulate an appropriate hypothesis to test, we decided to use an inductive research method. In contrast to the deductive hypothesis testing method, induction typically takes off in the empirical research and generates new generalizable theories and conclusions (Bryman & Bell, 2013), an approach that well corresponds with the character of our research question. However, in order to fully understand the implications of our findings as well as why these phenomenon arise, we have used relevant theoretical frameworks when performing our analysis. These theoretical frameworks are presented and discussed later on in this chapter. Bryman & Bell (2013) mean that theory often is used to support inductive research questions. Inductive and deductive research strategies should therefore be seen as tendencies that are influencing research, rather than distinct concepts.

When designing our research project, we came to the conclusion that we wanted to concentrate our investigation to small and privately owned stores within the beauty industry. As our research concerns if these retailers experience any problems due to consumers' access to information on the Internet, we decided that a qualitative research strategy would be appropriate to use. The qualitative strategy is suitable for analyzing problems that have to do with how individuals perceive their reality (Bryman & Bell, 2013). We did not know in advance if small retailers experienced any problems at all, or what implications any possible problems could have on these stores. Hence, we found the qualitative strategy to be the best matched strategy for our research question. We also wanted to give the interviewees an opportunity to decide themselves what problems they considered to be the most important and how these problems affected their stores. This further justifies our choice to use a qualitative method because quantitative methods are better used when the collected data can be appropriately measured in a numerical way (Björklund & Paulsson, 2003).

2.2 Theoretical Frameworks

As mentioned above, we have chosen to perform our analysis with the help of four theoretical frameworks: Porter's five forces, transaction cost economics, switching cost theory and the consumer buying process. Like Ahrne & Svensson (2011), we believe that these theoretical frameworks can help us analyze and interpret the large amount of information and data collected through our research process. In the very beginning of our investigation, we started off with using switching cost theory and transaction cost theory as our only theoretical frameworks. However, as we went deeper into our literature and empirical research, we quickly realized that we needed to view the found problems and phenomena from more than these two perspectives in order to perform a well-founded analysis. Below follows a discussion about how we selected our theoretical frameworks and how they are relevant for our research. This is followed by a short discussion about how we selected the literature for the project.

2.2.1 Porter's Five Forces

Applying the Porter's five forces framework help us explain, analyze and understand how small retailers are affected by the existing competition, especially between physical stores and online retailers, on the market. This theoretical framework helps us to understand how the results from our empirical investigation fit in to a bigger picture and how these findings are influenced by other factors and phenomenon in the industry. We are aware of the fact that performing an industry analysis, which the five forces model is well suited for, is outside the scope of this essay. However, we found an industrial perspective truly important. This is because we wanted to be able to understand how the competitive environment, in which a small retail store operates today, affects their everyday business.

2.2.2 Transaction Cost Economics

The transaction cost economics framework helps us understand which "costs" today's consumers experience in relation to a transaction and how these costs are affected by consumers' increased access to information on the Internet. Traditionally, the TCE framework has been used to explain how organizations and institutions coordinate transactions between each other. TCE has to some extent been applied to consumer behavior before (Gronhaug & Gilly, 1991; Kahn, 2010). However, we wanted to emphasize the fact that this framework is highly appropriate to use when analyzing how consumers' behavior could change when performing a transaction if their access to information increases.

One problematic aspect of using the TCE is that this framework has been widely discussed, interpreted and criticized by many scholars over the years. This has contributed to a large amount of perspectives on TCE, which makes the full framework very extensive to work with. However, we felt that many elements that are essential in the classical TCE theory, such as information asymmetry and the three dimensions of a transaction, were very relevant for our analysis. Thus, we have concentrated on these aspects of transaction cost economics in our analysis.

2.2.3 Switching Cost Theory

As mentioned above, the TCE framework helps us understand why consumers experience costs in their buying process. Switching costs, however, help explain where these costs originate from and what implications these experienced consumer costs could have for physical retailers. We felt that both the switching cost framework and transaction cost theory alone were inadequate for conducting a complete analysis. Therefore, we decided to use both of them, as they are strongly connected and complement each other. This contributes to increasing the academic relevance of this essay.

2.2.4 The Consumer Buying Process

In order to understand where in the consumers' buying process the experienced transaction and switching costs arise, we found it essential to define what this process looks like. To do this, we decided to use the classical five stage model of the buying process developed by Engel et al. in 1978. Because our research to a great extent focus on how the Internet has made it possible for consumers to switch between different information and purchasing channels, we found the classical five-stage model to be incomplete for our analysis, as it traditionally assumes that the entire buying process will be performed in physical stores. Therefore, we decided to develop our own version of this model. The new model shows that the Internet has added another dimension to the classical purchasing process and that consumers nowadays can switch between channels. This model is displayed and explained further in our theory chapter.

2.2.5 Literary Discussion

After sketching up the objectives and defining a research question for this project, we initiated the literature study. One of the risks we identified with our research question was that the problem identification could be seen and explained from many different perspectives. This in combination with the extensiveness of our theoretical framework resulted in an enormous selection of literature. To learn more about how to sort out the relevant material, we made an appointment with the university librarian. During this meeting, we learned how to search in databases, use the right search words and browse relevant journals, much more effectively than before.

During the literature study, we were aware of the importance to look at the literature in a critical way. The lack of previous research about our research question resulted in a weakness in our literature study. This is because we had to use selected parts from a large variety of chosen articles in order to increase the empirical relevance of our selected theories. A risk with this is that we, as authors, unwillingly could bias the theoretical framework. To reduce this risk, we tried to find more than one source to support key elements as well as study the background of the chosen theories. In addition, we have carefully selected the articles and books from respected journals or publishers.

2.3 Collection of Data

Due to the qualitative nature of our research question, we considered interviews to be the most appropriate way to collect data for our research. Interviewing is the most commonly used research method within qualitative research because it enables the researcher to receive knowledge about social relationships and phenomena (Ahrne & Svensson, 2011). We feel that this description fit our research question well. The interview methodology is discussed further on in this chapter. Our empirical data also includes a few secondary sources. These consist of industrial investigations performed by research organizations, such as PWC and HUI research.

Bryman & Bell (2013) identify four different levels that the research could focus on; individuals, groups, organizations or societies. The unit of analysis for this project can be considered to be groups, because our research question aims to answer the question if small physical retail stores within the beauty industry experience any problems due to well-informed customers. Consequently, by including more than one small retail store in the research, we hope to be able to generate some general conclusions about how this phenomenon has affected these types of stores.

2.3.1 Selection of Retail Stores

To be able to find appropriate stores to investigate, a definition of what we considered to be a "small physical retail store within the beauty industry" was needed. Therefore, we created three criteria that our selected stores had to fulfill in order to be valid for our research: (1) the store had to be privately owned, (2) the entire organization could not have more than five employees in total, and (3) the store's primary source of revenue had to be sales of beauty products. The final samples of retail stores were selected using the convenience sample method (Bryman & Bell, 2013). For us, that implied contacting all the stores that fulfilled our three criteria, but within two limited geographical areas. These geographical areas consisted of the west part of Skåne, reaching from Malmö to Höganäs, and Stockholm, including its suburban areas.

We contacted around 15 retail stores that we considered appropriate for this project. Five of them did not respond and four declined to participate. Our final selection thus consisted of six stores that were interested in participating. In addition to store representatives, we wanted to interview a representative from an industrial organization in order to get an objective view of the industry. Therefore, we performed an interview with the CEO of the co-operative organization "Butikerna" as a complement to the interviews with retailers. Below follows a short presentation of the seven organizations that have contributed to the collection of our primary data.

2.3.1.1 Parfymeri Helene

We interviewed Ann who works at Parfymeri Helene. The store is located in the town center of Lund and was originally founded by Helena in 1960 and has three employees. Ann has worked at Parfymeri Helene for 32 years, which have provided some genuine experience from the business.

2.3.1.2 Jet Parfymeri

We interviewed Ann who is the owner of Jet Parfymeri, a small beauty retail store located in Södervärn in Malmö. The store has one employed salesperson except for Ann herself. When the previous owner decided to sell the business, Ann chose to quit her job at a hospital and buy the store. Today, she has 31 years of full-time experience from the beauty retail business.

2.3.1.3 Västerhaninge Parfymeri & Hälsokost

We interviewed Anna-Maria Fagerström who owns the store that is located in "Västerhaninge Centrum", a small suburban town centre about 30 kilometers south of Stockholm. The store has 1,5 full time employees in addition to the owner herself. Anna-Maria has been working in the beauty and cosmetics business for about 17 years. Before she took over the store, Anna-Maria worked both on the supplier side towards retail stores and in retail stores where she worked with sales and demonstration towards end customers.

2.3.1.4 Eivy Flodins Parfymeri

We interviewed Elsie-Britt Cherdin who is employed at Eivy Flodins Parfymeri, located in the center of Stockholm. Eivy Flodin was one of Europe's first real make-up artists and she founded the perfumery in 1978. Today, Eivy's daughter Carolina is the one who owns and run the store. The store has two employees apart from the owner herself. Elsie-Britt has 40 years of experience from the beauty industry. She has been working with sales towards end customers during her entire career.

2.3.1.5 Gruvtorgets Parfymeri

We interviewed Eva Karlsson who is the owner of Gruvtorgets Parfymeri, located in the city centre of Höganäs. Eva's mother took over the store in 1976. Therefore, Eva has an almost lifelong experience from the beauty and cosmetics industry. She is also a certified make-up artist. Eva worked together with her mother in the store before she fully took over the business in 2007. Today, she has one employee apart from herself.

2.3.1.6 Beauty Box

We had an interview with Sara who is the owner of two Beauty Box stores, which are located in the Malmö region. Sara has a lot of experience in the beauty industry since both of her parents previously owned a perfumery, which is how she got into the business in the first place. The stores have a total of four employees.

2.3.1.7 Butikerna

We interviewed Bengt Hedlund who has been the CEO of the co-operative organization Butikerna since it was founded in 2005. The organization aims to help and support small and middle-sized retailers in Sweden. Bengt has also been the CEO of the Swedish convenience stores' counterpart organization, Svensk Servicehandel, since 2003.

2.3.2 Semi-Structured Interviews

As mentioned above, we found interviewing to be an appropriate way of collecting the data for our research. As Ahrne and Svensson (2011) recommend, we made the decision to wait with performing the interviews until most of the literature research was done. This is because we wanted a comprehensive understanding about the background of our identified problem to be able to identify relevant topics to discuss and questions to ask our interviewees. Due to the inductive nature of our research question, we came to the conclusion that semi-structured interviews would be a good interviewing method. This is because it makes the interview process flexible and gives the interviewer an opportunity to follow up the interviewee's answers with relevant questions (Bryman & Bell, 2013). It was important for us to try to create a situation where the interviewee felt safe and relaxed. Thus, we agree with Holme & Solvang (1996) about the fact that one of the strengths with the qualitative interview is that it feels very much like a normal conversation, which decreases the interviewers' control over the interviewee.

Since the focus of our research is on small and privately owned stores with a maximum of five employees, the owner of the store becomes the natural interviewee since they can provide a comprehensive view over their business. In two of the cases, however, we could not interview the store owners due to unexpected incidents. Instead, we interviewed one salesperson from each of these two stores. We considered this being an advantage rather than a disadvantage since it added another perspective to our empirical material. However, all of our interviewees had very long experience from working within the beauty retail industry, which gave us a perspective of what the situation looked like before the emergence of the Internet compared to now. This provided a comprehensive view of how the problems have developed over the years.

As described earlier, we wanted to give the interviewees an opportunity to decide what implications they had experienced from the consumers' increased access to information on the Internet. Therefore, we prepared an interview template (See Appendix) consisting of four major topics that we discussed with the interviewees. The fact that we had performed our literature study first helped us to make sure that these subjects were tied to and relevant for our research question (Bryman & Bell, 2013). However, we had also prepared a few specific questions related to each subject in case we would get "stuck" during the interview. To make sure that we did not misinterpreted anything the interviewees claimed, we wrote comprehensive summaries of our notes that the interviewees read and approved after the interviews.

2.4 Analysis of Theory and Data

During this project, we found it important to see the selection of appropriate theoretical frameworks as an iterative and dynamic process. Therefore, we used the grounded theory method when processing our collected data throughout the research process (Bryman & Bell, 2013). After identifying our research question, we conducted a comprehensive literature study. This resulted in two different theoretical frameworks: switching cost theory and transaction cost theory, which we found were possibly relevant for our research question. Since we were very aware of the importance to constantly question the relevance of or chosen framework, we went back to our theoretical chapter and evaluated the theories directly after a new finding showed up in our coding process.

The inductive nature of our study made it impossible to know in advance what results we could expect from our interviews. Therefore, this iterative way of working suited our project well since it made it possible to discover important deficiencies in our existing frameworks along the working process. As a result, we ended up adding two more frameworks to our theoretical frame of references during our research process: Porter's five forces and the consumer buying process. The iterative evaluation of our theoretical framework, as a consequence of our empirical findings, helped us structure our findings and create a theoretical framework that was well tailored to cover all the important sections of our final analysis.

2.5 Reliability and Validity

Reliability and validity is mentioned by many authors as measures of the credibility of the research performed (Björklund & Paulsson, 2003; Bryman & Bell, 2013). Below follows a discussion about some elements in our research that should be addressed from these perspectives.

Firstly, the number of stores included in our investigation is not particularly large. This could question the reliability of our study. However, we believe that the fact that we included two large geographical areas (Stockholm and Malmö) as well as one small town (Höganäs) and an interview with an objective industrial organization helps increase the reliability of our empirical findings. In addition, Ahrne & Svensson (2011) claim that six to eight interviews could be enough to get a material that is relatively independent of the interviewee's personal opinions. Our interviewees also, completely independent of each other, gave very similar answers to our questions. This further contributes to strengthen the reliability and replicability of our research.

Secondly, there is always a risk to unwillingly influence the interviewees' answers during interviews. This is called "the interviewer effect" (Davis et al., 2009), and refers to the eventuality that the interviewer's characteristics, such as gender, age or personality, can create biases in the interviewees answers. These biases could possibly lower the validity of the research. In order to prevent this and increase our own awareness about the problem, we discussed the problem thoroughly when preparing our interviews. We also tried to ask open and non-biased questions where the interviewee was given control to decide what he or she considered important. According to Björklund & Paulsson (2003), this is a good way to increase the validity of the study.

Finally, it is important to discuss whether the results of our research could obtain an external reliability and external validity. External reliability can be difficult to achieve in qualitative research due to the fact that social environments tend to change (Bryman & Bell, 2013). However, despite the difference in geographical location of our stores, they gave us very similar answers to our questions. In addition, the interviewees did read and approve the written summaries of their interviews. This helps to strengthen the external reliability and validity of this study.

3. THEORETICAL FRAMEWORK

In this chapter we present our theoretical framework consisting of Porter's five forces, transaction cost economics, switching cost theory and the consumer buying process. With the help of these theories we identify three common problems for physical retailers that can be related partly to the current situation in the industry, but also to a changed consumer buying process.

3.1 Porter's Five Forces

As discussed in the first chapter of this essay, the competition for physical retailers has changed over the past couple of years due to the steady emergence of e-business. We therefore need a theoretical framework that can explain which these changes are and how they affect the retail industry.

