INTERNET RETAILING

SELLING IN THE DIGITAL AGE

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DABS.COM: OPPORTUNITIES IN A DOWNTURN

Neil Catto, Financial Director of Dabs.com – on growing a single-digit-margin electricals business

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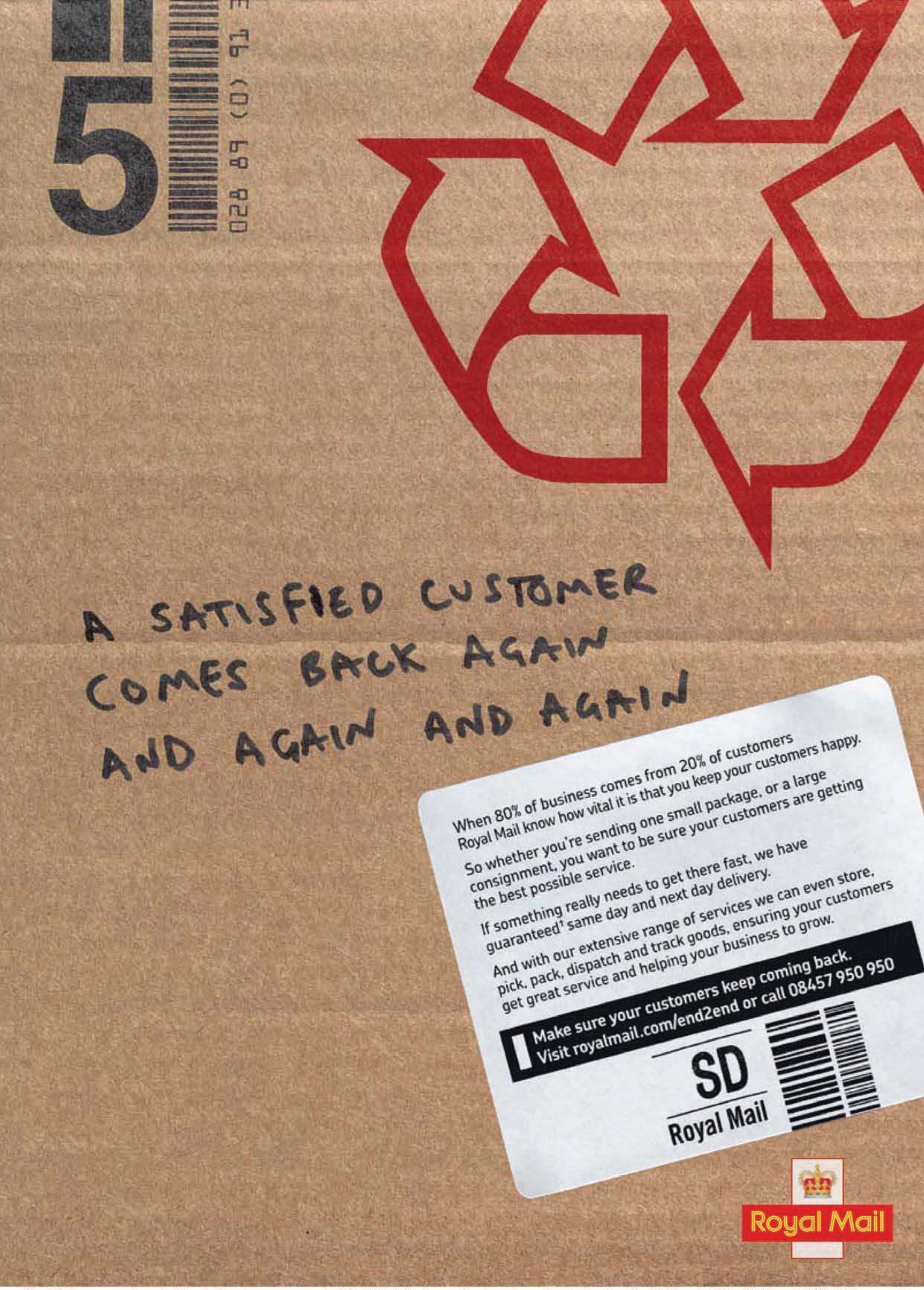
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EDITOR'S COMMENT

What a difference a year makes? From a skills gap at the start of the year to recession and job cuts 12 months later.

2008 has seen the end of some longstanding retail names and others saved by refinancing at the last minute. The knock on effect has been devastating for others in the supply chain and of course to the people who work for the companies concerned.

In his extended comment piece, Ian Jindal looks at the strategic considerations of the cash crash, the causes and opportunities offered by insolvency and the impact on retailers, staff and creditors.

Christmas didn't bring the same outcome to everyone. Some retailers have reported sales increases in the 20%, 30% and even 40%+ ranges. The top 10 retailers online over Christmas averaged a 37% increase in visitors compared to 2007.

So, as shoppers look towards their next holiday, Internet Retailing sets its sights further into 2009. As guest commentators examine the trends for the year including the future of behavioural merchandising, monetising ecommerce data and rich media, I start planning Internet Retailing's conference – being held on 13 October at Novotel, Hammersmith, London - and the call for papers goes out (see page 4 for more details).

