

E-Tailing – Internet Retailing & Beyond

MINEit Software
www.mineit.com
info@mineit.com

Economists are predicting a 25-year boom driven by the productivity increases of e-commerce and a relentless globalisation causing new national economies to open-up. In response retailers large and small must face the challenge of adapting to the new global economy as the fat is cut off a merciless industry that will favour the lean and banish the ponderous.

Bricks Vs Clicks

Traditional 'bricks and mortar' supermarkets compete for slender profit margins where as little as 1% is common on high volume goods such as groceries. Competition is ferocious from down-market players moving up and players at the top end descending to serve the masses. Creditors demand more efficient use of capital forcing programmes of inventory level reduction and increased revenue per store.

The new breed of 'category killers' on the web such as *Amazon* and *CDnow* means that retailers need to utilise their information asset in ever more inventive ways to stay ahead of the competition and capture the imagination of an increasingly intelligent and impatient customer base. Unfortunately retailers traditionally have poor information

infrastructures with little cohesion between internal and external market information. So how can today's retailers become e-tailers and what can they expect from the new medium?

Advertising

A strong brand image is crucial to establishing confidence among timid on-line shoppers. An easily remembered Internet address - termed a 'domain name' is essential if prospects are to know where to find your business in the labyrinth of cyber space. For example *Mortgage.com* will attract more visitors than *Smith&Sons.com* - the name speaks for itself. This can be a barrier impeding many SME's from joining the e-commerce band wagon as purchasing a 'punchy' domain name can be an expensive task.

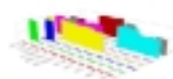
On the other hand it is debatable whether or not the brand concept holds the same weight for dot com's (Internet traders) as it does for traditional 'bricks and mortar' companies. The astute company can purchase the 'search rights' to a brand name, (provided it has not already been taken) at search engines and portal sites such as *Yahoo*, *Excite* and *Lycos*. Such was the case for 'Fragrance Counter' who purchased the rights to the key word 'Estée Lauder' from the



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search engine 'Excite'. A search for Estée Lauder presented the user with an advert for 'Fragrance Counter' - not an "authorised retailer" of Estée Lauder products.

In the run up to Christmas '99 on-line competition in the retail sector was fierce. E-tailers even resorted to the radical business model of offering generous cash incentives to first-time buyers. *BarnesandNoble.com* - the on-line book seller - and *ToysRUs.com* adopted such a incentive scheme. This business model is not without risk. The result of an overly successful advertising campaign swamped the *ToysRUs.com* site with Internet traffic however, the company was able to redirect the excess to its high street stores - an advantage not available to the 'on-line-only' e-tailers.

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Infrastructure permitting such a model may pay off in attracting visitors to a site when one considers that it can cost the average e-tailer \$42 to capture every new customer. While justifiable, the frenetic promotional activity of dot com's has created a critical mass rendering it virtually impossible to tell one from the other - let alone the true e-tailer from the mail-order pretender.

Huge marketing budgets have increased traffic volumes for

companies such as *Amazon* which has seen its sales rise 150% over the same period a year ago at a cost of \$20 per new customer. Software such as Easyminer from MINEit Software carries out a visitor-based analysis of web site traffic, and provides measures or e-metrics to provide marketing information and identify which of your competitors are looking at which parts of your site and determine why specific visitors 'abandoned' their electronic shopping trolleys in certain areas.

Easyminer from MINEit Software carries out a visitor-based analysis of web site traffic

Financing the 'e'

Failing to make a profit appears to be a badge worn with pride within the dot com community. The lack of profit is attributable to a number of factors such as the hardware and software costs incurred in set-up but most notable is the time it can take to build brand equity. Money can certainly speed the process up but even the Internet must slow down when it comes to human cognition and consumer take-up - it doesn't happen overnight.

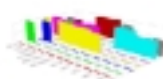
While the dot.com's continue to haemorrhage red ink from the balance sheet, the stock markets are losing their patience and expect to see some form of return on investment (ROI) soon. This is already evident in the



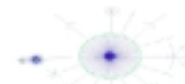
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investor focus shift from dot com's to the enabling infrastructure companies such as network switching organisations and web intelligence software vendors. For the moment investors tolerate these losses in the faith that the Internet really is the retail medium of this millennium - huge advertising budgets and non-stop venture capital funding suggests that Christmas 99' was sponsored by Wall Street.

SME's Vs Established Retailers

E-commerce promises to level commercial playing fields opening up national and international markets to the 'little guy' but how much of this holds true. Companies like *CDNow* (the Internet music retailer) was founded by two 24-year-old brothers in their parents house in 1994. Today CDNow Inc. is worth over \$100 million but stories such as this are by far the exception. Larger established companies face a number of distinct advantages when embracing the on-line channel.