A well-known theory for analyzing the structure of a specific industry is the five competitive forces originally introduced by Michael E. Porter in 1979. The theory presents five forces, which all work together to affect the level of rivalry and competition existing within that industry. By analyzing these forces and understanding their effect on the industry, companies can find their position in that industry where these forces are the weakest and develop strategies that will result in the highest possible profit. The idea behind this theory is for companies to realize that it is not just industry rivals that decide the level of competition, but four other forces also determine how profitable they will be. (Porter, 1979, 2008)

The threat of new entrants
New entrants shake up the competition within the industry and put pressure on current prices as well as the level of investment needed to compete. When it is easy for new entrants to enter the market, the threat is bigger for incumbents who will then need to either hold down their prices or increase the investment rate to deter them. How big the threat of new entrants is depends on two factors: the height of the

existing entry barriers and the reaction new entrants can expect from incumbents. Entry barriers are advantages that existing actors have which new entrants do not, such as economies of scale, created customer switching costs and capital requirements. New entrants can expect retaliation from incumbents if they have substantial resources that allow them to fight back, if the industry growth rate is slow which makes it easy for newcomers to steal market shares and if the incumbents want to keep their market share at all costs. (Porter, 1979, 2008)

Bargaining power of suppliers

Suppliers have the possibility to exert bargaining power by either reducing the quality of their products or raising the prices. Powerful suppliers have the possibility to capture a greater amount of the profit in an industry where it is difficult to pass on these increased costs by increasing its own prices. This will eventually erode the profitability within that industry. Suppliers are considered to be powerful if they for instance supply many different industries to the same degree, if the industry actors face high switching costs in changing suppliers or if there are no substitutes for the good the supplier is providing. (Porter, 1979, 2008)

Bargaining power of buyers

Buyers have the possibility to capture more value by playing actors against one another, demanding better quality or more service for the same price (thereby driving up the costs) or forcing down the prices, which all diminishes profits within the industry. Powerful buyers have negotiating leverage if there are few buyers, if they are large-volume buyers, if they face low switching costs in changing suppliers or if the industry's product is standardized and the buyers are price sensitive. (Porter, 1979, 2008)

The threat of substitute products

A substitute product performs the same or a similar function as the product provided by the industry, but by a different means. For example, videoconferencing is a substitute for travel and orange juice a substitute for water. When there is a high threat of substitutes within an industry, the profitability within that industry will suffer since these substitutes will place a ceiling on prices. The better the price-performance trade-off these products offer, the tighter the limitation of the industry's profit potential. The industry therefore has to separate itself from the substituting products through actions such as improving product performance or more extensive marketing. The threat of substitutes is considered to be high if the switching costs between the substitutes are low or if the price-performance trade-off is attractive. (Porter, 1979, 2008)

Rivalry among existing competitors

Rivalry among existing competitors is very common and often takes the form of advertising, new product launches or price discounting. High rivalry will limit the profitability within the industry and to what extent the profits will be driven down depends on two factors: the intensity of the competition and the basis on which the competition takes place. The intensity of the rivalry is high if the industry growth is slow, if there are many competitors that are similar in size or power or if the exit barriers within the industry are high. The rivalry is also high if the existing actors compete on the same dimensions, such as price. If the rivalry is solely based on price competition it is especially destructive, since it directly transfers the profits from the industry to its consumers and can result in zero-sum competition. This is more likely to happen if the products are very similar and undifferentiated, if there are high fixed costs and low marginal costs within the industry or if the product is perishable. (Porter, 1979, 2008)

Figure 1. The five forces that shape industry competition (Porter, 2008).

3.1.1 Porter's Five Forces Applied to the Retail Industry

When applied to the retail industry, Porter's five forces can reveal a number of interesting changes that has occurred in conjunction with the emergence of e-commerce. The first, and perhaps most obvious, is that the bargaining power of buyers has increased (Porter, 2001). As consumers' accessibility to information about both products and suppliers has been made easier, the switching costs are experienced as being lower and it is easier for them to play different sellers against each other. They have access to many more options, along with many more sellers to choose from, increasing their buying power while also diminishing supplier power. However, supplier power can also be increased through procurement via the Internet, since it makes it easier to reach many more customers all over the world. The fact that it is easier for consumers to compare prices nowadays, have made them more price sensitive. This has caused actors within the retail industry to compete on price, which will slowly drain the profits from the industry (Porter, 2001, 2008).

The Internet has also diminished the need for an advantageous physical location and knowledgeable sales personnel to gain access to the consumer (Porter, 2001). This has made it easier for new entrants to enter the market, since no major investments are needed. This results in reduced barriers for entry, which explains why so many new e-retailers are constantly popping up.

Along with the increased accessibility to information, the Internet has also created new ways to fulfill customer needs. This entails that new and unexpected substitutes are created (Porter, 2001), making it necessary for the retail industry to try to separate itself from substituting products to reduce the threat. The accessibility via the Internet has also expanded the geographical market, which now includes many more competitors, making the rivalry within the industry more intense (Porter, 2001). With the possibility of purchasing a product from anywhere in the world through the use of the Internet, location is no longer as important as it was before and any seller can become a potential competitor. It has also become more difficult to separate oneself as a seller, since the products are relatively undifferentiated, causing the competition to focus even more on price (Porter, 2001).

The effects on the retail industry caused by the introduction of the Internet are therefore mainly negative. However, there are some positive changes as well. The Internet can make the overall industry more efficient and expand the size of the current market, thus making it easier for sellers to reach more customers. It also reduces the bargaining power of traditional channels by making it easier for consumers to have direct contact with the seller, which can also be beneficial to the sellers themselves.

The analysis above presents the current situation in the retail industry in a clear way and helps us understand the forces small physical retailers are currently facing. To understand the behavior between the actors within the industry, we have chosen to apply transaction cost economics on consumer behavior.

3.2 Transaction Cost Economics

A consumer's switching behavior can be analyzed with the help of a number of different economical theories that focus on the costs that arise throughout a transaction process. The phenomenon of switching costs could in many ways be seen as having a theoretical base in the concept of Transaction Cost Economics (TCE), originally brought into general focus by Oliver E. Williamson (Williamson, 1985). TCE is based on the idea of the transaction being the basic unit of analysis and the different costs associated with this transaction are called transaction costs (Liang & Huang, 1988; Teo & Yu, 2005). According to Williamson (1981) a transaction occurs "when a good or service is transferred across a technologically separable interface". In classic economic theory of a perfect market, it is assumed that information is symmetric and that all transactions are executed without any additional costs, since both sellers and buyers are assumed to have access to the same amount of information (Liang & Huang, 1988; Teo & Yu, 2005). But in reality the situation is often different, and the markets inefficient due to asymmetric information. This leads to the need for consumers to engage in activities such as information searching, terms negotiating and monitoring of the purchasing process in order to proceed with a transaction (Liang & Huang, 1988; Teo & Yu, 2005). These activities related to the transaction cause additional costs for the consumer, which are called transaction costs.

With the introduction of the Internet and e-commerce, these information searching costs a consumer experiences, due to the information asymmetry on the market, has been reduced. This is because the Internet has made it easier to perform the search as well as making comparisons. When these costs are lower, the amount of time spent on the information search is less, which entails that customers have not invested as much time into the relationship. This makes the transaction costs lower and the consumer is therefore no longer as tied to that specific seller as he or she would have been without the Internet. The consumer is therefore more likely to switch sellers. (Chiu et al, 2011)

3.2.1 How Costs Arise According to TCE

How lower transaction costs can cause an increased switching behavior among consumers can be clarified by explaining how these costs arise according to TCE. These costs arise because of the limitation of human cognition, an assumption about human behavior that is very central to the TCE theory. These two behavioral assumptions are (1) bounded rationality and (2) opportunism (Gronhaug & Gilly, 1991; Macher & Richman, 2008; Williamson, 1985; Wu et al., 2005). *Bounded rationality* implies that "decision makers have constraints on their cognitive abilities and limits on their rationality" (Kahn, 2010; Rindfleisch & Heide, 1997). People have limited cognitive processing abilities, which means that they cannot process all the information they have access to and can therefore not see all the possible consequences of this information (Teo & Yu, 2005). They also have limited knowledge, memories and skills, which causes uncertainties in situations where the circumstances cannot be specified ex ante (Gronhaug & Gilly, 1991; Rindfleisch &Heide, 1997). *Opportunism* is based on the assumption that "man acts in his own interest, whatever that might be" (Gronhaug & Gilly, 1991; Kahn, 2010). Williamson (1985) defines it as "self-interest seeking with guile" and means that some people may exploit a profitable situation opportunistically on the expense of the other transaction party, for instance through lying, cheating or fraudulent behavior (Kahn, 2010; Rindfleisch &Heide, 1997; Teo & Yu, 2005).

Both behavioral assumptions mentioned above can be adapted to explain consumer behavior. It is assumed that buyers are also restricted by bounded rationality, for instance in terms of limited knowledge about all the different products on the market and the ability to process all the information available (Gronhaug & Gilly, 1997). A low level of bounded rationality will lead to a high perceived transaction cost, since the consumer would have significant knowledge about other alternatives on the market and will therefore perceive the costs as being high (Kahn, 2010). Opportunism also applies to consumer behavior since consumers are assumed to be pursuing personal buying goals and are therefore acting in self-interest (Gronhaug & Gilly, 1997). A high level of perceived opportunistic behavior will lead to high transaction costs, because if the consumer does not trust the seller, he or she would have to put more energy into contract writing and monitoring to try to protect himself or herself from opportunistic actions from the other party. This, in turn, creates higher transaction costs (Kahn, 2010).

To summarize, the reasoning above helps explain how the consumer's perceived transaction costs affects to what extent the consumer is willing to switch sellers. When the transaction costs are high, due to for instance a risk for opportunistic behavior, the consumer will experience a switch from one seller to another as being too costly and will therefore refrain from making the switch. However, TCE also explains the occurrence of transactions costs as being dependent on three dimensions that characterize a transaction.

3.2.2 Three Dimensions of a Transaction

TCE also explains that there are three dimensions that characterize a transaction: (1) transaction frequency, (2) uncertainty and (3) asset specificity (Gronhaug & Gilly, 1991; Rindfleish & Heide, 1997; Teo & Yu, 2005, Williamson, 1981; Wu et al., 2012). *Transaction frequency* has to do with how often a transaction of a certain product or service offering is performed, which will have an effect on how it is organized (Gronhaug & Gilly, 1991). It is not justifiable for a firm to internalize the production of a service or product when these types of transactions are only performed once or a couple of times (Teo & Yu, 2005). With a higher transaction frequency, the firm will have an incentive to internalize the transaction (Gronhaug & Gilly, 1991; Macher & Richman, 2008). This could be adapted to consumer behavior in the following way. If the demand for a certain product or service is low and infrequent, it is unlikely that it would be offered in the marketplace since the transactions would be too few to justify the production. The product will be difficult to find and the transactions cost high. However, if certain transactions (or purchases) are made more often, consumers would be more aware of the different purchasing alternatives available, and in time be able to perform these transactions more routinely (Gronhaug & Gilly, 1991). This will lower the time needed for information search and therefore the transaction costs.

Uncertainty refers to the uncertainty related to the future or to the other transaction party's actions and arises because of two aspects: (1) Information asymmetry and (2) human behavioral assumptions (such as bounded rationality and opportunism discussed above) (Teo & Yu, 2005; Wu et al., 2012). As mentioned previously, because of the inefficiencies of markets and the information asymmetry this brings with it, customers are trying to reduce the uncertainty this causes through information seeking (Gronhaug & Gilly, 1997; Teo & Yu, 2005). The more uncertainty the customer feels, the more time he or she will spend on information search to try to reduce it, which leads to an increase in transaction costs. When information is available to a greater extent, such as through the use of the Internet, information asymmetry is less likely to occur, which lowers the transaction costs (Wu et al., 2012). Uncertainty causes greater transaction costs because it creates the need for more time invested in monitoring, writing and enforcing contracts (Teo & Yu, 2005). Trust in the relationship will lower the transaction costs and the customer will be more likely to engage in a relationship with the seller (Kahn, 2010).

Asset specificity, or *specific asset investment (SAI)* (Wu et al., 2012), is what almost directly can be connected to the creation of switching costs. It refers to "the lack of ease with which the human capital (employees), physical assets, and facilities specifically tied to the manufacturing of an item can be used by alternative users or put to alternative uses" (Teo & Yu, 2005). Or as Gronhaug & Gilly (1997) defines it: "asset specificity refers to the degree to which an asset needed to conduct specific transactions can be redirected to alternative uses". The first definition explains the concept from an organizational point of view, whilst the second has more of a consumer focus. Most of the costs related to a transaction for the consumer are asset specific in the way that after the purchase has been made, they are sunk costs that cannot be transferred to alternative uses (Gronhaug & Gilly, 1997). For instance, any time that has been used to search for different alternatives of dishwashers cannot be reused in the search for shoes at a later point in time. Any investments made in assets that are connected to a certain seller would cause switching costs if the customer would later change sellers (Wu et al., 2005). The result is that it creates a type of lock-in for the consumer that ties him or her to the seller (Jones et al., 2002; Porter, 1980; Williamson, 1981). Williamson (1981) mentions three types of asset specificity: (1) human asset specificity, (2) physical asset specificity and (3) site specificity, but there are also many other types that has been added later on, such as temporal specificity and brand specificity (Liang & Huang, 1998). It is mainly human asset specificity that is relevant to our essay and a consumer point of view, since it entails what Williamson (1981) calls "learning by doing" and can more broadly be described as "learning costs" (Klemperer, 1987). According to Klemperer (1987), these types of learning costs can result in a buyer avoiding switching to a different seller or product, even if these products or sellers turn out to be identical. For instance, a customer that wants to buy a new computer might turn to the same manufacturer that his or her existing computer is made by because he or she already knows how that type of computer works, even though a different manufacturer offers an identical product (Klemperer, 1987).

To summarize, these three dimensions of a transaction are mainly what explain how easy or difficult it is for a consumer to switch sellers depending on the level of transaction costs experienced. The more often a purchase is made, the less time on information search a customer needs to spend and the less tied to the seller he or she will be. The customer will experience lower costs to switch sellers since he or she has not invested as much into the relationship, and is more likely to perform the switch. The more uncertainty the customer feels in relation to a transaction, the more time he or she will spend on information search to try to lower the uncertainty. He or she will become more invested in the relationship to the supplier and less likely to switch to a different seller. Finally, asset specificity is what mainly causes costs that tie you to a certain seller and creates switching costs. The more assets the consumer feels he or she has invested in the relationship with the seller, whether it is by time spent on information search or based on a personal relationship, the less likely he or she is to switch sellers.

Although TCE has primarily been used whilst studying firm-related problems such as a company's choice in the make-or-buy decision, that is to produce internally or acquire over the market, the theory has been applied to a variety of fields (Liang & Huang, 1998; for more detailed reviews see for instance Rindfleisch & Heide, 1997 and Macher & Richman, 2008). One of these applications is TCE from a consumer's perspective where it is used to explain customer behavior (Gronhaug & Gilly, 1991; Kahn, 2010), where a substantial amount of research is focused around online retailing (Chircu & Mahajan, 2006; Khan, 2010; Liang & Huang, 1998; Teo & Yu, 2005; Wu et al., 2012). We believe that the use of TCE on consumer behavior can offer great explanation to why customers choose to perform certain transactions and stay away from others, as well as the connection between switching costs and asset specificity. In addition, some research explains that the increased customer availability of information (often through the use of the Internet) can lead to reduced transaction costs (see Bakos, 1997), which can help us understand the connection between cots and changed consumer behavior. This will be discussed later on in this chapter.

3.3 Switching Cost Theory

As a continuation of TCE, and to further explore asset specificity and switching costs, we apply switching cost theory to understand more about what can cause switching costs to arise. As mentioned above, switching costs cause a type of lock-in situation for consumers that makes it more costly for them to switch to a different seller (Williamson, 1981). The definition of switching costs varies between different researchers. Porter (1980) defines switching costs as “one-time costs facing the buyer of switching from one supplier’s product to another’s”. These costs create a barrier for new entrants to enter the industry in question, and the higher the costs, the more improvement in cost or performance must the new entrants offer to get the customer to switch to them. The Blackwell Encyclopedia of Management (2014) offers the following definition: “switching costs occur when a potential consumer of a good finds a better product but does not purchase it because of higher costs that will arise”. In an attempt to explain what these costs entail, Jones et al. (2002) suggest a broad definition as being “the perceived economic and psychological costs associated with changing from one alternative to another” and continues by saying that these costs can be viewed as barriers to lock in customers in existing relationships, which coincides with Porter’s theory of entry barriers (Porter 1980). The interesting aspect of Jones et al. (2002) definition, is that the cost are considered to be perceived by the consumer, and might therefore not only consist of monetary costs, but also psychological. Pick & Eisend (2013) also stresses this view on switching costs when they define it as “costs perceived, anticipated, and/or experienced by a buyer when changing a relationship from one seller to another”. The definition we use in this paper is “*switching costs are one-time economic and psychological costs, which are perceived, anticipated or experienced by a buyer when switching from one supplier’s product to another’s, that might prohibit him or her from making the switch*”, and is therefore a combination of the above mentioned definitions.

