The Impact of E-Tailing on Inventory Management

A multiple case study of Swedish e-tailers and multi-channel retailers

Viktor Arfwidsson & Carl Hjelm
Industrial Engineering and Management, Lund University

E-tailing (electronic retailing) in Sweden has grown by more than 16% yearly since 2012, and now makes up almost 8% of all retailing in Sweden. Clearly online shopping is increasing in popularity, but how come many well-known e-tailers don’t make a profit even after several years of activity? In this master’s thesis project, the specific demands from e-tailing and their effects on inventory management are researched in a multiple case study, and related questions are asked. One of the fundamental questions is: do e-tailers only aim for maintaining high service levels, or is tied-up capital considered?

Inventory management refers to determining policies regarding what should be kept in stock, where it should be kept, when an order should be placed, and how much should be ordered. For consumers ordering products online, inventory management affect what you see on the website and how fast you will receive your order. Poor inventory management decisions may also render you unable to order what you want, because the company has not been able to meet the demand.

With the emergence of e-tailing, some of the basic properties of selling products have changed. Fulfillment and distribution, assortment size, campaigns and promotions, as well as return rates, are areas affected by the online market channel. In theory, only the first one makes inventory management easier, while the others increase the complexity. These four effects of e-tailing and their impact on inventory management in companies were researched in a multiple case study, where seven companies of different sizes and industries were interviewed.

The multiple case study revealed different approaches to the aforementioned areas and how they affect inventory management in companies. Depending on the maturity of the company, the industry it operates in and if it is a pure e-tailer or a multi-channel retailer, the approaches can look different. Furthermore, inventory management is not considered equally important in all companies.

At the moment, e-tailing is growing at a relatively fast pace. This might simplify the forecasting process for many companies - they can simply order quantities based on the expected growth. As e-tailing growth slows down, it may become sensible to focus on having a good (and not just large) assortment and to buy correct quantities. Through this thesis project, one can learn about the general differences between retailing and e-tailing, how these affect inventory management, common pitfalls, and reactive as well as proactive solutions for these.