Control over suppliers leading to economies of scale and lower prices combined with a wide product selection and a recognised brand image make it almost impossible for the SME's to gain attention. Additionally the larger companies will usually possess the scaleable technology infrastructure facilitating a true e-merchandising environment with personalisation, e-mining and web traffic analysis software. From the operational side, inventory control and on-line ordering technologies tightly couple the retailer to distinct supplier(s) allowing it to defeat the last

bastion of the SME - the specialist, niche offering. This was evident in the 1999 Christmas season where the big branded sites were the most successful.

Intermediaries

Intermediaries are feeling the pinch from manufacturers determined to reduce costs as the Internet threatens disintermediation in channel networks allowing the manufacturer to sell direct to the consumer - at least that is the current misconception.

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It is possible to enjoy the cost advantages of direct selling while still maintaining an effective and economic customer service without passing the expense for either on to the consumer. Such a business model sounds too good to be true yet its configuration is simple.

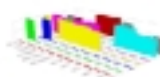
The manufacturer initiates a web strategy allowing it to sell direct to the



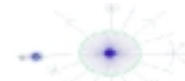
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customer - reducing the incremental mark-up at intermediate levels. The distributor who is geographically closest to the customer is awarded the sale without actually owning it. A contract exists between manufacturer and distributor, the latter promising to do some merchandising and promotional activity in their local area, to use the manufacturer as sole supplier and to integrate their ordering systems with the supplier. Customer service is provided by the distribution channel adding value to the manufacturer. The distributor in return gains access to a global market and the 'virtual inventory' necessary to serve such a beast. The challenge for the manufacturer is to raise the level of their game meeting a global increase in demand for their offering.

The decision to stop selling a manufacturer's product line or to refuse permission for a product to be sold by a retailer also has a valid case and should not detract from the mutually beneficial relationship between manufacturer and retailer. The old adage 'if you want something done properly then do it yourself' is especially true when one considers the huge marketing budgets indicative of any serious dot com. Ultimately the manufacturer is better positioned to present its' own marketing voice rather than that presented by a network of intermediaries and utilise the available content personalisation software enabling one-to-one marketing on a global basis.

Service

A flashy web page is simply not enough to sustain online success as the

wired consumer expects no less than exceptional service from the medium that promises the world. Free delivery is a nice idea but difficult to justify on cost grounds alone. One way to make such a business model work is to ship direct to an outlet store from where the customer collects the goods. Only at times of high turnover, (such as Christmas) can a free shipping model be sustained and even promoted as a shopping incentive. Other service features such as free return shipping, alerting customers via email of their order status and recommending other products they may genuinely be interested in (cross-selling and up-selling) are the means to customer delight and loyalty.

Two out of three on-line shopping baskets are abandoned during the commerce process

Service also plays a part in the usability of a site. Early adopters and the technically minded may continue using an awkward site but the mass market will not return. Two out of three on-line shopping baskets are abandoned during the commerce process and this is attributable to visitors becoming confused by poorly designed sites.

Still to Come

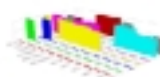
Shopping over your TV is presently a reality and Sony's latest WebTV offers split screen shopping so you don't have



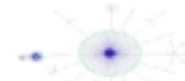
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to miss any of the golf when ordering a pizza. With the inevitable increase in bandwidth we will likely see 'event driven in-program' advertising where, seconds after the event, (a goal) the strikers football boots float across the TV screens of the jubilant and not the screens of the now unhappy opposition supporters. This is possible due to the customer profiles collected passively by the sports channel and used to target adverts to those it knows are interested in the product.

With speed and convenience in commerce comes real-time pricing and 'shopping agents' - a form of real-time, dynamic yield pricing - where retail commerce will become a similar experience to purchasing stocks and shares today. Companies such as *DealAgent* allow e-tailers to monitor up-to-the-minute information on what consumers are willing to pay for an item and adjust their prices accordingly. From the 'buyer-driven' commerce side, 'Snap' - the Internet shopping portal - alerts the user when it locates a product from a supplier at a predetermined price set by the user. A further adoption of this business model will likely come from the telecommunications industry where consumers will quickly bid for the 'air-time' they need to make a connection.

Conclusions

Retailers have always been subject to enormous competitive strain and the commonly perceived solution is to add 'e' to the business model in an attempt to capture the attention of a global shopping audience. Such an initiative results in no more than an additional channel and the successful company

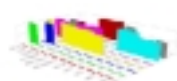
must have more than an electronic distribution medium - it must continue to provide what its customers want. Aware that his face would be seen by millions around the world on the then new, 'television' technology, Winston Churchill said, "I hope the raw material is as good as the method of distribution".



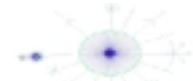
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