While there is some discrepancy regarding the definition of switching costs in the literature, there is even more variety concerning what dimensions switching costs consist of. A possible conclusion to make, however, is that the term is considered to have a multidimensional nature, as opposed to unidimensional (Burnham et al., 2003; Jones et al., 2002; Pick & Eisend, 2013). This means that there are many different antecedents that influence switching costs and how consumers experience them (Pick & Eisend, 2013). Klemperer (1987) describes three types of switching costs: (1) transaction costs, (2) learning costs and (3) artificial switching costs. Jones et al. (2002) identify six dimensions, which are grouped into three categories: (1) continuity costs, (2) learning costs and (3) sunk costs. However, the research we find most suitable for our investigation is by Burnham et al. (2003). The authors identify eight facets of switching costs, which are presented and defined in table 1.

Type of switching cost	**Definition**
Economic risk costs	The costs of accepting uncertainty with the potential for a negative outcome when adopting a new provider about which the consumer has insufficient information.
Evaluation costs	The time and effort costs associated with the search and analysis needed to make a switching decision.
Learning costs	The time and effort costs of acquiring new skills or know-how in order to use a new product or service effectively.
Setup costs	The time and effort costs associated with the process of initiation a relationship with a new provider or setting up a new product for initial use.
Benefit loss costs	The costs associated with contractual linkages that create economic benefits for staying with an incumbent firm.
Monetary loss costs	The onetime financial outlays that are incurred in switching providers other than those used to purchase the product itself.
Personal relationship loss costs	The affective losses associated with breaking the bonds of identification that have been formed with the people with whom the customer interacts.
Brand relationship loss costs	The affective losses associated with breaking the bonds of identification that have been formed with the brand or company with which a customer has associated.

Table 1. Definition of the eight types of switching costs according to Burnham (2002).

These eight facets are then grouped into three types of switching costs based on their relationships to each other: (1) procedural switching costs (economic risk costs, evaluation costs, set up costs and learning costs), (2) financial switching costs (benefit loss costs and monetary loss costs) and (3) relational switching costs (personal relationship loss costs and brand relationship loss costs).

Procedural switching costs are primarily associated with costs of time and effort invested by the consumer and arises from a shortage of information about the other product or provider alternatives available on the market. *Financial switching costs* are the loss of financial resources that the consumer encounters when switching product or provider. *Relational switching costs* consist of costs that involve "psychological or emotional discomfort due to the loss of identity and the breaking of bonds" (Burnham et al., 2002). It is mainly the procedural switching costs we are focusing on in this essay, namely costs that are associated with the search of information the consumer suffers when trying to reduce the uncertainty and information asymmetry existing in the market. This would primarily include evaluation costs and also learning costs to some extent.

This definition by Burnham et al. (2003) explains what types of costs that can arise in a relationship between a seller and a buyer, as well as what causes them. Together all these different costs affect the consumer's degree of switching. If a consumer experiences a high level of switching costs, he or she will feel a closer tie to the existing seller, making the transaction costs higher (often in the form of asset specificity discussed earlier in this chapter) due to more time and energy invested in the relationship. The consumer will therefore be less likely to switch seller throughout the buying process, the higher the perceived switching costs are.

The cause of switching costs is interesting to both researchers and practitioners since it explains why customers choose to terminate or stay in a relationship (Pick & Eisend, 2013). If practitioners can understand why customers switch, they can also try to prevent it from happening and actually retain customers they otherwise would lose, or even encourage customers to switch from competitors to them (Burnham et al., 2003; Jones et al., 2002; Pick & Eisend, 2013). According to Pick & Eisend (2013) the reason for, as well as consumers' perception of, switching cost and the degree of switching depends on four factors: (1) type of product (service vs. good), (2) type of market (B2B or B2C), (3) year and (4) culture. For instance, switching is more common in markets for products than in market for services, the degree of switching is higher in B2C markets than in B2B markets and the more individualistic the culture is, the more likely the customer is to switch. The relationship between switching costs, switching degree and reasons for switching has changed over time and has become more and more of an issue (Pick & Eisend, 2013). The interest in switching costs and consumer behavior has therefore increased, especially in conjunction with the introduction of e-commerce. Just as in the situation for TCE, much literature about switching costs is focused around customer behavior and why they act the way they do when it comes to switching providers (Burnham et al., 2003; Jones et al., 2002; Mazursky et al., 1987), along with investigations of the relationship between loyalty and customer satisfaction (Anderson, 1994; Fornell, 1992; Lee et al., 2001). There is also a lot of research regarding the possibility of e-commerce lowering the switching costs for consumers (Alba et al., 1997; Bakos, 1997; Lynch & Ariely, 2000), which can actually cause problems for physical retailers. Potential problems will be discussed a chapter section below. However, this research has mainly a theoretical focus and there are not that many empirical investigations available.

3.4 Consumer Decision Making

The use of technology is nowadays a given feature in many peoples' everyday lives and the fact that the Internet has increased the amount of information available is widely known. Instead of looking for information at libraries or in encyclopedias, we can easily access Google and type in every search word possible using our laptops or smartphones. We are experiencing a new multi channel society where people are using the Internet for communication, grocery shopping, banking and other activities that traditionally were more time consuming. Consequently, consumers' shopping habits also have been affected by this technological development (Alba et al., 1997).

Today, all kinds of products can be bought online and highly developed supply chains and delivery systems make it possible for consumers to order products from countries all over the world (Alba et al., 1997). The number of different purchasing channels available to consumers has also increased significantly the past decade (Gensler et al, 2012). This in combination with the increased access to information has lowered the switching costs for consumers and made it easy for retail stores' potential customers to switch from one purchasing channel to another (Chiu et al, 2011).

The technological development has also given consumers a wider selection of products and brands to choose from when making their purchase decisions (Porter, 2001). This is a real challenge for some physical retailers as they are constantly threatened by online competitors that can offer the customers a better deal (Calanog, 2011). To be able to analyze how consumers' increased Internet use affects physical retailers, it is important to understand how consumers shop. By analyzing the different stages of the consumers' buying decision process, retail stores can understand: where in the buying decision process they risk to lose a potential customer, why the customer chooses a different channel of purchase and how they can prevent this from happening.

3.4.1 The Traditional Buying Process

The consumer buying process is often described as a five-stage model that a potential customer passes through before, during and after the actual purchase of a product. This five-stage model was originally developed by Engel, Kollat and Blackwell in 1978 and is often referred to as the "EKB-model" (Tan, 2010). By researching consumers buying decision process, it is possible to answer questions about what products consumers buy, where they buy them, how and how much they buy, when they buy and why they buy (Kotler et al. 2008). In their book "Principles of Marketing", Philip Kotler et al. (2008) give a comprehensive presentation of the five stages of the buyer decision process: *need recognition*, *information search*, *evaluation of alternatives*, *purchase decision* and *postpurchase behavior*. Below follows a short summary of the different stages based on the interpretation of the model made by Kotler et al (2008).

Figure 2. Typology of the Consumer buying process described by Kotler et al. (2008).

Need recognition

The buying process starts with the buyer recognizing a need or a problem. This creates a desire to change his or her actual state. The need can be triggered by internal stimuli that are based on our natural needs, such as hunger or thirst. It can also be triggered by external stimuli, for example by watching a TV-commercial for an exciting holiday destination or anything that presents a more desired state than the consumer's existing one.

Information search

At this stage of the buying process, the consumer is likely to search for more information related to the need. How much a consumer researches a product depends on: how strong the desire for the product is, the amount of information he or she starts off with, the ease of finding new information, the value the consumer places on new information and the satisfaction he or she gets from searching. There are a lot different sources from which consumers can get information, for example advertising, salespeople, friends and family, media or simply by using or trying the product. However, the most effective sources tend to be personal. Information increases the customer's awareness and knowledge about different brands and products.

Evaluation of alternatives

When evaluating different alternative products, the consumer is using the information he or she have obtained during the information search process in order to choose the product or brand that best satisfy his or her needs. Factors such as the consumer's attitude to the different brands, and the alternative products' different attributes as well as how important these attributes are to the buyer, are what decide the final outcome.

Purchase decision

Generally, the consumer will buy the product that he or she finds most attractive when evaluating the alternatives. However, two factors can affect the buyer's intended purchase. The first one is the attitude of others. For example, if someone whose opinion for some reason is important to the buyer disapprove of the chosen alternative, it is possible that the buyer will change his or her mind about the intended purchase. The intended purchase can also be affected by unexpected situational factors. For example, a consumer may be forced to buy a cheaper product or even refrain from buying if she loses her job.

Postpurchase behavior

In this stage of the buyer decision process, the consumer takes further actions depending on his or her satisfaction or dissatisfaction with the purchase. The level of satisfaction is decided by how big the difference is between the consumer's expectations and the perceived performance of the product. Naturally, if the product's performance exceeds the expectations of the customer, he or she will be delighted. If it falls below the customer's expectation, he or she will be disappointed. A satisfied customer is likely to buy again while an unhappy customer is not. However, whenever a consumer chooses to purchase a specific product over others, he or she automatically loses the benefits that the alternative products had to offer. This creates a discomfort that is called *cognitive dissonance*. This feeling can worsen or, in worst case, even create dissatisfaction for the consumer after his or her purchase (Evans et al., 2012).

3.4.2 Consumers' Decision Making Process – A Modern Approach

The consumer buying decision process described above is a widely used concept in business and marketing literature all over the world. Court et al. (2009) describes this classical way of analyzing the consumers' buying process as a "funnel metaphor" where the buyer starts with a set of alternatives which are evaluated and successively narrowed down until one final purchase decision remains. However, the technological development and increased use of the Internet in peoples' everyday lives have affected and changed the way consumers' make decisions in the buying process.

The traditional buying process concept is built upon a model where marketing is assumed to be a one-way communication and the marketers' messages are pushed toward consumers throughout the different stages of the buying process by, for example, advertising or commercials (Court et al., 2009). Today, Internet has lowered the search cost for obtaining quality information substantially (Diehl et al., 2003). Because of this, the Internet has become a natural source of information for many consumers when evaluating different alternatives regarding their purchases. Thus, marketing can no longer be seen as a one-way communication activity where marketers are the senders of information and consumers are non-active receivers. Instead, marketing has been developed into a two-way communication activity where consumers to a great extent can pull the information they want and need from a large selection of different online sources (Court et al., 2009).

We find one example of the new two-way marketing to be the array of websites that make it possible for customers to rate and comment on different products' or retailers' perceived performance. Traditionally, the information that customers obtained about a certain product during the information search process could be controlled by marketers to a much greater extent (Court et al., 2009), since few available sources of unbiased information was available. Since the experienced search costs were higher, it was a lot harder and more time consuming to find objective information and potential customers had no other choice but to rely mainly on the information given by advertising, commercials and salespeople. Nowadays, we perceive that consumers can review products and their service experiences and easily publish any information they want, positive or negative, for other consumers to read. Since this information is available for anyone who types in the right search word on any search engine it is likely to affect consumers' buying decisions, without the control of marketers.

A modern way of looking at the consumer buying decision process includes the same major stages today as back in 1978 when it was first developed. However, the introduction of the Internet and e-business has resulted in an increased number of sales and information channels that customers can choose from and switch between throughout their buying process (Gensler et al., 2012; Court et al., 2009; Verhoef, 2007; PWC, 2012). The major changes in how fast and easily information is spread has increased the transparency throughout the buying process and empowered the consumers (PWC, 2012). Traditionally, the consumer performed the whole buying process "offline". Nowadays, however, consumers have the possibility to jump between online and offline sales- and information channels throughout the different stages in the buying process. To demonstrate this, we have developed a model that is displayed in figure 3.

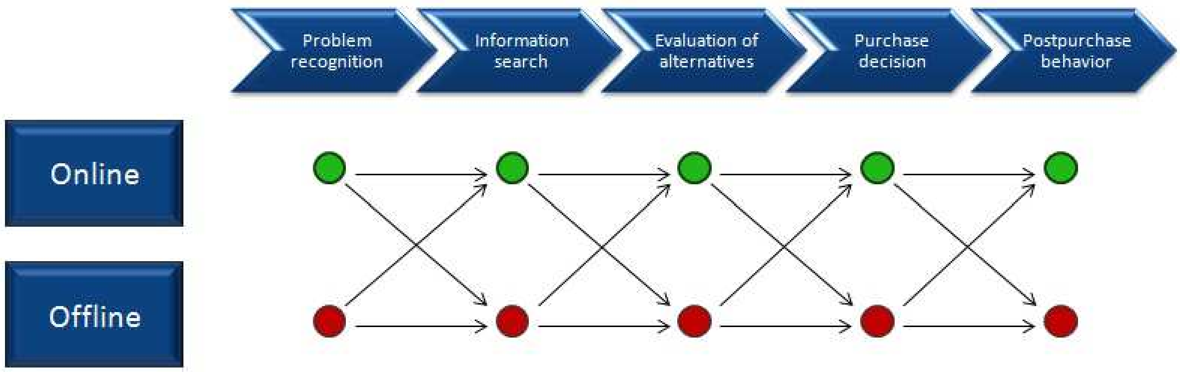

Figure 3. The Modern Consumer Buying Process

As the figure shows, the Internet is nowadays present in all of the stages of the consumer buying process. Phenomena such as bloggers and social media are constantly present in many peoples' lives, helping to create new trends, which trigger consumers' wants and needs in the problem recognition stage. The consumer can thereafter either choose to search for information and evaluate alternatives online, for example by using a search engine, or doing the research offline, for example by visiting a store. It is also possible to combine online and offline information sources in these stages. When a consumer later has decided to buy a specific product that matches his or her needs, the purchase can be made in either an online store or a physical store. In the postpurchase stage, Internet is a natural channel of communication between the seller and the buyer regarding service issues such as warranty, software updates and user guides. However, the consumer can also, if possible, choose to visit a physical service outlet. These major changes in the behavior of consumers require marketers to develop new multichannel strategies that are adapted to the modern buying process, to be able to reach the consumers as they jump between channels (Peterson et al., 2010; Court et al., 2009).

3.4.3 Transaction Costs in the Buying Process

The consumer buying process can also be viewed as a transaction process or resource lifecycle that the customer has to go through every time he or she makes a purchase (Liang & Huang, 1988). Each of the stages in this process has related costs and benefits, such as specification of requirements and identification of different sellers as well as ordering and paying for the product (Chircu & Mahajan, 2006). In this essay we are focusing on the parts of the buying process that cause transaction costs. These costs arise when searching for alternatives, comparing them and the estimated use of time and effort to perform these activities.

When a consumer identifies a want or need for a new product, he or she enters the information search stage of the buying process, as described above. As mentioned in the chapter section about transaction cost economics, the time and effort needed for the consumer to find relevant information regarding their purchase results in transaction costs for the consumer (Liang & Huang, 1988). The introduction of the Internet has contributed to lowering these costs for consumers by providing access to information much easier and faster than before (Chiu et al. 2011). When a consumer has the possibility to easily compare products without experiencing an opportunistic behavior or guile from the website, for example by using an independent price comparison website, it results in low asset specificity and hence, low transaction costs (Khan, 2010). However, when evaluating alternatives online without having tried the product, the consumer might experience some uncertainty regarding his or her decision. An increased amount of uncertainty results in increased experienced transaction costs for the consumer (Khan, 2010). Therefore, in order to mitigate the uncertainty, and thereby lower the experienced transaction costs, the consumer might visit a physical store just to try the product, before switching channel again and make the actual purchase online. This behavior is referred to as "free riding" (Verhoef et al., 2007), and is discussed further in the following chapter.