Emma Herrod
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FEATURES

REGULARS

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TRAVEL REMAINS BUOYANT

Thomas Cook has reported a 32% rise in pre-tax profits for the year, the second travel company to report increased fortunes.

Manny Fontenla-Novoa, Chief Executive, Thomas Cook Group plc said: "Overall our results last year show that, through our merger (of Thomas Cook and MyTravel Group in June 2007) we have created a strong company with a team that has the knowledge and capability to read the market and respond accordingly. We have fully integrated our merged business and a number of strategic acquisitions, over-delivered against our cost-reduction targets, actively managed capacity, and successfully navigated our way through a period of unprecedented oil price volatility".

One of the highlights of the year has been a step-change in its e-commerce performance "where recent months have seen over 50% of bookings being made online". According to the company's report, 27% of total bookings, in the UK, are now made online, whilst in Germany, where the internet market has developed more slowly, 7% of customers book online (an increase of 14% year-on-year), although a much higher number research online and then book through an agent.

The group plans to increase operating profit in 2009/10 to £480m. Sales of holidays to UK customers for next year are at the same level as this time last year with nearly a quarter sold.

TUI Group has also reported increases in turnover and operating earnings in tourism, its core business, in the third quarter of 2008. The Group, formed from the merger of First Choice Holidays and Thomson, reported turnover by the tourism division grew by around 17%. Total Group revenue increased 9% to £13.9bn with profits rising from £222.8m to £319.7m (once one-off costs due to the merger have been stripped out).

TRAVEL WEBSITES, RANKED BY SHARE OF UK VISITS

Rank	*Website*	*Market share (%)*
1	Google Maps United Kingdom	8.32
2	Multimap.com	2.50
3	National Rail	2.45
4	Google Maps	2.07
5	RyanAir	1.80
6	easyjet	1.78
7	The AA - Travelwatch	1.62
8	Expedia.co.uk	1.60
9	TripAdvisor	1.35
10	lastminute.com	1.30
11	Google Earth	1.19
12	Thomson Holidays	1.17
13	The TrainLine	1.05
14	British Airways	1.04
15	Streetmap.co.uk	0.91

Source: Hitwise UK

KELKOO OFFERS CASHBACK

Kelkoo has launched Kelkoo Cashback, the first cashback service to be offered by a shopping comparison website, with the aim of bringing together in one place all the best money-saving methods the web has to offer.

With Kelkoo Cashback there is no joining fee and users start earning from the first pound spent. The company has also introduced a way for users to easily find out which retailers offer cashback - and ensure that every sale is registered to Kelkoo. The Kelkoo Cashback Toolbar alerts shoppers whenever they visit a website that is part of the Kelkoo cashback programme so they don't have to check into the main cashback site to find out who offers what.

Bruce Fair, Managing Director of Kelkoo.co.uk commented: "As the biggest shopping comparison site in Europe we're delighted to be offering price comparison, cashback and voucher codes to our users. By offering the Kelkoo cashback toolbar we're making it easier to find value online. You only need to download the toolbar once and it will always alert you when you're on a site with cashback available, so you can have peace of mind that you're not missing out on good deals from your favourite retailers."

TESCO LIVE MANAGMENT

Tesco and interactive media agency Conchango haven given a sneak preview of a concept application combining online grocery shopping with tools to manage family life, shop more efficiently and save money.

Designed to work seamlessly with Tesco.com using a forthcoming API, the concept model shown at the Microsoft Professional Developers Conference accesses all of the functionality and products on the Tesco website. New 3D product visualization is offered along with alternative and cheaper options of products selected, special offers and recipe ideas.

Selected recipes can be dragged and dropped onto specific days in a diary function to help with meal planning and the ingredients then purchased. Other tools allow shoppers to access email, Facebook, a calendar and post photographs onto the home page.

"The aim of this new application is to provide our customers with a complete shopping experience from the comfort of their own homes which will not only add value and make grocery shopping lightning fast, but also help them to spend less, and avoid waste," says Nick Lansley, Head of R&D at Tesco.

"With the integration of the calendar, messaging functionality and the ability to add photos, we hope that this new application will become the hub of the family home and maybe even replace the traditional method of using the front of fridge door!"

The supermarket was cagey about launch plans for the new applications saying: "The objective is to be with the customer at every stage of the online shopping trip working with groups of real customers to find new ways of shopping with us, at the design concept stage, so R&D - but what this will ultimately look like is yet to be seen."

Paul Dawson, Experience Director at Conchango, comments: "We're delighted to be working with Tesco on such a ground-breaking project and to be given a design challenge like this that potentially reaches millions of real people is a dream. We wanted to help Tesco not only increase the loyalty of its existing customers, but also attract new ones through differentiating based on experience as well as keen pricing. As a mass market retailer, Tesco customers encompass a wide range of different tastes and requirements and we had to ensure that every Tesco customer had access to all the products and content they need."

TESCO AND AMAZON PLAY THE GREEN CARD

At a time when consumers are watching every penny, it's easy to assume that environmental issues would begin to take a back seat. But the news that both Tesco and Amazon are going ahead with major new green initiatives gives pause for thought.

Tesco is to expand its Greener Living site into an all-round environmental information resource. Amazon is taking an active role in improving packaging.