3.5 Potential Problems for Physical Retail Stores

The fact that consumers are much more knowledgeable today can cause problems for retailers. This can be related to the fact that customers' switching costs and transactional costs are declining due to the increased availability of information through the emergence of the Internet (Alba et al, 1997). One problem can be related to customer retention, because when the switching costs are low, there are fewer aspects that keep the customer tied to the company. A second problem also related to this is *free riding*, which is when customers, through the use of more than one channel for a single purchase, "obtain the services from one retailer and place their business with another" (Van Baal & Dach, 2005). A third problem can be associated with the emergence of e-commerce, and the increased competition it has brought with it, which has caused price-related pressure. These three identified problems will be discussed below.

3.5.1 Customer Retention

As previously discussed, the expansion of e-commerce has made it easier for new entrants to enter the retail industry, making the rivalry in the industry much more competitive (Porter, 2001). Customers have many options to choose from, and with the easy access to information, it is easier and less time consuming to compare different sellers, products and prices online. Today's retailing environment is therefore characterized by intense competition in terms of customer retention and loyalty, since it is so easy for consumers to compare prices online and choose the lowest price available every time, without any consideration of loyalty.

In addition, technological advancement has increased the amount of possible purchasing channels for customers and as a result they have developed a multichannel shopping behavior, which also contributes to an increased switching behavior during the different stages of the decision-making process (Heitz-Spahn, 2013; Nunes & Cespedes, 2003; Verhoef et al., 2007). Their shopping behavior has become more complex and therefore more difficult for retailers to predict. The easy access to information also leads to lower switching cost, which makes it more difficult to keep customers in one channel.

This multichannel shopping behavior can cause problems and challenges for retailers. One of the most common problems is that the company might lose their customer somewhere along the purchasing process through a phenomenon known as “research shopping” (Nunes & Cespedes, 2003; Verhoef et al., 2007). This phenomenon could be defined as “the propensity of consumers to research the product in one channel (e.g., the Internet), and then purchase it through another channel (e.g., the store)” (Verhoef et al., 2007). Another similarly used term is “hybrid shopping”, which is defined as when a customer is “jumping across channels in the path to a single purchase” (Kalyanam & Tsay, 2013). This creates a problem of customer retention and could cause the retailer to lose revenue (Verhoef et al., 2007).

One important factor that makes “research shopping” possible is the fact that today’s customers have greater access to information through the use of the Internet, which makes it easier to shop around and compare features such as price and quality (Nunes & Cespedes, 2003; Porter, 2001). Since this information is so easy to get a hold of, it is considered to be publicly available. The negative side to this publicly available information online is often termed *free riding*.

3.5.2 Free Riding

Free riding can be explained as when consumers, through the use of more than one channel for a single purchase, “obtain the services from one retailer and place their business with another” (Van Baal & Dach, 2005). The customer basically use Retailer A’s channel to gather information about the product in question, and to evaluate the product’s characteristics, then switch to Retailer B’s channel to actually perform the purchase (Chiu, H-C. et al., 2011; Heitz-Spahn, 2013).

Free riding can be viewed from two angles: one being when you use the information available online to research your purchase before ultimately walking into a physical store to perform the purchase. This phenomenon is often called “research online buy offline” (ROBO), and makes it possible for the physical store to free ride off the information offered by the online channel (Kalyanam & Tsay, 2013). The second angle is based on the opposite direction and is defined as when the customer is “searching for product information in an online store and then purchasing in another brick-and-mortar store” (Chiu, H-C. et al, 2011). The free riding that is taking place in this case is performed by the physical retail store taking advantage of the information available in the online channel. This phenomenon is just recently termed “showrooming” and does thus not yet have a precise definition (Balakrishnan et al., 2013; Kalyanam & Tsay, 2013).

It is possible for *free riding* to occur when “the inputs needed to sell a product cannot be sold separately from the physical product” (Carlton & Chevalier, 2001). These inputs can take the form of sales effort, advertising, product information displaying etc., and when the retailer who is performing the activities necessary to actually sell the product (Retailer A) cannot charge the customers separately for these presale services, it is possible for a second lower-priced retailer (Retailer B) to make the final sale through free riding off the other retailer (Carlto & Chevalier, 2001; Van Baal & Dach, 2005). The service provided by Retailer A can therefore be viewed as a public good because it is difficult to restrict the access to the sales effort – the customer will have access to it whether he or she purchases the product or not (Singley & Williams, 1995; Van Baal & Dach, 2005).

Since the Internet has increased the geographical market both for sellers and for consumers, it has become much easier to purchase a product from anywhere in the world. If a product is sold at a lower price online from a retailer outside the customer’s home country, the customer’s incentive to choose that retailer naturally increases. This might however be difficult if it is an experience good, as opposed to a search good, since it has to be experienced before purchase (Nelson, 1970; Koch & Cebula, 2002; Weathers et al., 2007). We believe that the consumer therefore is much more dependent on physical stores for these types of products and that the industries selling these products are more likely to be victims of *free riding*.

3.5.3 Price Competition

As mentioned above in relation to Porter's five forces, one of the major problems for physical retailers caused by the emergence of e-commerce is the pressure on price the increased competition creates. The Internet has lowered the entry barriers to the retail industry, increasing the number of actors on the market, which lowers the price (Porter, 1979, 2001). It also increases the number of options for consumers to choose from, which increases their buyer power as well as their ability to put sellers against each other, causing the focus on price to increase (Porter, 1979, 2001). The products sold in the retail industry are also relatively undifferentiated, which makes price the main mechanism to use to separate oneself from the competition (Porter, 2001). All of this together increase the price pressure physical retailers are exposed to. The Internet has also made it possible for consumers to compare prices, making them much more price sensitive.

Since physical retailers have some costs e-retailers do not, it is more difficult for them to compete on price. It can therefore create problems for them to attract these price sensitive customers, which could result in lost revenue.

4. EMPIRICAL FINDINGS

In this chapter we will introduce the primary empirical data collected through semi-structured interviews with small privately owned beauty retailers and industrial organizations. We will also present secondary data provided by industry reports. Every conclusion made in this chapter has been made by our interviewees. The following section is therefore purely a summarization of what they have said.

We have chosen to focus our research on small physical retailers within the beauty and cosmetics industry. All of the stores in this study are privately owned and have a maximum of four employees. Our empirical material consists of seven semi-structured interviews with people that have a long and genuine experience from working within the retail industry. We have also used secondary sources such as retail industry investigations published by, for example, PWC and HUI research. Six of the interviews were held with owners or sales representatives in six different stores located in the Malmö, Höganäs and Stockholm area. In addition, one interview was held with Bengt Hedlund who is the CEO of the organization "Butikerna", which is a co-operative organization that aims to help and support small and middle-sized retailers in Sweden.

To fully understand the industrial conditions within beauty retail as well as the implications that the introduction of the Internet has had for small store owners, we have focused our interviews on consumers behavior, the relationship between retailers and customers and how these behaviors and relationships have changed since the introduction of the Internet. We quickly noticed that the interviewees gave very similar answers to our interview questions, regardless of the geographical location of the store.

4.1 Retailer-Customer Relationship and Consumer Behavior

A good relationship between the store and its customers is one of the most important success factors that were identified by the store owners and salespeople we spoke to. For most of our interviewees, it is even recognized as the most important strategy they use in order to retain customers and remain competitive. In order to get a comprehensive view of the relationship between small beauty retailers and its customers, we have identified five main features that were mentioned and explained by the interviewees. These features help explain how the consumers behave when shopping in physical stores, what kind of relationship the stores have with their customers as well as what role the salespeople that are interacting with customers play in their buying decision. We have also brought attention to how these features and the consumers' behaviors have developed and changed over the years since the Internet was launched.

4.1.1 Knowledge, Advising and Service

All of the interviewees from retail stores see exceptional service and expert advising as very important parts of their relationship with existing and potential customers. The interviewees describe that great service and deep knowledge about the products and brands they sell increases the trust in the relationship with the customers. Different beauty products are made for different skin types and many customers therefore visit the stores to ask for advice regarding which product suits their needs best. This requires that storeowners and their employees constantly keep themselves updated and educated about new products and their features. A majority of the interviewees stress that the combination of deep knowledge and great service have resulted in many customers coming back on a regular basis.

"To have deep knowledge about the products that you are selling and how they work on the customers' different skin types is a must to be able to offer skin care that is tailored for that specific customer."

Ann, owner of Jet Parfymeri

"My customers come to me because they trust me and know that they will be very well taken care of. It is very important to really see every single customer and give them the best possible service, no matter how big or small their purchase is."

Anna-Maria, owner of Västerhaninge Parfym & Hälsokost

"It is very important for us to give the customers a great experience whenever they visit us. We always try to work with the customer's senses by showing them how to use the products and let them touch and try how the products feel on the skin. We also, for example, use fragrances in order to create a nice store environment"

Elsie-Britt, salesperson at Eivy Flodins Parfymeri

"Great customer service and deep knowledge is what sets us apart from the large retail chains and department stores."

Ann, salesperson at Helenes Parfymeri

4.1.2 Customer Flow

Five out of six stores describe that they experience that the customer flow has decreased substantially in the past decades, more specifically during the last two years. Many of the interviewees relate this to the vast expansion of online shopping and the market power of the two largest Swedish beauty retailers. Two of the interviewees also stress the fact that a large selection of beauty products and make-up nowadays can be bought in supermarkets and pharmacies. This has resulted in an increased availability of beauty products and many consumers might find it more convenient to shop for beauty products and make-up at the same time as they are buying their groceries, instead of having to visit multiple stores. Online shopping has also made it more comfortable to shop from home and get the products delivered. According to PWC (2012), the second most important reason for consumers to shop online instead of in physical store is that they can shop at any time they want without having to care about stores' opening hours. As a result of the decreased customer flow, many of the stores we have spoken to describe that they depend on their loyal customers to a greater extent today compared to the time before Internet. However, three of our interviewees say that they have experienced that the customer flow slowly has started to increase again.

"The customer flow has definitely decreased since online shopping became popular, especially the last two years."

Anna-Maria, owner of Västerhaninge Parfym & Hälsokost

"The customer flow has decreased over the last years. I believe that e-business is one of the reasons, but not the only one. The shopping center were we have one of our stores has been renovated for a long time and that has definitely affected our customer flow negatively too."

Sara, owner of Beauty Box

4.1.3 Well-Informed Customers

All of our interviewees emphasize that consumers nowadays are substantially more well-informed than they used to be. They describe that a big difference in consumer behavior is that customers nowadays to a great extent come in and ask for specific products, instead of general advice. The store representatives also stress that this phenomenon is especially true among younger customers (below the age of 40 years). When asked about why they think this pattern in consumers' behavior has developed, all of the interviewees mention that Internet has had an enormous impact. Younger customers often ask for products that they have read about on blogs and seen on social media. However, four of the interviewees stress that even their older customers very often ask for products that they have seen on TV or read about in magazines. It is also common that the older customers refer to celebrities that are using the specific products when they ask for them. Even though many customers still ask for advice regarding which product they should buy, some of our interviewees feel that many customers today depend very much on information they find on the Internet. In addition to blogs and other forms of social media, there are many websites where consumers are able to both write and read reviews about both products and retailers. Three of our interviewees mention that they believe that these websites have contributed to more well-informed consumers as well as the fact that many customers nowadays choose to shop online.

4.1.4 Trends

Five of our interviewees mention that customers have become very sensitive to new trends compared to the time before the Internet. When asked about why they think this behavior has developed, everyone answers that they believe that Internet phenomenon such as bloggers and social media have made trends spread faster and further than before. Two of the interviewees specifically mention that the Internet has made it possible for both consumers and journalists to receive information about new products and brands via celebrity blogs and brand websites in real time. Four of the interviewees also mention that they experience that the beauty brands release new products at a much higher pace than they did at the time before Internet was launched. One consequence that this has had for the retail stores is that they have to spend much more time on keeping themselves updated about what is new and trendy. If they do not, they will have a difficult time competing in such a fast moving industry as the beauty industry.

"In the past, the perfume brands, for example, released one or maybe two new fragrances per year and new product releases were a big deal. Nowadays, however, new products come and go at a much higher pace."

Ann, owner of Jet Parfymeri

4.1.5 Loyalty

A major change that all interviewees have agreed on is that consumers in general are less loyal nowadays than they used to be. Four of the interviewees say that this is especially true for younger customers. They explain that they believe that this is because these younger customers have used the Internet and modern technology for a majority of their lifetime and therefore been able to adapt better and faster than many of the older customers. The store representatives have noticed this in several ways. Four of them explain that they experience that today's consumers are more price-sensitive than they used to be before the Internet was launched. It is also more common today that customers complain about high prices and refer to lower prices online. In addition to this, three interviewees mention a decreasing number of loyal customers.

"It is a fact that the technological development has changed the way consumers shop and behave. This is not unique for the retail industry. However, small retailers have to find a way to adapt to these changes in order to survive in the long term."

Bengt Hedlund, CEO of Butikerna

The features described above help us to understand the small physical retail store. They also explain what kind of relationship the store and the consumer have and how it has changed over the years since the Internet was launched. We also asked our interviewees if the introduction of the Internet and the changes in consumers' behavior has caused any problems for their business. The result of this is presented below.

4.2 Problem Identification

The emergence of the Internet has created many new opportunities for companies to reach new customers through new sales and marketing channels. The great selection of retailers and products has also empowered the consumers and put a lot of pressure on physical retailers (PWC, 2012). We have identified five major problems that the interviewees experience and how they affect the business.

4.2.1 Price Competition and Fake Products

As mentioned above, the introduction of the Internet has resulted in more well-informed and price sensitive consumers. In a report published by PWC (2012), it is stated that e-business overall has contributed to price pressure. The same investigation also shows that lower prices is the most common reason that customers buy a product online instead of in a physical store and that price comparing websites are very important sources of information for modern consumers. According to PWC (2012), almost 50 % of the consumers compare prices online before buying a product. However, our interviewees claim that many of the products that are available at substantially lower prices online are fake and it is difficult for the consumers to be sure that the product that they have bought really is an original product.

One of our interviewees tells us that the fake product industry is not a new phenomenon and it is widely known that illegal mass production of different types of branded products exists. However, Internet seems to have taken the fake industry from being something that mostly happens on street markets in developing countries to something that actually occurs on "serious" websites. When asking the interviewees about what major problems they have experienced since the Internet was introduced, four of them mention the fake product market as one of them. They describe that it today is possible to order fake products from Swedish websites that seem legitimate. The copies are sold at much lower prices and they are often very well made, which makes it difficult to separate them from a real product. However, the quality of fake beauty products is generally substantially lower and the difference is noticed after a few weeks of use. The interviewees that recognized this problem describe that many customers are lured by the significantly lower prices that some illegitimate websites offer. Very often, the payment is certified as "secure e-business" which give the impression of the online retailer being a serious company. This certification, however, has nothing to do with the quality of the products.

"People think that the business is scrutinized and that they are guaranteed a real product if an online store are certified as "secure e-business". However, this certification only guarantees a secure payment and has nothing to do with the quality of the products"

Eva, owner of Gruvtorgets Parfymeri

"Many consumers refuse to believe that the fake industry could be present in Sweden without anyone doing anything about it. Unfortunately, however, it happens quite often that customers come in with fake products that they have bought online."

Ann, owner of Jet Parfymeri

Many of the interviewees stress that products that are sold at a significantly lower price often are fake. However, these lower prices make many price sensitive consumers reluctant to pay higher prices for original products in the store. The interviewees agree upon the fact that consumers in general should be more skeptical towards very low prices online.

"If the price of a product is "too good to be true", it most likely is not true."

Anna-Maria, owner of Västerhaninge Parfym & Hälsokost

The interviewees describe how customers sometimes come in with products that they have bought online to compare with the real product, and sometimes even try to make a complaint if they have been fooled. Four of the interviewees also describe that many consumers nowadays are more skeptical and ask if the product "is real", something that never happened before the Internet was introduced.

"Back in the days, I could handle any faulty product complaints, even products that were bought somewhere else and without receipt, and just give the customer a new product. Nowadays, however, the brands do not allow me to do that because of all fake products that are available on the market."

Ann, owner of Jet Parfymeri

When asked about how they believe that this can happen without anyone taking action, no one has a straight answer. Five of the interviewees, however, definitely think that the suppliers should take more responsibility about what is going on in the industry. Many of the interviewees suggest that some kind of official certification for serious beauty retailers online and offline should be developed by the suppliers and beauty brands. Two of the interviewees also mention that they believe that the expansion of e-business has happened in such a high pace that the development of an appropriate legislation and control mechanism for e-businesses operating in Sweden has fallen behind.

4.2.2 Free Riding

As described in the theoretical chapter, free-riding is a behavior where a customer uses the information provided by one channel but makes the actual purchase in another channel (Van Baal & Dach, 2005). All of the interviewees mention that they have noticed this behavior among customers in some way. Many of the interviewees explain how they have seen customers try products and then search for them on Google and compare prices with their smartphones directly in the store. It also happens that some customers come into the store and ask for advice regarding make-up and skin care or even smell different fragrances, just to write down information such as make-up colors or the name of the product or fragrance and then leave without buying the product.

"It happens that people come in and spend 15-30 minutes talking to us and ask for advice and then just write down the name of the colors and leave"

Ann, salesperson at Helenes Parfymeri

"It happens that customers try products, especially fragrances, and even tell us that they intend to buy the product at a lower price online or at the tax-free."

Eva, owner of Gruvtorgets Parfymeri

Four of the interviewees point out that the free riding behavior always has existed in some way. However, the introduction of the Internet has made the problem escalate compared to before. Before, it happened that consumers used the knowledge and experience of small beauty retailers to get information about products but actually purchased them from another store with lower prices, mostly outside Sweden or in tax-free shops.

One of the interviewees stresses that many of the large beauty brands require retailers to buy a certain amount of a product in order to get a tester for it. Because it is very expensive for many private owners to keep a large amount of all products and fragrances in stock, they often have to pay for the tester themselves. This makes the free riding behavior extra costly for small retail stores compared to, for example, large retail chains.

As mentioned previously in this chapter, an investigation conducted by PWC (2012) shows that price comparison websites has become a very important tool for consumers. The same investigation shows that as much as 69 % of the consumers had bought a product online that they first intended to buy in a physical store. Price was the main reason for this behavior.

4.2.3 Supplier Requirements and Market Conditions

One of the most commonly mentioned problems among the interviewees was the many requirements that physical stores have to agree on and follow in order to get and retain permission to stock a certain brand. Five of the interviewees mentioned two of these requirements as especially troublesome for small privately owned beauty stores. Firstly, brands often have a required minimum total annual turnover limit that has to be reached in order for the stores to be qualified to sell the brand. Secondly, beauty retailers are required to order their products from Swedish certified suppliers in order to be certified to sell a brand. In addition, the retail stores are not allowed to buy specific single products. If they want to sell a brand, they are required to buy the whole line of products from that specific brand. This requirement combined with the fact that many of the beauty brands today have a large selection of products in their portfolios, makes it very costly for small retailers to have many different brands in their store. In addition, two of the interviewees stress that even though they have the financial resources to have an additional line of products, the physical store space is a problem. Many brands require the retailers to have certain display stands for their products. Many of these stands are very large and since many of the privately owned beauty stores have quite small store premises, they do not have room for more than a few brands' display interior.

"The requirements that many of the beauty brands have is one of the major reasons that we have reduced the number of brands that we have chosen to work with over the years."

Elsie-Britt, salesperson at Eivy Flodins Parfymeri

"I would love to be able to offer my customers an additional make-up brand. However, I do not have room here in my store for a large and bulky display stand."

Ann, owner of Jet Parfymeri

As mentioned earlier, trends have become more important to consumers and five of the interviewees really stress the importance of keeping track of them. To always have an updated and varied selection of products, however, is a great challenge for many small retailers because of the requirements described above. Three of our interviewees describe that many brands launch one or two products that become very trendy and popular. As it is too costly to order an entire product line, many small retailers are unable to follow trends and work dynamically with their range of products even if they wanted to. The interviewees relate this problem to the modern customers' tendencies to rely primarily on the Internet as a source of information and ask for specific products instead of general advice. This behavior makes it very difficult for the salespeople to re-direct the customer and try to sell another product to them, when the trend factor is that important.

"In most cases, it does not matter if I have an equivalent or even better product to offer. The customer still wants THAT specific product that they have read about."

Anna-Maria, owner of Västerhaninge Parfym & Hälsokost

According to an investigation performed by PWC (2012), around 30 % of the consumers prefer to shop online because of the better selection of different products. One of our interviewees stress that if a customer comes in and asks for a product or brand that is not available, her store does not only risk losing that specific sales opportunity, but also future sales to that customer.

"If customers come in and ask for specific products or brands that I do not sell, they might get the impression that my store has a bad selection. This will most likely make them turn to another retailer first next time they need something, even if it is another brand or product that I actually do have."

Anna-Maria, owner of Västerhaninge Parfym & Hälsokost

Five out of six of the interviewees from small beauty retail stores express that they feel that the large brands nowadays put most of their focus and effort on the large beauty retail chains. According to a majority of the interviewees, these large retail chains, together with the many online stores that nowadays sell beauty products, are seen as the most important sales channels by suppliers today. This means that many of the small and privately owned stores feel that they no longer are worth many of the large brands' effort. Before the vast expansion of online shopping and large retail chains, small privately owned stores were important ambassadors for the beauty brands because of their deep knowledge about the products. Four of the interviewees express that they feel a bit abandoned by some of the large brands and suppliers.

> *"Before, sales representatives from the different brands came out to the stores on a regular basis in order to present, demonstrate and educate us about new products and their features. Nowadays, they just send us a printed presentation of the product and sometimes not even a tester."*

Eva, owner of Gruvtorgets Parfymeri in Höganäs

> *"Before the time of the Internet and nationwide retail chains, the survival of many of the beauty brands on the Swedish market depended on us small retailers since we were so close to the market. They seem to have forgotten about that, however."*

Ann, owner of Jet Parfymeri

The interviewees further recognize that the beauty brands often have the same minimum requirements regarding turnover for small privately owned stores as they have for large retail chains. Naturally, a national wide retail chain has a higher turnover than a one-outlet store, which gives them the opportunity to cooperate with any brand they want. They also, in general, have more financial resources and more spacious store premises, which give them an opportunity to have a large selection of brands despite the requirement to have the full line of products available to the customer. Many of the interviewees feel that it is absurd that the brands have the same requirement on small privately owned stores as they have on large nationwide retail chains.

> *"I actually do not know what the suppliers are thinking when they require as much from me, who has invested my own money in my business, as they do from a nationwide retail chain. It makes no sense."*

Anna-Maria, store owner of Västerhaninge Parfym & Hälsokost.

As mentioned earlier, the introduction of the Internet has lead to a vast expansion of e-commerce. One of the problems discussed previously in this chapter is free riding. When consumers test or ask for information about products in physical stores but intend to buy them online, e-business also contributes to creating uneven conditions on the market. Two of the interviewees especially point out that electronic retailers do not have to invest in product testers or spending time on educating themselves in order to gain genuine knowledge about the products. Instead, many physical retailers have to provide these services just to lose the profit to an online retailer in the end.

Four of our interviewees emphasize the fact that many online retailers source their products from suppliers outside of Sweden. Physical beauty retailers are required to order their branded products from Swedish suppliers in order to retain their permission to sell the brand. As mentioned above, collaborations with these Swedish suppliers often come with many requirements for the retailer to fulfill. Many of the online retailers, however, order their products from other suppliers from all around the globe. According to our employees, this means that many online retailers do not necessarily have to order the full product lines, but could instead choose to buy single products if they want to. The interviewees also draw parallels to the discussion about fake products mentioned above, and mean that many of the suppliers outside Sweden are illegitimate and that the customer never can be guaranteed to get a genuine product if the supplier is not certified and monitored by the brands. The fact that physical stores have strict requirements that have to be fulfilled while online retailers can ignore these and buy products from wherever they want, also contributes to uneven market conditions according to our interviewees.

4.2.5 Unwillingness to Change and Visibility

In spite of the vast expansion of e-business the past decades, a relatively low percentage of the Swedish retailers offer an online sales channel (PWC, 2012). The major reasons for this, according to the investigation made by PWC (2012), is that many retailers feel that they do not have the competence, resources and time required to introduce an online sales channel. Many retailers also feel skeptical about e-commerce and doubt that it would be profitable for their business to have a presence online. Bengt Hedlund, CEO of the co-operative organization "Butikerna", claims that small retailers in general are more reluctant to change than the large retail chains. He further states that the main reason for this is a lack of education and knowledge about not only how to change their businesses but also why these changes are necessary for a long-term survival.

"In general, these entrepreneurs are very proficient and have deep knowledge about the products and services they sell to their customers. However, as they very often have taken over a family business, many of them have no formal education or knowledge about how to successfully run a business."

Bengt Hedlund, CEO of Butikerna

Out of the six store representatives that we have interviewed, four say that they have simple and informative homepages in order to increase their visibility online. They state that they believe that it is important to have a presence and be visible online even though they do not have an online sales channel. Five of the stores have Facebook pages that are used to communicate with customers that are active Internet users. One of the interviewees, however, say that she has experienced that many older customers that do not use the Internet feel that they are outside the social environment and it is really important not to forget about these customers.

"Many customer clubs and loyalty programs today require the customers to have an e-mail address or a cell phone. I see all my customers as equally important and always offer myself to call them or even send them a traditional letter about up-coming events and campaigns if they want to."

Anna-Maria, owner of Västerhaninge Parfym & Hälsokost

Three of the interviewees state that they wish to have more active homepages in the future since they believe that a strong online presence will become even more important. One, however, say that they take the technological development very seriously and plan to develop their homepage and hopefully introduce an online sales channel soon. Two of the interviewed store owners explain that introducing an online sales channel and a serious homepage would require a large private investment since their businesses are run as sole proprietorships. This would not only be a risk for the business, but also for their private economy.

"I would really like to increase my presence online and be able to have a more active homepage where I can advertise campaigns and show my selection of brands and products to existing and potential customers. However, a professional homepage is both expensive and time consuming to maintain."

Ann, owner of Jet Parfymeri

"I would definitely like to have an active homepage and maybe introduce an online sales channel in the future. It would be really beneficial to integrate an online presence with the rest of the business. However, that would require a large investment and therefore, I have put that idea on hold for now."

Eva, owner of Gruvtorgets Parfymeri

4.3 Strategic Actions

As stated above, the introduction of the Internet and consumers' changed behavior on the Swedish beauty retail market has caused some problems for privately owned beauty stores. When asked about what they do in order to handle and prevent these problems, many of the interviewees feel that they lack power to change their situation.

The most important strategy that was mentioned by all of the interviewed store representatives was to maintain an exceptional customer service level and a good customer relationship. The interviewees claim that exceptional service combined with their long experience and deep knowledge about the products is their strongest competitive advantage.

"The large retail chains and department stores have such a high employee turnover, which prevents them to build a close and personal relationship with the customers."

Ann, salesperson at Helenes Parfymeri

"The customers really appreciate when I recognize them, know their names and even remember what products they usually buy. It makes them feel important and valuable, which they of course also are."

Anna-Maria, owner of Västerhaninge Parfymeri & Hälsokost

Four of the interviewees explain that they try to improve the relationship with new and regular customers in different ways. Two of them refer to the beauty brands' own loyalty programs where the customers collect points that can be used to get discount or free products in the future. One of the stores also has its own loyalty program where the customers collect stamps on a card whenever they shop. When the card is filled, the customer gets a discount on their next purchase.

A strategy used by four of the stores in order to increase sales and customer flow is to have VIP and after work events. During these events, the attending customers often get discounts and special offers and are generally very well taken care of. One of the interviewees says the she often co-operate with other retail stores that sell clothes in order to create bigger and better events that gives the customer a good experience.

Three of our interviewees also mentioned that they try to stock unique products that are not available online. One of the retailers even sold handmade accessories and other more exclusive products to niche her store.

Our empirical results help us identify three main potential problems that affect small physical retailers and originate from increased customer information: price competition, free riding and visibility. In addition, we identified fake products as a problem related to price competition. These problems will be the foundation of our analysis in the following chapter.

5. ANALYSIS

In the following chapter, we analyze the results gathered from the interviews we have performed by applying the theoretical framework introduced in chapter three as well as our own thoughts and reflections.

Our analysis is separated into two sections. It will start off by answering our main research question, which is "Do physical retailers face any problems due to consumers' increased access to information on the Internet". We do this by discussing three identified problems that can be connected to more knowledgeable consumers. However, to investigate this question fully, we also find it necessary to analyze if the Internet has caused any changes in consumer behavior, due to them having an increased access to information. To then reconnect to our main research question, we analyze what problems these behavioral changes cause for physical retailers. A possible changed consumer behavior is therefore discussed in the second part of this analysis.

5.1 Problem Identification

Our main research question in this essay is if physical beauty retailers face any problems due to consumers' increased access to information. After analyzing our empirical result, the answer to this question is a definite yes. The following section of the analysis is focused around three main problems, which we have identified based on the results of our interviews: *price competition*, *free riding* and *visibility*. In addition, we also address a smaller problem, *fake products*, that is related to price competition. Each problem will be analyzed according to the following model: First, the problem is introduced with support from our empirical material. We then discuss why this is a problem for physical retailers and analyze the problem by applying our theoretical framework to explain its existence. Finally, we finish off with our own discussion, which includes addressing any actions taken by our interviewed stores in order to mitigate the problem.

5.1.1 Price Competition

One of the main problems experienced by the interviewed physical retailers was the price competition within the beauty industry. The interviewees believed that this phenomenon to a great deal could be connected to the emergence of the Internet. They further state that since e-commerce in general has lower costs than physical retailers, they can charge lower prices for their products. This situation makes it difficult for physical retailers to compete on price. Many price sensitive customers therefore prefer to shop for beauty products online, which naturally results in a loss of revenue for physical retailers.

To help explain the origin of this price competition in the beauty industry, we apply Porter's five forces. The emergence of Internet has opened up new opportunities for sellers and buyers to find each other without being limited to a geographical area. In addition, this can be done to a much lower cost than traditionally, since internet access and a domain is enough to communicate with your potential customer base. The low costs have contributed to lowering the entry barriers, attracting many new actors to enter the market through the online channel. Naturally, more actors increase the competition in the industry, press down prices and increase the consumers' buyer power since they have many more options to choose from.

Many products in the beauty industry are also undifferentiated, meaning that the exact same products can be bought from many different resellers. We claim that this leads to a situation where sellers find it difficult to differentiate themselves in another way than through price competitive behavior. TCE assume people to be opportunistic and therefore, it is likely that undifferentiated products will increase the consumers' initiatives to base their decision on price, since there are no other perceived benefits.

By applying Porter's five forces on the beauty industry, we can understand why this price competition is problematic for small physical retailers. We believe that the smaller stores naturally have lower sales volumes due to the limited geographical area they are operating in. To cover their operational costs, they therefore have to either a) sell a larger amount of products with a lower profit margin or b) a smaller amount of products with a higher profit margin. We experience that many of our interviewees, partly due to their limited resources to substantially expand their business, choose to charge a higher price for their products. Instead, they try to justify the higher price by providing good service and knowledge.

However, as shown in our model of the modern consumer buying process, Internet has provided an opportunity for consumers to “pull” the information they need regarding their buying decisions. This is possible because of the low transaction cost for obtaining information online. We believe that this has made consumers less willing to pay extra for the service of professional guidance when shopping in physical stores. As described in our theoretical chapter, service is nowadays seen as a public good, which is available to the customers whether they buy the product or not. Therefore, we claim that good service is something customers take for granted and are not willing to pay extra for. If consumers have become unwilling to pay for service and knowledge, they are likely to prefer a purchasing channel where they do not have to pay extra for this. This leads us to the conclusion that it has become difficult for physical stores to justify their higher prices compared to e-retailers by claiming they make up for great service.