In the world of internet retailing, packaging no longer plays a role in the presentation of the product, so it makes sense to place more emphasis on cost, handling and the environment when designing it. And, of course, huge cost savings will flow from delivering items in less sophisticated packaging, savings which can perhaps be applied to offset the additional costs these purchases represent in shipping. How long before everything is shipped in a plain brown wrapper?

CALL FOR PAPERS

Internet Retailing's annual conference and exhibition is taking place on 13 October at Novotel, Hammersmith, London. Now in its fourth year, the conference brings etail's pioneers, industry leaders and agenda setters together to share thoughts, knowledge and experience.

Do you want to share your real-world experiences in a pure play world or shout about your cross channel trials and tribulations? Internet Retailing 2009 is in the planning stages. The conference direction is set by Ian Jindal, Editor in Chief of Internet Retailing with the agenda developed and overseen by the magazine's Editor Emma Herrod. If you would like the opportunity to present at the conference please get in touch.

Internet Retailing 2009 will open with a major plenary session comprising chaired Keynotes and panel from commercial and strategic leaders, setting the tone for the remainder of this intense day, which is arranged into the following streams:

Stream 1 – The Customer as King?
Stream 2 – Full Steam Ahead?
Stream 3 - Cross Channel

Further details of the conference, and the rest of the event, are posted on the InternetRetailing.net website. If you would like to propose a speaker or topic, or wish to discuss agenda issues, email emmah@internetretailing.net.

DEBENHAMS BOOSTS M&S

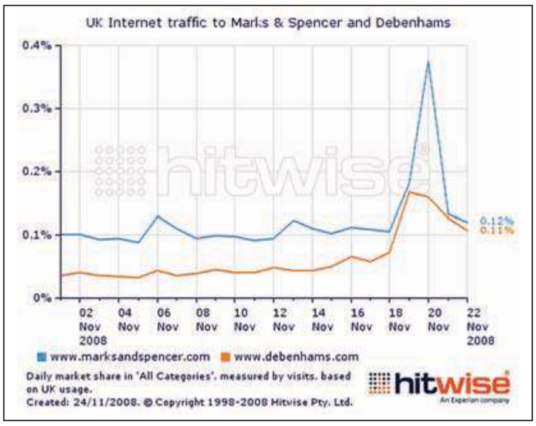
Pre-Christmas sales run by Marks & Spencer and Debenhams saw significant boosts in traffic to their sites – but with differing outcomes.The Debenhams site went down under the increased number of shoppers resulting in its downtime boosting sales at other retailers.

"On November 19th marksandspencer.com was the third most visited retail website in the UK (behind eBay and Amazon), accounting for 1 in every 33 visits to our Shopping and Classifieds category," said Hitwise's Research Director Robin Goad

"Both [M&S and Debenhams'] websites experienced an increase in average visit time. For M&S this exceeded 14 minutes - twice the usual figure - while Debenhams reached 11 minutes.

"Unfortunately the massive spike in traffic crashed the Debenhams homepage, which led to an increase in the amount of traffic it 'leaked' to other retailers," says Goad. "On 18 November 33.2% of Debenhams' downstream traffic went to other retailers, but by the 22nd (Saturday) this had increased to 46.9%.

"Looking at the top individual retail websites that received traffic from debenhams.com, the biggest beneficiaries were M&S (which accounted for 4.6% of downstream visits, up from 2.8% the previous week), Next (2.2%), and John Lewis (1.7%)," Goad explains.



DABS.COM:

HOW A LOW-MARGIN ELECTRICALS RETAILER IS FINDING OPPORTUNITIES IN THE DOWNTURN

Emma Herrod talks to Neil Catto, Financial Director of Dabs.com, about its synergy with owner BT and the thinking behind its newly implemented ERP solution, and asks how a single-digit-margin electricals business is managing in the current economic conditions.

DABS started out in 1987 as a publishing house specialising in practical 'how to' guides for the computing market. It then followed a natural progression and began selling the items it was writing about, with Dabs Direct being launched in 1990 as a mail order business.

The company now sells a huge range of home computing, consumer electronics and business IT products to B2C and B2B customers throughout the UK and Ireland, with its annual sales topping £200m. Its 15,000-strong product range is sold through several channels: mail order catalogues, a contact centre and online via six different websites including dabs.com and dabs4work.com.

Its business proposition has proved so successful – and therefore commercially attractive – that BT snapped up the Dabs Group from founder David Atherton in 2006, and it's now a wholly owned subsidiary of the telecoms giant.

BT

So what are the benefits for BT in acquiring the Dabs Group? It's on the B2B side of the business where Dabs real strategic fit with BT lies, explains Catto. The SME customers who are buying IT equipment from Dabs are an exact match for BT's target demographic for its products and services.

At the time of its purchase by BT, the majority of Dabs' business came from the consumer market, but over the past two years this has flipped and it now generates 60% of its sales via business

Servicing the whole of the UK and Ireland from state-of-the-art premises in Bolton, Dabs typically processes well in excess of 5,000 customer orders every day from the more than 1.6 million unique visitors that land on its websites each month.

customers. The firm has engineered this switch through a degree of repositioning, making itself more attractive to the B2B market. For example, on its main dabs.com site, it gives visitors the ability to toggle between vat- inclusive or exclusive prices. Visitors to dabs.com are also asked if they're 'buying for business'. If they are, they simply click on the link and are taken to its separate site, Dabs4work.com, aimed at the expanding B2B side of its business. The majority of B2B online sales are made via this site, although most business sales are telephone orders taken by account managers.