Some interviewees also mentioned that they try to stock unique products that are difficult to find online in order to differentiate themselves from the rest of the competition. They thereby try to mitigate the focus on price by increasing the feeling of exclusivity. The customers’ transaction and switching costs will automatically increase when they realize that this product is difficult to find elsewhere, and that looking for it somewhere else will increase their time spent on the transaction. As a result, they may feel like they might as well buy the product in that particular store, where they know it is sold. However, we believe that one aspect that makes it difficult for beauty retailers to be unique is that there are no real substitutes for these types of products. There might be many complements, such as a blue mascara instead of a black one, but there is no substituting product that fills the same function as a mascara. Undifferentiated products therefore naturally increase the price competition in the industry.

Based on this discussion, we mean that what previously was an industry focused around luxury, quality products and personal service, is now affected by price pressure and intense competition, causing it to transform dramatically. In addition to industrial structural changes, price competition in the beauty industry is caused by consumers' ability to switch sellers easily due to their low transaction and switching cots. This, however, will be discussed more in depth later on in this chapter.

5.1.1.1 Fake products

Some of our interviewees claimed that many of the branded products that are sold at a substantially lower price online are produced by the fake industry. The problem, according to the interviewees, is that many customers blindly believe that this kind of illegitimate business could never exist on the Swedish market, and therefore buy these products that often turn out to be fakes.

This phenomenon is related to the problem with price competition described above because physical retailers are essentially competing with the extremely low prices of fake products sold at some websites, without the costumers knowing that the products are fake. According to our interviewees, these websites often use a certified payment method, which lure the consumers to blindly believe that the quality of the products also is "certified". As the customer believes that these products online are real, it makes them unwilling to pay more for "the same products" in physical stores.

The origin of this problem can be explained by continuing on the discussion under the heading price competition, with the help of Porter's five forces. Because it is so easy to enter the market online, there is a risk that some unethical actors see an opportunity to sell products that are copies of the real product. In addition, we believe that along with the Internet expanding the geographical market, copies from

Asian countries, where the copying industry is widely established, can easily reach the west.

5.1.2 Free Riding

All of the people we interviewed mentioned that they had experienced free riding behavior in their stores and that they considered it to be a major problem. They describe that they can spend up to 30 minutes with a customer, helping them try out a specific product, only to hear them say that they have to think about it and then leave the store. Free riding is a problem for physical retailers since they invest time, energy and other resources that they will not get anything in return from. This is due to the fact that physical retailers cannot charge their customers separately for their service and knowledge.

This free riding behavior can be explained partly with the help of Porter's five forces, and partly with transaction cost economics and switching cost theory. Porter's five forces explain where the focus on price comes from, which leads to a more price comparing consumer behavior. As mentioned before, the Internet has made it possible for many more actors to enter the beauty industry due to low entry barriers. The buyer power increases and the focus on price become more prominent. Since the focus is on price, the customer is likely to become more inclined to compare and search for the best deal.

TCE and switching cost explain what makes the actual behavior possible. As the Internet has increased customers' access to information, it allows them to research products and find where they are sold at the lowest price with lesser time and effort invested. According to TCE, less time invested to search for a product leads to less investment in asset specific activities connected to a certain transaction. It also leads to lower evaluation and learning costs according to switching cost theory. The consumer finds herself less tied to a certain seller, since no deeper relationship has developed, which results in lower personal relationship loss costs and brand relationship loss costs. This makes the switch easier for the consumer to make.

This discussion tells us that TCE and switching cost theory can be applied to consumer behavior and help explain that a) the consumer behavior *has* changed because they are no longer tied to a specific seller since they do not need to invest as much time and effort into a relationship, and b) since the consumers are no longer tied to sellers through asset specificity and switching costs, they are more willing to switch sellers for different transactions. This, in turn, results in an increased free riding behavior.

However, even though the Internet has increased consumers' knowledge, the physical retailer is still providing something that is worthy enough to free ride on. We believe that this is because physical retailers offer something online stores do not: the feel, touch and smell of a product. This means that the store is still important enough for the consumer to visit, and that just factual knowledge is actually not all you need to reduce your information asymmetry when it comes to beauty products. We believe that this could make the beauty industry one of the industries that are the most exposed to free riding.

In addition to this, we believe the free riding problem could only be considered a problem if the customer actually leaves the store without making a purchase. Not until then could the resources spent on trying to sell the product to the customer be considered wasted. When a customer enters the store, you do not know his or her intentions in advance. The physical retailers can therefore not risk losing a potential customer by not offering any service or providing knowledge. Even if the customer ends up leaving the store, he or she might not have intended to buy the product anyway, even if it was sold at a lower price. Therefore, we believe that every free riding customer does not necessarily equal a lost sale.

5.1.3 Visibility

As discussed previously, many consumers today use online tools, such as search engines and product rating websites, to obtain the information they need regarding their purchase. Most of our interviewees mentioned that they have an online presence through a homepage, which was very simple and contained basic information about the store. However, we noticed that most of the interviewees only saw their homepages as plain sources of contact information aimed at customers. A lack of an online presence creates problems for smaller retailers since they lose all the potential customers that look for information online and are unaware that their shop exists.

The importance of having a strong online presence today can be explained by applying the theory of the modern consumer's buying process, combined with transaction cost economics and switching cost theory to explain how the costs affect the purchasing behavior. If a customer discovers an immediate need for a product, for example by reading about it on a blog, he or she is likely to initiate the information search stage instantly. As the evaluation cost for information is very low on the Internet, a natural step for the modern consumer is to perform an online search to find out where the product can be bought and how much it costs. If your store does not show up among the search results, the customer will never know that you are stocking that product or that your store even exists. After performing this online search, the customer has already obtained information about where the product can be bought and an approximated price. The customer's incentives to visit alternative retailers, if he or she even knows they exist, are therefore very low. In other words, instead of increasing his or her transaction and evaluation costs for obtaining more information, the customer most likely turns directly to the retailer she now knows sells the product.

Based on this reasoning, we believe that homepages could be used to increase small stores' visibility online and by that, increase the number of potential customers. When asked about their online presence, some of the interviewees said that they would like to have a better homepage, but felt that they did not have the time and resources required to do something about it. It was definitely not a priority. In our opinion, this indicates that they do not fully understand how consumers' behavior has changed over the last decades. Bengt Hedlund, CEO of "Butikerna", mentioned that small individual storeowners are more reluctant to change than, for example, large retail chains. He further stated that they in general also lack knowledge and education about how their business fits into an online focused society.

We believe that one reason for the large retail chains' strong position on the Swedish market, which had been addressed in previous chapters, is their ability to quickly adapt to the rapidly changing market conditions. Additionally, these large retail chains have the resources that are required to create a multichannel organization that has adapted to the modern consumer's buying process and increases the consumers' awareness about the company. This makes it even more important for small retailers to try to increase their competitiveness by being visible and reach the consumers through an online channel.

Today, a strong Internet presence consists of more than just having a homepage. It requires deep knowledge about modern web development tools to build a competitive website that gets many hits on search engines. Therefore, building a new and modern homepage would require an investment if the storeowner does not have this knowledge already. We believe that small retailers are more unwilling to make risky investments, since they are investing their own money into the business. This might affect their decision to make an investment that they consider risky. However, we believe that the changes in how consumers shop and search for information indicates that visibility will become even more important in the future and therefore, it could be worth making the investment in order to remain competitive in the long term.

5.2 Consumer Behavior

One of our main sub questions in this essay addresses if the Internet has caused some type of change in consumer behavior, through making information so accessible, and if it has any effect on physical retailers. After analyzing our empirical result, the answer to this question is also a definite yes. The following section will discuss this relationship.

All of the stores interviewed mentioned that they had noticed a change in the way some customers act in their stores, particularly younger people. Examples of this changed behavior is for instance customers asking about specific products they had seen or read about on blogs or in magazines. Some customers would also try out the correct colors or the best perfume, only to write everything down and leave the store empty handed. Other customers could be seen with their phones in hand comparing prices, or even asking if the products sold in the store are real. This is a behavior all of our interviewees said you would never have experienced a few years ago.

Our investigation therefore proves that, based on the retailers' statements, a changed consumer behavior is a fact, and we believe that this could be strongly related to the problems discussed previously in this chapter. However, what this relationship looks like is not crystal clear since the problems seem to be partly caused by the factors discussed above and partly by the way consumers act. At the same time, the way consumers act seem to be a result of the factors that cause the problems. We therefore come to the conclusion that the identified problems above are a result of two things: 1) the factors creating the problems (explained through application of all four theories as executed above) and 2) these factors also contributing to creating a changed consumer behavior, which to a great extent has changed the consumers' buying process.

Our theoretical framework helps us explain how the factors discussed above also can create a change in consumer behavior. The previous discussion related to Porter's five forces and price competition can explain how the customers have become more price sensitive through greater access to information via the Internet. Additionally, the application of TCE and switching costs theory also lead us to the conclusion that the customer behavior in fact has changed. An almost unlimited access to information on the Internet creates lower transaction and switching costs which make consumers become more willing to switch channels throughout their buying process.

A changed consumer behavior can also be analyzed by applying the modern approach to the consumer buying process. The emergence of the Internet has changed the consumer buying process, mainly by lowering the transaction costs and switching costs. This has reduced the time that customers need to spend on searching for relevant information regarding their purchase. As the modern consumer to a great extent "pull" the information herself, the need for professional guidance when visiting physical stores is reduced. Our model of the modern consumer's buying process (also explained in our theoretical chapter) is displayed in figure 4.

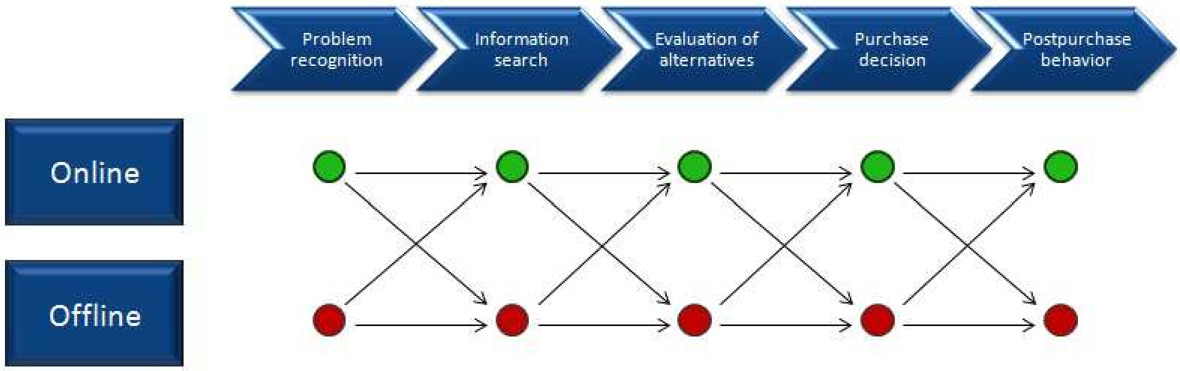

Figure 4. The Modern Consumer Buying Process

As described in the theoretical chapter, the modern consumer buying process makes it possible for consumers to switch unfettered between online and offline sales channels and information sources. In addition to an array of new ways to evoke wants and needs of consumers, the Internet has substantially changed how consumers behave in the information search and evaluation steps. As the Internet has contributed to very low transaction and evaluation costs for the consumer, it has become a natural source of information. However, when researching a product online without having tried it, the consumer might experience some uncertainty due to the information asymmetry between herself and the online retailer. To reduce this uncertainty, the consumer might move from an online to an offline information source by, for example, visiting a physical store in order to try and obtain more information about the product. If the consumer then decides to move back to an online channel when doing the actual purchase, a free-riding behavior occurs.

These four theories mentioned, together explain how a changed consumer behavior has developed. All of these factors discussed create a consumer that does not feel tied to any particular seller and consequently, has no problem with switching to a different one. This in combination with many different options to choose from, due to the products being relatively undifferentiated, allows the consumer to focus on price to a great extent. This changed behavior has mainly affected two aspects: customer loyalty and the customer-retailer relationship and role. These aspects will be discussed below along with the effect trends might have on customer behavior, which could also be considered to have contributed to this change.

5.2.1 Customer Loyalty

Since all of our interviewees have experienced some sort of change in consumer behavior, where the focus seems to be solely on price, we can also draw the conclusion that loyalty is no longer what it used to be. In addition to customers complaining about high prices in store, the owners have noticed a decreasing amount of loyal customers, especially among younger people.

As the discussion above regarding a changed consumer behavior concludes, we do not build the same relationships with each other that we used to. Since we do not have to invest as much time and effort by searching for information or prices due to the Internet, there is just not enough time spent with the reseller to cause transaction costs for the customer. This results in a lack of loyalty, which can further be explained by the switching cost theory in the sense that the evaluation and learning costs have been lowered, since the time and effort to perform the search and learn about the products is reduced. The personal relationship loss costs and brand relationship loss costs are also lowered, since the consumers have not developed a bond with the seller or identified with them. A deeper relationship never forms, making these costs appear low to a consumer, which increases their willingness to switch seller for the next transaction. TCE and switching cost theory thereby tells us that loyalty is therefore no longer something that locks the customer in a relationship. An application of Porter's five forces also explains that the customer has so many options to choose from that he or she is not dependent on just one seller. This tells us that a good relationship with a specific seller does not matter anymore, causing loyalty to lose importance.

A lack of customer loyalty means that it is difficult for physical retailers to retain customers. Some of our interviewees tried to mitigate this by offering loyalty programs and organizing VIP-events. These strategies intend to increase the switching costs for consumers, mainly their benefit loss costs and personal relationship loss costs, and prohibit switching behavior. Since a more price sensitive customer is not willing to overlook a lower price just because they enjoy shopping at a certain store or have a friendly relationship with the owner, some sort of benefit from the relationship, such as discounts, could make the consumer stay.

5.2.2 Role and Relationship

Many of the interviewees describe their role in the relationship with the consumer as being focused around providing knowledge, advice and information about their products. However, the changed behavior discussed above tells us that this role might have lost its value. Our interviewees have also noticed that customers are more informed when they enter the store than they have been previously and sometimes also ask for specific products they have heard or read about online, which supports this theory further.

Our impression is that the salespeople in a store no longer are the main source of information for consumers today. Since they can access information about products through the Internet, as well as look up reviews and comparisons on appropriate sites, they are no longer dependent on the information provided in store. This behavior could be explained by using the modern approach to the consumer buying process discussed in our theory chapter. Because the consumer can decide which information they need and find it themselves, they are no longer solely dependent on the information offered to them by marketers and salespeople. Consumers now have the possibility to pull information they need from the individual companies, as opposed to just getting it pushed towards them. This way of getting information could therefore have replaced the role physical beauty retailers used to play, that is the advisory role based on knowledge and experience, which many of our interviewees see as their competitive advantage. The theory about the consumer buying process therefore helps us realize that the Internet has shortened the consumer buying process significantly by allowing them to pull information themselves.

In addition to this, we also believe that today's consumers are more skeptical towards salespeople than before. To analyze this by applying TCE, you could say that the fear of opportunistic behavior is greater in this type of situation. Today's consumers understand that salespeople are more concerned about the success of the organization and might not have the customer's best interest at heart. This might push the consumer towards a more objective and unbiased source, such as the Internet, and perform the search themselves to minimize the uncertainty a fear of opportunistic behavior creates.

Which role physical retailers play today could be linked to free riding, which was discussed above. The consumers might use the store as a place where they go to feel, smell and try products in real life, since they already have access to the information the salespeople can provide. They will therefore be using the physical store as a showroom, which they enter knowing that they do not intend to buy the product there. This is obviously a problem for retailers since they often believe that their service and knowledge is their competitive advantage. If they do not realize that this role has changed, they might have trouble attracting customers.

However, it is also important to mention that the interviewees did comment that there is an age difference when it comes to this type of costumer behavior. According to them, older customers still use the physical beauty stores to get information about new products and advice on specific skin conditions. This could further support the idea that the Internet is changing today's consumers since it mostly seems to be the younger customers, who have grown up with the Internet in their back pocket, that show this type of behavior. Customers who have not adopted the Internet as a purchasing channel, however, may still use physical stores as their main access point to information.

In addition to this, some people also visit physical stores because they do not know which option to choose and they need someone to decide for them. These people value the knowledge salespeople possess and, for them, the advisory role of physical retailers is intact.

5.2.3 Trends

Some of our interviewees mentioned that the Internet has made trends spread faster and further compared to before. This is because information about new products and emerging trends instantly can reach consumers worldwide through social media, bloggers and beauty journalists. Due to the suppliers' demanding requirements on physical retailers, these fast moving trends can cause problems for small physical retailers.

The quick dispersion of information on the internet can reach consumers by blogs and magazines. This lowers their evaluation and learning costs, resulting in a lower experienced switching cost. They might later take this information into a physical store and ask for specific products they have seen on these blogs. This puts additional pressure on the stores to stay updated on trends and stock the latest products. How this happens could be analyzed by applying the modern consumer buying process. Before the Internet existed, a need arose only when consumers saw something in person or in a commercial. Today, however, there are so many more channels available where wants and needs can arise. The consumer can, for example, experience a need when accessing brands' own websites, blogs and online magazines.

You could therefore say that the Internet has increased product awareness among consumers. As a result, it is no longer the physical store that finds new products and introduces them to the customers. Instead, it is the customers that introduce new products to the retailers. All of a sudden, ten customers visit a physical beauty retailer, asking for exactly the same product. This has an indirect effect on the physical retailer's product selection in store. If enough people ask about a product, the store might decide to stock that product, because if they do not, they will lose potential customers. However, this can be a problem for smaller physical retailers because they, as discussed above, often cannot buy just one single product from a specific brand. They might need to buy the entire line, which is very costly and might not fit in a small store. Trends come and go so fast that it can be difficult to keep up. Customer awareness of trends could therefore indirect cause problems for small retailers.

5.2.4 Relationship between Behavior and Problems

By the discussion above, it is easy to draw the conclusion that this changed consumer behavior can cause problems for smaller physical retailers. The customers' focus on price and unlimited access to relevant information regarding their purchases online diminishes the believed competitive advantage of offering great service. A lack of loyalty among consumers makes it difficult for physical retailers to retain their customers and build closer relationships. The consumers' access to any information they want has changed the role that physical retailers traditionally have played in their relationships with customers. The traditional retail store has started to transform from a place you would go to get information and advice in order to make a purchase, to a place where you try out a specific product with an intention buy it wherever the lowest price is. A consumer that is more aware of trends demands the store to have an updated and varied selection of products, which can be a challenge for small retailers due to the suppliers' many requirements.

This make us draw the conclusion that the discussed factors causing the identified problems in the first part of this analysis, also creates the changed consumer behavior explained above. However, this changed behavior is also what causes the problems to arise. It is therefore not only the factors that are responsible for causing problems for physical retailers. The consumers are also reinforcing the factors by acting differently. Therefore, physical retailers need to realize that it is not just the industry that has changed due to factors such as increased competition, but the changed consumer behavior affects their survival just as much.

6. CONCLUSIONS

In this last chapter we will answer our research question and present the conclusions we have drawn based on our empirical material and analysis. We will also discuss theoretical and practical contributions, as well as possibilities for future research.

This essay has investigated whether small physical retailers face any problems due to consumers' increased access to information on the Internet. After performing seven interviews and analyzing the results with the help of our theoretical framework, we have come to the conclusion that the answer to this question is yes. We have identified three main problems that can affect small physical retailers, which all can be related to more knowledgeable consumers.

The first problem we have identified is *price competition*, which is related to industrial changes that have contributed to an increased focus on price on the beauty retail market. Through the use of the Internet, consumers have become more aware of prices, as well as more price sensitive, since comparing alternatives has become effortless. The number of actors on the market also continues to increase, which increases the competition in the industry and strengthen consumers' buyer power. Internet has also provided an opportunity for consumers to "pull" the information they need regarding their buying decisions. This could make them less willing to pay higher prices for service and professional guidance, which small physical stores consider being their main competitive advantage. Consequently, as consumers' initiatives to shop online increase, it results in a loss of revenue for physical retailers.

In relation to the price competition on the market, our interviewees also identified *fake products* as a problem linked to the increased number of actors on the market. More price aware consumers can get the wrong impression from the low prices of these products online. However, since they do not realize that the products are fake, they experience the real products sold at physical retailers to be overpriced. Physical retailers are therefore price competing with fake products in an unfair way.

A second problem identified is *free riding*. Lower switching costs make consumers less tied to the relationship with the retailer, making them less loyal and more difficult for retailers to retain. However, the one thing that is not available to consumers online is the feel, touch and smell of a product. If they want to experience the product before buying it, they still have to visit a store. Since they are more price sensitive, they intend to find the best deal possible. This knowledge could cause them to free ride on the experience aspect of a physical store if the product is available at a lower price online. This is problematic for physical retailers since they spend resources on these customers that they will not get anything in return from. If the retailer cannot retain the customer in store and convince them to make the purchase there, they will lose that sale.

The third and final problem identified is *visibility*. This problem is related to storeowners' lack of understanding of how the consumers' buying process has changed since the emergence of the Internet. Since today's consumers actively use the Internet to search for information about their purchases, we believe that if a retailer is not visible in this channel, they face the risk of not even being an option for consumers who use the Internet to, for instance, find the closest retailer in their geographical area. Today's physical retailers have to realize that the Internet is not only used to shop, but to mainly search for information. They therefore do not necessarily need to have an online shop to be "active" online, as many of our interviewees seem to think. However, they need to increase their visibility, for example by investing in a better homepage that shows up as a hit in search engines when the consumer is browsing the Internet for relevant information.

In addition to our main research question, we also analyzed if the increased access to information had lead to any changes in consumers' behavior, and, if these changes were present, if they somehow affected physical retailers. Based on our empirical material and with the help of our theoretical framework we came to the conclusion that the consumer behavior has changed, and that the changes do indeed have an affect on physical retailers. How the consumer behavior has changed can be shown by our own model of the modern buying process. We felt that the traditional buying process did not explain today's modern consumer properly, and that their possibility to jump freely across channels should be included.

This changed behavior has affected two main aspects: *customer loyalty* and the *customer-retailer relationship* and *role*. With the consumers being more price sensitive along with their transaction and switching costs being lower, their loyalty has decreased. A lack of loyalty makes it difficult for physical retailers to retain their customers, who might free ride off of their knowledge only to buy the product somewhere else.

The customer-retailer role has also changed. Before the Internet, customers would visit the store to receive information about new products and how to use them. Today, the consumer already has access to this information via the Internet and the incentive to visit the store for information is therefore gone. What they do not have access to via the Internet, as mentioned above, is the physical aspects of the products. This includes the look, feel and smell of a product. To experience this, the consumer still has to visit the store. We therefore present the possibility that the role of a physical retailer has changed from being centered around providing information, to being used to see and feel a product in real life. The intention might not even be to buy the product, since free riding is such a common problem mentioned by our interviewees. This causes a problem for physical retailers if they do not realize that the role they play in relation to the consumer might not be so obvious anymore.

6.1 Discussion

We believe that if small physical retailers cannot manage to differentiate themselves, the price competition will continue to hit them hard. The price competition might result in a zero sum game, as Porter describes, where no profits are made. As also addressed by our interviewees, the problem with fake products could be mitigated by a certification for serious retailers. This would probably contribute to alleviating the large focus on low prices and help consumers separate fake products from originals.

If the free riding consumer behavior continues to increase, we believe that physical retail stores may turn into showrooms. Retailers will not have any real stock in store, and customers will visit the shop just to try out the product. You might be able to scan the products with your phone and be taken to the store's website directly. However, this is probably in a more distant future.

If physical retailers manage to become more visible online, they will reach a bigger geographical area and attract more distant customers as well. They will also be able to offer their existing customers better service by being more flexible and easily available, for instance in the postpurchase step of the consumers' buying process.

As a concluding discussion we would like address if this current situation in the retail industry actually is something consumers benefit from. If privately owned physical retailers continue to disappear, the options on the market will decrease. The major chains will control the supply on the market and the consumers will have a lower buyer power with fewer sellers available. Maybe the situation we are moving towards is more serious than we think. Maybe we as consumers should start supporting small, struggling beauty retailers while we still have the chance.

6.2 Theoretical and Practical Contributions

6.2.1 Theoretical

This essay has made a theoretical contribution by applying transaction cost economics and switching cost theory on consumer behavior to analyze the costs that arise for consumers when they perform a purchase. The result of this application showed that TCE and switching costs can be applied to consumer behavior and help explain that a) the consumer behavior has changed because they are no longer tied to a specific seller since they do not need to invest as much time and effort into a relationship, and b) since the consumers are no longer tied to sellers through asset specificity and switching costs, they are more willing to switch sellers for different transactions. This, in turn, results in an increased free riding behavior. TCE and switching cost theory has also helped explain how loyalty is no longer something that locks the customer in a relationship.

We have also contributed with a modern approach to the consumer buying process by, in conjunction with TCE and switching cost, explaining that the consumer buying process has changed because of the consumers' increased knowledge via the Internet. It has lowered their transaction and switching costs, thereby shortening their buying process. In addition, we have also shown that there are many more channels today that can create a need for consumers, which increases the importance for retailers to be present in many different channels to reach and attract more customers.

6.2.2 Practical

This essay has shown that small physical retailers do face some problems due to consumers' increased access to information on the Internet. We have also shown that the changed consumer behavior the Internet has caused, through making information so accessible, has an effect on physical retailers. Physical retailers should realize that it is not just the industry that has changed due to factors such as increased competition, but the consumer behavior in the beauty industry has also changed and affects their survival just as much.

6.3 Future Research

As mentioned in our empirical chapter, many of our interviewees described a changed buyer-suppler relationship within the beauty industry. Before the emergence of the Internet, physical retailers used to be seen as important ambassadors of the brands sold in their stores. Suppliers made frequent visits to the stores in order to introduce and educate the personnel about new product launches. Today, all they get is a flyer accompanied by the products. We felt that this aspect was outside the scope of this essay, and therefore chose not to address it in our analysis. However, we think that this is a very interesting phenomenon and that it would be very informative to investigate why this is the situation today.

Additionally, we feel that the possibility of creating a certification for selling specific types of “genuine” products would be interesting to look into. If this is possible to achieve, the fake product industry might have difficulty selling products and small, physical retailers would have something to back up their authenticity and knowledge.

Also, everything in our investigation regarding the consumers’ changed behavior is in some way only theoretical. It is based on our interviewed retailers’ view of the customers today, which we then have built our reasoning on. We are aware that we do not have an empirical customer perspective to support our conclusions relating to this. Future research could therefore empirically investigate if this actually is the case.

7. REFERENCES

Literature

Ahrne, G & Svensson, P. (Red.). (2011). *Handbok I kvalitativa metoder*. Malmö: Liber AB.

Anderson, E. W. (1994). Cross-category variation in customer satisfaction and retention. *Marketing Letters, 5:1*, pp. 19-30.

Alba, J. W., Lynch, J, Weitz, B., Janiszewski C., Lutz, R., Sawyer A. & Wood, S. (1997). Interactive home shopping: consumer, retailer and manufacturer incentives to participate in electronic marketplaces. *Journal of Marketing, Vol. 61*, pp. 38-53.

Backman, J. (2008). *Rapporter och uppsatser*. Lund: Studentlitteratur.

Bakos, J. Y. (1997). Reducing buyer search costs: implications for electronic marketplaces. *Marketing Science, Vol. 43, No. 12*, pp. 1676-1692.

Balakrishnan, A., Sundaresan, S. & Zhang, B. (2013). Browse-and-Switch: Retail-online competition under value uncertainty. *Production and Operations Management, 0(0)*, pp. 1-17.

Bazdan, Z, 2011. An international economy and e-commerce case study: EBAY, *Our Economy. Vol. 57, Issue 3/4*, pp.44-50.

Björklund, M., & Paulsson, U. (2003). *Seminarieboken*. Lund: Studentlitteratur.

Bolton, R. N., Kannan, P. K. & Bramlett, M. D. (2000). Implications of loyalty program membership and service experiences for customer retention value. *Journal of the Academy of Marketing Science, 28(1)*, pp. 95-108.

Bryman, A., & Bell, E. (2013). *Företagsekonomiska forskningsmetoder (2nd ed.)*. Stockholm: Liber.

Burke, R. R. (2002), Technology and the customer interface: What consumers want in the physical and virtual store. *Journal of the Academy of Marketing Science, 30*, pp. 411-32.

Burnham, T. A., Frels, J. K. & Mahajan, V. (2003). Consumer switching costs: A typology, antecedents, and consequences. *Journal of the Academy of Marketing Science, Vol. 31, No. 2*, pp. 109-126.

Calanog, V. (2011). Will Electronic Commcerce Kill Brick-And-Mortar Retail? *National Real Estate Investor*, p. 92.

Carlton, D. W. & Chevalier, J. A. (2001). Free riding and sales strategies for the Internet. *The Journal of Industrial Economics, Vol. XLIX, No. 4*, pp. 441-461.

Chen, P. Y. & Hitt, L. M. (2002). Measuring switching costs and the determinants of customer retention in Internet-enabled businesses: A study of the online brokerage industry. *Information Systems Research, 13(3)*, pp. 255-274.

Chircu, A. & Mahajan, V. (2006). Managing electronic commerce retail transaction costs for consumer value. *Decision Support Systems, 42(2)*, pp. 898-914.

Chiu, H. C, Hsieh, Y. C., Roan, J., Tseng, K. J. & Hsieh, J. K. (2011). The challenge for multichannel services: Cross-channel free-riding behavior. *Electronic Commerce Research and Applications, 10*, pp. 268-277.

Evans, M., Jamal, A. & Foxall, G. (2012). *Konsumentbeteende*. Malmö: Liber AB.

Fornell, C. (1992). A national customer satisfaction barometer: the Swedish experience. *Journal of Marketing*, *Vol. 56*, pp. 6-21.

Gensler, S., Verhoef, C.P. and Böhm, M. (2012). Understanding consumers' multichannel choices across the different stages of the buying process. *Marketing Letters*, pp. 987-1003.

Global Cosmetic Industry. Jan/Feb2014, Vol. 182 Issue 1, p8-8. 1/2p

Gronhaug, K. & Gilly, M. (1991). A transaction cost approach to consumer dissatisfaction and complaint actions. *Journal of Economic Psychology 12(1)*, pp. 167-178.

Gupta, A., Su, B. & Walter, Z. (2004). An Empirical Study of Consumer Switching from Traditional to Electronic Channels: A Purchase-Decision Process Perspective. *International Journal of Electronic Commerce, Vol. 8, No. 3*, pp. 131-161.

Heitz-Spahn, S. (2013). Cross-channel free-riding consumer behavior in a multichannel environment: An investigation of shopping motives, sociodemographics and product categories. *Journal of Retailing and Consumer Services, 20*, pp. 570-578.

Jones, M. A., Mothersbaugh, D. L. & Beatty, S. E. (2002). Why customers stay: Measuring the underlying dimensions of service switching costs and managing their differential strategic outcomes. *Journal of Business Research*, *55*, pp. 441-450.

Kahn, O. J. (2010). Understanding consumer transaction behaviour in web retailing. *International Journal of e-Business Management, Vol. 4, No. 2*, pp. 17-36.

Kalyanam, K. & Tsay, A. A. (2013). Free riding and conflict in hybrid shopping environments: Implications for retailers, manufacturers, and regulators. *The Antitrust Bulletin, Vol. 58, No. 1*, pp. 19-67.

Klemperer, P. (1987). Markets with consumer switching costs. *The Quarterly Journal of Economics*, *102(2),* pp. 375-394.

Kotler, P., Armstrong, G., Wong, V. & Saunders, J. (2013). *Principles of Marketing (5th ed.).* Harlow: Pearson Education.

Lao, M. (2011). Internet retailing and “Free riding”: A post-leegin antitrust analysis. *Journal of Internet Law, Vol. 14, No. 9*, pp. 14-23.

Lee, J., Lee, J. & Feick, L. (2001). The impact of switching costs on the consumer satisfaction-loyalty link: Mobile phone service in France. *Journal of Services Marketing, Vol. 15, No. 1*, pp. 35-48.