And the benefits for Dabs? "BT gives Dabs financial stability and we are now giving something back by selling a lot of their products and services," explains Catto. He adds that while Dabs fills gaps in the BT product range with competitor products, there is no restriction on it selling competitor products or services. Dabs chooses to sell BT services and, says Catto, it's "not actively looking elsewhere". It also runs the BT Shop.

It seems like the acquisition has, to date, proved a good fit; BT's support could also prove vital to Dabs during the current economic downturn. "Being part of BT is a fantastic opportunity for us and they've been very supportive," says Catto. "BT is a very innovative company and it is always looking for growth opportunities. We are investing the same philosophy at Dabs so, for us, the credit crunch is an opportunity. Dabs is owned by BT and BT will always be here."

He adds: "Since the acquisition we've had two consecutive years of 20% growth and last year was the best year on record for us. The growth rate is currently flat having initially been fuelled by the significant increase in B2B sales. But Dabs was in decline before the acquisition with sales in March 2006 down by 18%."

Catto adds that while the company is growing its B2B operation, consumer sales are still important. He says it wants to remain a key player in the B2C market, a part of its business that has been coming under increasing pressure over the past 18 months.

CREDIT CRUNCH

As with other electricals retailers, Dabs' market share has been knocked by the rise of the mass merchandisers such as Tesco, Argos and Amazon encroaching on its home ground. "We maybe lost a bit of focus on the consumer side," says Catto. "It's difficult to tell whether multi-channel offerings such as click to collect are having an impact on our business or whether it's down to the increase in general competition. Competition is pretty fierce and we're having to defend our consumer business. We have to be more innovative, offer faster customer service, keep our cost base as low as possible and grow the business in other areas such as B2B."

The economic downturn is also having an effect on the business, which has seen lower sales volumes in recent months. As it runs on a low-cost base, it has had to make 20 people redundant, a move which Catto says the firm has no plans to repeat. In fact, he says Dabs sees the credit crunch as an opportunity, a time during which it can set itself up for future growth.

JUNCTION SOLUTIONS

As part of its growth plans, Dabs has invested in a multi-channel enterprise resource planning (ERP) solution to replace the in-house systems that it had evolved over the past 20 years. "The old system served Dabs really well, but over time it had become a complex beast and development time for any changes had become long," explains Catto. "Developments in third-party, off-the-shelf systems have been significant in that time, and we felt that an out-of-the-box solution – with some customisation – was a really good fit for the business."

Since the company holds around three to four weeks of stock at any one time, accurately forecasting demand and knowing the quantities and types of stock it needs to order is the best way of avoiding over- or out-of-stocks. The new solution will improve its management of planning, purchasing, warehouse stock levels, order processing, customer services, returns and marketing. Catto underlines the importance to Dabs of having the right management solution in place, saying: "Our business operates across many channels on single-digit margins. With prices changing daily on short life-cycle product lines that can last for as little as three weeks, efficient and flexible technology is absolutely fundamental to our success."

He explains that having looked at a number of contenders, Microsoft Dynamics AX stood out as the most flexible, intuitive and powerful ERP platform on the market. And, after reviewing many software vendors, it chose Junction Solutions.

"Junction Solutions demonstrated an intimate understanding of multi-channel retail and also provided a proven retail solution built on Microsoft Dynamics AX, so it was an obvious choice for us," says Catto. "The deep integration of JunctionRES and consumer-driven planning, along with the

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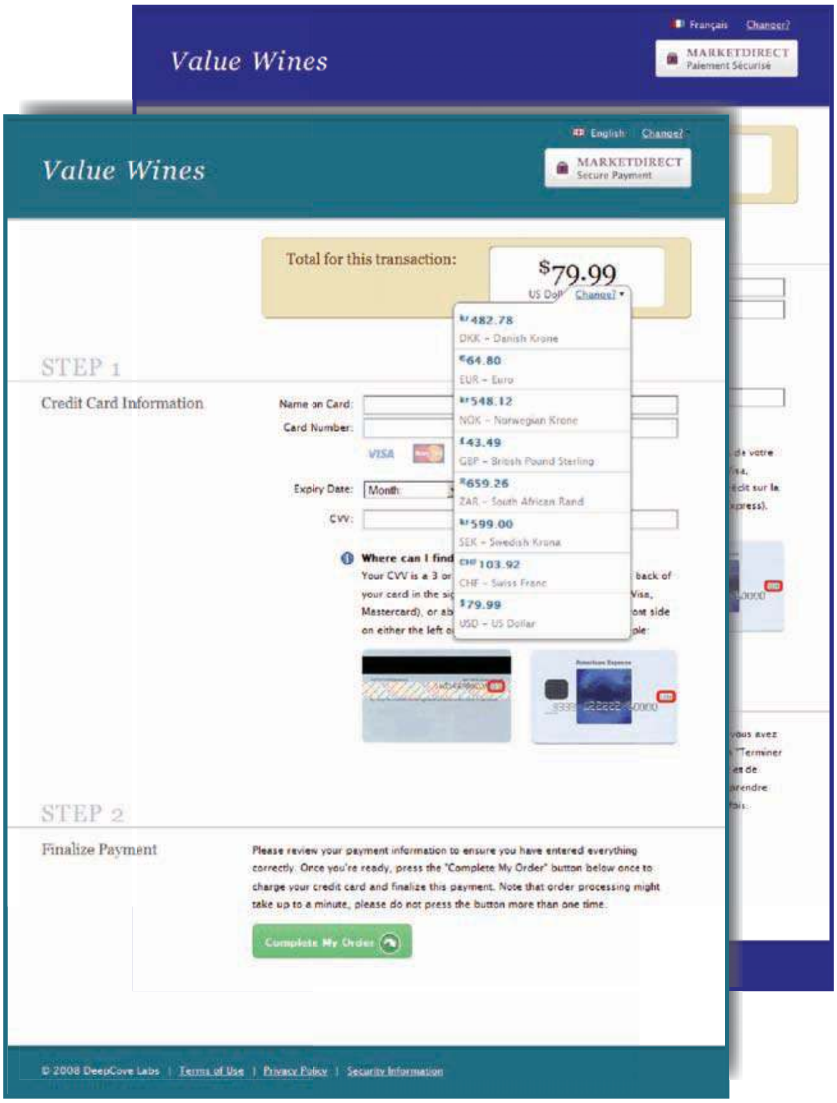

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technology stack offered through the Microsoft Dynamics AX architecture, provides endless opportunities for us as a company."

Once the project is complete, Dabs anticipates a reduction in supplier costs as a result of improved supply chain visibility, shorter lead times and lowers levels of reserve stock. Improved stock availability and more targeted analysis of marketing initiatives are also likely to help boost sales. Other benefits of the new system include better reporting across the business, tighter controls, cost reductions through the automation of administrative functions and improved operational speeds, such as on customer orders and logistics.

As well as buying a new business system, it's also investing in marketing intelligence – in the form of analytics and market information. Catto says: "We'll be able to analyse our marketing results a lot better and that, along with input from market data, will help us identify opportunities in the market."

CUSTOMER SERVICE

Dabs also sees customer service as an area through which improved efficiencies will help it to gain market share. Catto says it will be starting a programme to examine the whole end-to-end process from the perspective of customers, with the aim of making it easier for them to contact Dabs and to obtain after-sales service. "Customer service as a whole needs a lot more attention," he explains. "We aim to get it right first time and to put new processes in place to rectify any issues. It's an investment in time and resource."

To improve order fulfilment, self-service is actively encouraged and Dabs.com includes many different tools to help customers with their purchasing decision and their journey, from entering the site through to checkout. "If we can get the customers to self-serve it improves the number of orders fulfilled right first time," says Catto. And, as the site says: 'We do not offer a telephone service for pre or post sales enquiries because you can usually get an answer to your question from our website.'

Dabs has also made a significant push with chat as a means of helping customers. It has automated systems for both chat and email enquiries with standard responses personalised in-house. However, unexpected surges in demand for chat have resulted in longer response times for email enquiries since the two customer service functions draw on the same resource pool in the company's contact centre. The most recent response times (from late 2008), show an average wait for chats of 19 seconds and an average email response time of nearly 14.5 business hours.

DABS.TV

Dabs is no stranger to innovation, offering customers added value in order to grow sales. In late 2006, it launched a 'virtual video library' to enhance its existing collection of dabs.tv streaming video clips, which show the most popular computing and consumer electrical products in action. According to Catto, this low-cost system has proved "reasonably successful".

The video clips are offered as an enhancement to the catalogue, giving more product information. They also help visitors to browse the site in a new way. All of the video content on the site is accessible through one tab – labelled dabs.tv – which gives visitors the option of seeing a 360-degree view of products, as well as the ability to zoom in for close-up views. It also offers footage of products in action, while an audio narrative (sales pitch) talks visitors through product features and benefits. The facility is popular with customers, with some 15,000 to 20,000 clips viewed each month. In January 2008, for example, 24,000 were viewed, with TVs being the most popular items.

SOCIAL NETWORKING/REVIEWS

To promote word of mouth and generate sales, the dabs.com website encourages customers to have their say, allowing them to write their own product reviews to help others with their purchasing decisions. But the reviews are controlled by customers, says Catto: "It's up to the customers to populate them. We don't edit them in any shape or form."

The company is also trialling podcasts. To date use of this facility has been low, so the verdict remains out on how it can benefit the business.

In addition, Dab has social networking in its sights and plans to investigate using it as a means of reaching its core consumer base of computer enthusiasts. At present the site includes links to tag products to the various sites including Del.icio.us, Digg, reddit, Facebook, StumbleUpon and Kaboodle.

CATALOGUE

Dabs' roots, though, still lie in its catalogues and these are an integral part of its marketing strategy. It produces two different editions with products aimed either at business or consumer customers. The print run varies between 100,000 and 300,000 copies per month, depending on the season. A sophisticated propensity model is used to predict which customers are most likely to buy and should be mailed a print catalogue. A digital version of the consumer catalogue is produced as well and emails are sent to customers to draw their

attention to it on the website. The ecatalogue reduces the number of paper catalogues printed and helps the firm to boost its environmental credentials.