Liang, T. & Huang, J. (1998). An empirical study on consumer acceptance of products in electronic markets: A transaction cost model. *Decision Support Systems, 24(1)*, pp. 29-43.

Liu, Y. (2007). The long-term impact of loyalty programs on consumer purchase behaviour and loyalty. *Journal of Marketing, Vol. 71, No. 3*, pp. 19–35.

Lynch, J. G. & Ariely, D. (2000). Wine online: search costs and competition on price, quality, and distribution. *Marketing Science, Vol. 19, No. 1*, pp. 83-103.

Macher, J. T. & Richman, B. D. (2008). Transaction Cost Economics: An assessment on empirical research in the social sciences. *Business and Politics, Vol. 10, Issue 1*, pp. 1-63.

Mazursky, D., LaBarbera, P. and Aiello, A. (1987). When consumers switch brands. *Psychology and Marketing, Vol. 4, No. 1*, pp. 17-30.

Neslin, S. A., Grewal, D., Leghorn, R., Shankar, V., Teerling, M. L., Thomas, J. S. & Verhoef, P. C. (2006). Challenges and opportunities in multichannel customer management. *Journal of Service Research, 9(2)*, pp. 95-112.

Nunes, P.F. & Cespedes, F. V. (2003). The customer has escaped. *Harvard Business Review,* November, pp. 1-10.

Pick, D. & Eisend, M. (2013). Buyers' perceived switching costs and switching: a meta-analytic assessment of their antecedents. *Journal of the Academy of Marketing Science, 42,* pp. 186-204.

Porter, M. E. (1979). How competitive forces shape strategy. *Harvard Business Review*, March/April, pp. 137-145.

Porter, M. E. (1980). *Competitive strategy: Techniques for analyzing industries and competitors*. New York: The Free Press.

Porter, M. E. (2001). Strategy and the Internet. *Harvard Business Review*, March, pp. 63-78.

Porter, M. E. (2008). The five competitive forces that shape strategy. *Harvard Business Review*, January, pp. 79-93.

Pradhan, S. & Roy, S. (2012). Determinants of satisfaction and loyalty in apparel retailing. *International Journal of Business Insights & Transformation, Vol. 5, Issue 1*, pp. 78-86.

Rienecker, L., & Jørgensen, P-S. (2008). *Att skriva en bra uppsats (2nd ed.)*. Malmö: Liber.

Rindfleisch, A. & Heide, J. B. (1998). Transaction cost analysis: Past, present, and future applications. *Journal of Marketing 61(4)*, pp. 30-54.

Sharp, B. & Sharp, A. (1997). Loyalty programs and their impact on repeat-purchase loyalty patterns. *International Journal of Research in Marketing, Vol. 14, No. 5*, pp. 473-86.

Singley, R. B. & Williams, M. R. (1995). Free riding in retail stores: An investigation of its perceived prevalence and costs. *Journal of Marketing Theory and Practice, Vol. 3, Issue 2*, pp. 64-74.

Stone, M., Woodcock, N. & Wilson, M. (1996). Managing the change from marketing planning to customer relationship management. *Long Range Planning, Vol. 29, No. 5*, pp. 675-683.

Tan, C.S. (2010). Understanding Consumer Purchase Behavior In The Japanese Personal Grooming Sector. *Journal of Yasar University*, pp. 2821-2891.

Teo, T. & Yu, T. (2005). Online buying behavior: A transaction cost economics perspective. *Omega, 33(5)*, pp. 451-465.

The Digital Strength of Beauty Brands. (2014). *Global Cosmetic Industry, 182,* (1), p. 8.

Vázquez-Casielles, R., Suárez-Álvarez, L., & Del Río-Lanza, A. B. (2009). Customer satisfaction and switching barriers: effects on repurchase intentions, positive recommendations, and price tolerance. *Journal of Applied Social Psychology, 39*, pp. 2275–2302.

Van Baal, S. & Dach, C. (2005). Free riding and customer retention across retailers' channels. *Journal of Interactive Marketing, Vol. 19, No. 2*, pp. 75-85.

Verhoef, P. C., Neslin, S. A. & Vroomen, B. (2007). Multichannel customer management: Understanding the research-shopper phenomenon. *International Journal of Research in Marketing, 24*, pp. 129-148.

Williamson, O. E. (1981). The economics of organization: the transaction cost approach. *American Journal of Sociology, 87(3)*, pp. 548-577.

Williamson, O. E. (1985). *The economic institutions of capitalism: Firms, markets, relational contracting*. New York: The Free Press.

Wu, L-Y., Chen, K-Y., Chen, P-Y. & Cheng, S-L. (2012). Perceived value, transaction cost, and repurchase-intention in online shopping: A relational exchange perspective. *Journal of Business Research 67*, pp. 2768-2776.

Electronic Sources

Fürstenberg, C. (2007, March 30th). Butikskedjorna tar över gågatan. *Sydsvenskan*. Retrieved 14th of May from http://www.sydsvenskan.se/malmo/butikskedjorna-tar-over-gagatan/

Jacobsson, G. (2014, February 11th). Centrum fylls av tomma butiker. *Sydsvenskan*. Retrieved 4th of March from http://nynashamnsposten.se/nyheter/nynashamn/1.2371128-konsult-ska-fylla-tomma-butikslokaler

Karlsson, T. (2014, January 8th). Detaljhandeln mest konkursutsatt. *Dagens Handel*. Retrieved 4th of March from http://www.dagenshandel.se/nyheter/detaljhandeln-nast-mest-konkursutsatt/

Lööf, B. (2013, October 4th). Allt fler butiker I city står tomma. *Helsingborgs Dagblad*. Retrieved 4th of March from http://hd.se/helsingborg/2013/10/03/handeln-omvandlas-utan-att-man-pa/

McAuliffe, Robert E. "switching costs." *The Blackwell Encyclopedia of Management*. Cooper, Cary L. Blackwell Publishing. Blackwell Reference Online. Retrieved 6th of March 2014 from http://www.blackwellreference.com.ludwig.lub.lu.se/subscriber/tocnode.html?id=g9780631233176_chunk_g978140510066322_ss1-19

Pedersen, H. (2013, December 4th). Fler butiker överger Entré. *Sydsvenskan*. Retrieved 4th of March from http://www.sydsvenskan.se/malmo/fler-butiker-overger-entre/

Stenkvist, H. (2013, July 7th). Centrum fylls av tomma butiker. *Sydsvenskan*. Retrieved 4th of March from http://www.sydsvenskan.se/malmo/centrum-fylls-av-tomma-butiker/

Interviews

Ann Karlsson – *Parfymeri Helene*, interviewed 11-04-2014

Ann Liliedahl-Svensson– *Jet Parfymeri*, interviewed 03-04-2014

Anna-Maria Fagerström – *Västerhaninge Parfym & Hälsokost*, interviewed 31-03-2014

Bengt Hedlud– CEO *Butikerna*, interviewed 10-04-2014

Elsie-Britt Cherdin – *Eivy Flodins Parfymeri*, interviewed 10-04-2014

Eva Karlsson – *Gruvtorgets Parfymeri*, interviewed 07-04-2014

Sara Lindskog – *Beauty Box*, interviewed 02-04-2014

Other Sources

HUI Research. (March 2014). *E-barometern - 2013 årsrapport*. Stockholm: HUI Research, Post Nord, Svensk Digital Handel.

PWC. (March 2012). *Multikanaler; Kunderna tar makten när detaljhandeln blir mer tillgänglig*. PWC Retail & Consumer.

8. APPENDIX

Interview template – Store owners

Introduktion

Intervjupersonens bakgrund - berätta om dig själv (för att styrka trovärdighet).
Kan du berätta lite om er verksamhet? Utöver svaret, se till att följande besvaras:

Hur många anställda har ni?
Vilka anser du är era främsta konkurrenter?
Kan du beskriva utvecklingen av er verksamhet under de senaste åren?

Relation med slutkonsumenten

Hur ser du på er relation till kunden?
Vilken roll spelar ni för kunden?

Gör ni något för att påverka den roll ni spelar?

Upplever du att kundernas beteende har förändrats på något sätt i och med att de har tillgång till mer information?

Om ja, på vilket sätt?

Har du upplevt någon påverkan på er verksamhet i och med den ökade tillgängligheten på information?

Problemidentifiering

Hur ser du på fenomenet att kunder har lättare tillgång till information idag? (Problem/möjlighet?)
Anser du att det har någon direkt påverkan på fysiska butiker?
Anser du att det har någon på er verksamhet? På vilket sätt?

Lägre omsättning?
Lägre marginaler?
Mindre sortiment/varulager?

Åtgärder

Gör ni något för att hantera "problemet"/fenomenet med den ökade tillgången på information?
Kan du identifiera några specifika strategier som ni använder er av i butiken?

Följdfrågor baserade på svaret..

Har ni sett några resultat av de strategier ni har använt er av?

På vilket sätt? Vilka resultat?

Framtid

Hur tror ni att framtiden kommer se ut gällande kunders tillgång till information och dess påverkan på fysiska butiker?
Har ni några framtida planer på åtgärder?

Vad hoppas ni kunna uppnå med åtgärden/åtgärderna?

Interview template – Representative from industry organization

Introduktion

Intervjupersonens bakgrund - berätta om dig själv (för att styrka trovärdighet).
Kan du berätta lite om er verksamhet? Utöver svaret, se till att följande besvaras:
 Hur många anställda har ni?
 Vad är era fokusområden?

Relation med slutkonsumenten

Hur ser du på butikspersonalens relation till kunden i småbutiker?
Gör de något för att påverka den roll de spelar?
Upplever du att kundernas beteende har förändrats på något sätt i och med att de har tillgång till mer information?
 Om ja, på vilket sätt?
Har du upplevt någon påverkan på små butiker i och med den ökade tillgängligheten på information?

Problemidentifiering

Hur ser du på fenomenet att kunder har lättare tillgång till information idag? (Problem/möjlighet?)
Anser du att det har någon direkt påverkan på små fysiska butiker?
På vilket sätt?
 Lägre omsättning?
 Lägre marginaler?
 Mindre sortiment/varulager?
Skiljer sig problemen mycket i olika branscher?
 Är någon bransch extra utsatt?
Skiljer sig problemen mycket i olika regioner?
Vad anser du är kärnan i problemet?
 Butikers förmåga att hänga med i utvecklingen?
 Leverantörers beteende?

Åtgärder

Finns det något som butiker generellt gör för att hantera problemet med mer information?
Gör ni något för att hjälpa butiker hantera "problemet"/fenomenet med den ökade tillgången på information?
Kan du identifiera några specifika strategier som butiker använder?
 Följdfrågor baserade på svaret..
Har ni sett några resultat av de strategier ni har använt er av?
 På vilket sätt? Vilka resultat?
Är det någon bransch som har lyckats bättre eller sämre med att hantera problemet?

Beauty retailers drown in the wave of Free Riding

Small physical retailers are having a hard time these days. A new study shows that the vast expansion of the Internet and online shopping has created many new problems for these retailers. In times when low price has become priority for the consumers, small stores find it hard to remain competitive.

The noise from the rush hour traffic is deafening as I hurry across the road towards *Jet Parfymeri*. The small perfumery is located in a corner space of a big building in one of the central parts of Malmö, the third largest town in Sweden. However, as soon as I walk through the door, I forget all about the noisy traffic outside as I inhale the wonderful fragrances of perfume. Ann Liliedahl-Svensson is standing behind the neatly displayed counter, wearing a classic, white jacket.

- I hope it is okay that I interrupt this interview if a customer needs my help. Our loyal customers are very important to us, Ann says with a smile.

Photo: Tripadvisor.se

In the beginning of this year, UC published a report showing that 853 retailers went bankrupt in 2013. That is 1,5% of all retail companies in Sweden. This pattern can also be seen in many city centers, where empty shop premises continuing to increase.

- The times are definitely tougher now than they used to be, says Ann.

The retail industry has gone through a major change over the past couple of years. Many stores experience a decreased customer flow and customers seem to be less loyal today than they used to be. Ann believes that the vast expansion of the Internet is one explanation to these phenomena.

- Customers are significantly more aware and price sensitive than they were before. I believe that e-commerce and price comparison websites has contributed a great deal to this development, she says.

Internet and retailers

It is widely known that the emergence of the Internet has created a dream scenario for the modern consumer. A few decades ago, consumers who wanted to shop for beauty products were dependent on the selection of products offered by the shops in their neighborhood. It was difficult to find objective information, and consumers had no other choice but to follow the guidance of salespeople and advertisement. Today, the Internet has reduced the geographical distances, making it possible to shop from all over the world from the comforts of your own home. Furthermore, all the information you would want to know about different products, as well as websites that help you find the lowest price possible, are always just a few clicks away.

While the technological development has empowered consumers, it might have

affected retailers differently. A newly published study shows that many small physical retailers face problems in their everyday business, and that these problems could be related to consumers' access to information on the Internet. Susanna Thomasson, one of the researchers behind the study, explains that the research shows a clear pattern among small retailers.
- By conducting interviews with several physical retailers within the beauty industry, we have identified three problems that affected all of the stores in the investigation: price competition, free riding and a lack of visibility online, Thomasson says.

Ann confirms that these phenomena are something she has experienced as a growing problem for her business too.
- Since Internet became a natural part of peoples' everyday lives, some problems that never would have happen before have definitely arisen, she says.

Price competition

One of the problems that Thomasson refers to is an increased price competition within the beauty retail industry. E-retailers from all over the globe offer low prices and free shipping worldwide, which attracts many customers to shop online.
- The combination of low costs and enormous sales volumes give these e-businesses an opportunity to push down the prices in the industry, Thomasson explains.
Ann also explains that the lower prices that many online retailers offer have affected her business.
- It is very easy for the customers to compare prices today. The extremely low prices that some websites offer make many customers unwilling to pay the higher prices we have to charge to cover our costs, Ann says.

Free riding

Ann explains that many customers seem unwilling to pay for the service provided by physical retailers. This has created a free riding behavior, something that rarely happened before the Internet emerged.
- It happens quite often that customers come in and try out fragrances, just to write down the name of it and leave without buying. Sometimes, they are even comparing prices with their smartphones directly in the store, she says.

Thomasson also explains that free riding is a problem that has become more common for small beauty retailers. She believes that this has to do with the fact that many customers want to try the products before ordering them online.
- Beauty products, such as make-up and perfume, often have to be tried before you know if you like them. Therefore, we believe that retailers that sell these types of products run a higher risk of attracting free riding customers, Thomasson says.

The three problems identified in the study

1 Price competition. When more actors enter an industry, the competition within that industry rises. This pushes down the prices for the consumers, since there are more retailers to choose from. The retailers then have to compete by trying to offer the lowest price in the industry.

2 Free riding. A behavior explained as when consumers, through the use of more than one channel for a single purchase, obtain the services from one retailer and place their business with another. This could for instance be when a customer searches a physical store for a certain product, but uses an online store for making the actual purchase.

3 Visibility. With consumers' increased use of the Internet, it is important for small physical retailers to be active in this channel to attract customers. If you are not visible to the consumer, you are never even an option to contemplate.

Visibility

The study also shows that small retail stores seem to have problems with adapting to the consumers' new way of shopping. As the Internet has become an important source of information for today's consumers, a strong online presence has become a must to remain competitive. Many of the stores in the study did not see the benefits that a strong Internet presence could bring. Thomasson says that she believes that this has to do with the fact that potential investments in small businesses affect the owner's private economy.

- Storeowners are aware of the fact that they could benefit from increasing their online presence, for example by investing in a serious homepage. However, it often requires a huge private investment, which makes them refrain from doing it, Thomasson explains.

What next?

It is no question about the fact that the Internet has contributed to creating very favorable conditions for consumers. While they can enjoy lower prices and a greater selection of products than ever before, many of the privately own retail stores are fighting for their survival. However, it is important to realize that the Internet, along with a changed consumer behavior, is here to stay. Therefore, small retailers have to find a way to adapt to this development in order to survive and remain competitive ■ *Pernilla Svensson*