Catto says Dabs is sticking with the tried and tested print catalogue channel as it is a way of maintaining customer loyalty and generating repeat business. He adds that it monitors catalogue effectiveness by simply taking away the production and distribution costs from the level of sales made. The results? "It makes sense to still mail," says Catto.

Dabs launched its ecatalogue in mid-November, 2008, so it doesn't yet have any hard figures on its effectiveness. But the firm aims to broaden its reach through this option, so more potential customers will see one of its catalogues without it having to increase its print run.

PLANS FOR THE FUTURE

The future for Dabs looks bright if it can continue to innovate and keep its consumer customer base loyal. It will also continue to expand the B2B side of the business, a growth plan that complements its fit with BT. The company is clearly benefiting from its acquisition by BT, and it certainly isn't planning on resting on its laurels. As Catto comments: "We're lucky to be able to invest when a lot of independent retailers are under pressure. I'd hate to imagine what it would be like to be the independent retailer we were before BT."

POPULATING TRANSACTIONAL WEBSITES?
TELL ME ABOUT IT!

MULTI-CHANNEL retailers are increasingly turning to large-scale transactional websites to promote and sell their wares. But behind these well-designed, customer-friendly e-commerce sites lies what can amount to a massive logistical exercise in the quest to create and maintain a site that is accurate, up-to-date and monitorable. Rob Tarrant, MD of Brandbank, the UK's single largest provider of content to transactional websites, touches upon some of the benefits of outsourcing a task which is outside of most retailers' core business.

Challenge: Sourcing product samples – handled internally at individual suppliers' distribution centres? Handled in-house at your own warehouse? Often requires a large, dedicated team of internal staff to sort out.
Brandbank Solution – we have evolved many methods of acquiring products for imaging and data capture. Our custom-written workflow systems handle around 65,000+ products a year, with a large, dedicated sales and customer services team contacting suppliers to acquire products.

Challenge: Image Quality – want images that are sharp around the edges? How do you handle 'best before' dates, special offers and other things that date a product? Want a consistency and quality of image that class-leading communications material deserves?
Brandbank Solution – major investment in studios, imaging equipment and software, plus an imaging team of multi-disciplined photographers, each with a strong second skill set as graphic designers, fine artists or Photoshop experts.

Challenge: Digital Asset Management – do you have a system for securely storing, managing and quickly retrieving digital assets? Do you have to re-take product shots that are simply lost in your system?
Brandbank Solution – a combined bespoke workflow and heavyweight digital asset management system provides a secure pool of managed digital assets where authorised users can search, view, action and download product images and data, 24/7.

Challenge: Cycle of populating a website – 1. Getting up and running - should be a simple exercise, given a reliable supply source and the ability to handle the volume of work involved. 2. New and changed lines – adding new lines often involves delisting other products, after ensuring availability. 3. Website redevelopments – pages will be re-designed at regular intervals, often requiring complete refreshment of images to different size formats.
Brandbank Solution – a purpose-built workflow system that handles all product changes and subsequent updates to retailers. It records what has been sent to all distribution channels and when, leaving a full audit available for product transfers. We are constantly receiving new products from suppliers to enable fresh sets of images and data to be sent automatically to re-designed sites.

Challenge: Data – keying-in product data can be complex. Multiply the task by 20 to 30 thousand products and data collection and storage can become a problem. Accuracy of data is essential, and absolutely vital in the case of information on allergens etc.
Brandbank Solution – our in-house teams capture data directly from product, ensuring a definite match with the image. The data is quality-checked and approved by brand suppliers, before release to retailers using the latest XML standards. Systems allow data to be stored in a structured and searchable format.

These are just brief outlines of potential challenges and their solutions. Individual clients may be in different situations and have differing requirements - so the starting point is to get to grips with how we can provide a tailored solution and achieve best value.

Brandbank has over 2,000 clients, including Tesco, Sainsbury's, Waitrose, Ocado, Asda, Superdrug, Wilkinson, Booker, Nisa International and Lloyds Pharmacy.
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Brandbank Solution – we have evolved many methods of acquiring products for imaging and data capture. Our custom-written workflow systems handle around 65,000+ products a year, with a large, dedicated sales and customer services team contacting suppliers to acquire products.

Challenge: Image Quality – want images that are sharp around the edges? How do you handle 'best before' dates, special offers and other things that date a product? Want a consistency and quality of image that class-leading communications material deserves?
Brandbank Solution – major investment in studios, imaging equipment and software, plus an imaging team of multi-disciplined photographers, each with a strong second skill set as graphic designers, fine artists or Photoshop experts.

Challenge: Digital Asset Management – Do you have a system for securely storing, managing and quickly retrieving digital assets? Do you have to re-take product shots that are simply lost in your system?
Brandbank Solution – a combined bespoke workflow and heavyweight digital asset management system provides a secure pool of managed digital assets where authorised users can search, view, action and download product images and data, 24/7.

Challenge: Cycle of populating a website – 1. Getting up and running - should be a simple exercise, given a reliable supply source and the ability to handle the volume of work involved. 2. New and changed lines – adding new lines often involves delisting other products, after ensuring availability. 3. Website redevelopments – pages will be re-designed at regular intervals, often requiring complete refreshment of images to different size formats.
Brandbank Solution – a purpose-built workflow system that handles all product changes and subsequent updates to retailers. It records what has been sent to all distribution channels and when, leaving a full audit available for product transfers. We are constantly receiving new products from suppliers to enable fresh sets of images and data to be sent automatically to re-designed sites.

Challenge: Data – keying-in product data can be complex. Multiply the task by 20 to 30 thousand products and data collection and storage can become a problem. Accuracy of data is essential, and absolutely vital in the case of information on allergens etc.
Brandbank Solution – our in-house teams capture data directly from product, ensuring a definite match with the image. The data is quality-checked and approved by brand suppliers, before release to retailers using the latest XML standards. Systems allow data to be stored in a structured and searchable format.

These are just brief outlines of potential challenges and their solutions. Individual clients may be in different situations and have differing requirements - so the starting point is to get to grips with how we can provide a tailored solution and achieve best value.

Brandbank has over 2,000 clients, including Tesco, Sainsbury's, Waitrose, Ocado, Asda, Superdrug, Wilkinson, Booker, Nisa International and Lloyds Pharmacy. They can be contacted via www.brandbank.com.

POPULATING TRANSACTIONAL WEBSITES?
TELL ME ABOUT IT!

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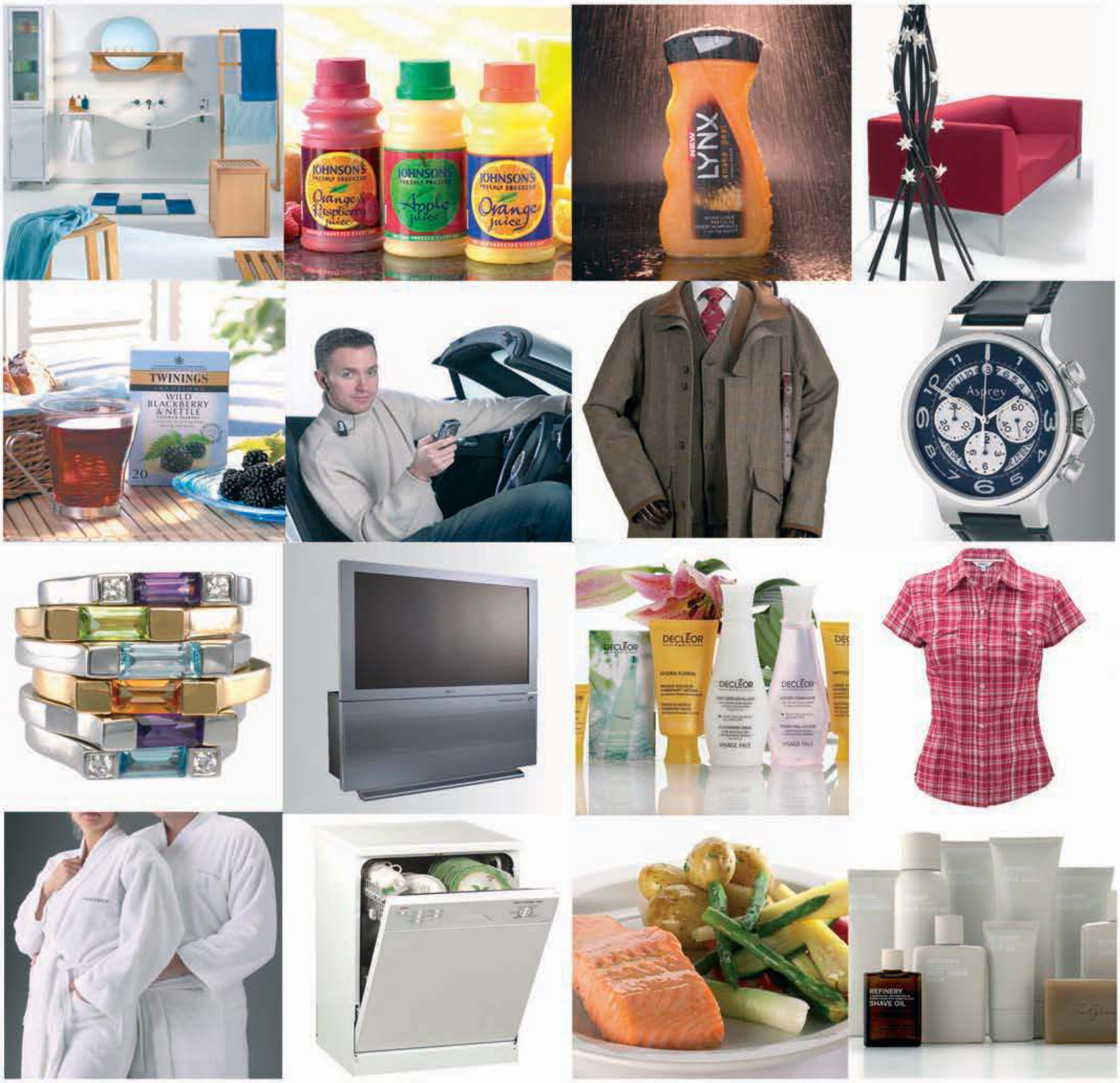
ADMINISTRATION AS A POSITIVE OPTION?

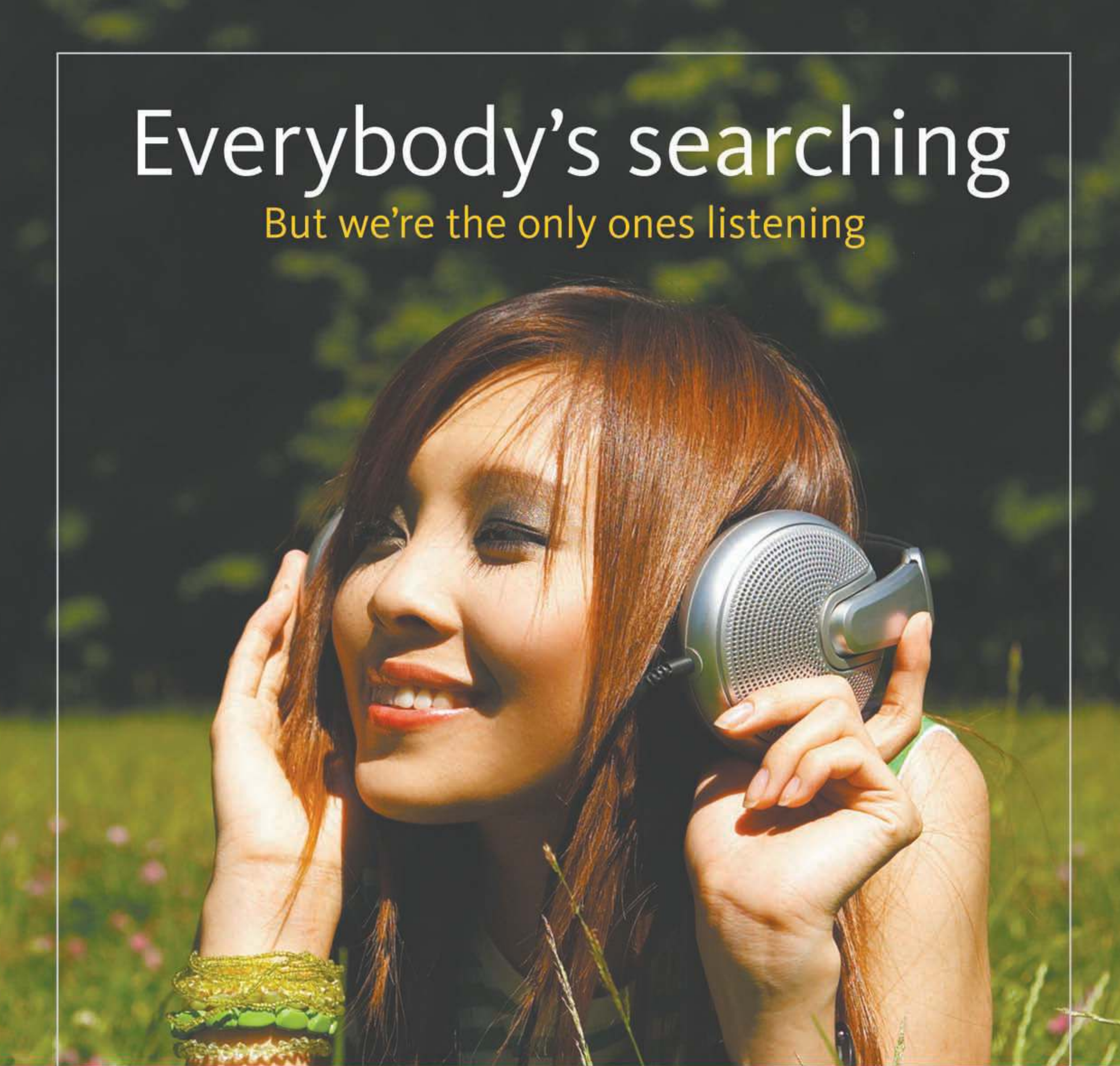
As a sustained period of growth ends retailers are being hit twice by the credit crunch: reduced consumer spending and limited working capital. Internet Retailing's Editor-in-Chief Ian Jindal investigates some causes of insolvency, directors' dilemmas and the opportunities offered by the UK's insolvency framework to restructure and preserve value.

RETAIL MAY BE portrayed as a simple business: sell goods for more than you paid for them. All retailers know, however, that in order to achieve good margins (the difference between selling and cost prices) we need to operate on a large scale: paying to build stock levels, advertising campaigns to attract customers, investing in logistics and operations to reduce variable costs per order, or buying raw materials if we manufacture.

In mature markets established working capital sources – to cover the timing difference between cash investment and the return on that investment – include investors' cash, overdrafts, structured

Photography for Retail & Retail Ecommerce




Everybody's searching
But we're the only ones listening

loans, extended supplier credit and staged payments. Seasonal businesses establish lines of credit to ensure that they could operate reliably and predictably through the peaks and troughs of sales cycles. Where facilities support a profitable business that has the confidence of the market we have 'business as usual'. Where funding providers fear that they are simply funding losses and lose confidence in the business the facilities are threatened.

Recent events – a syszygy of bad news – have disrupted this balance, destroying some businesses and threatening many more.

CASH CRASH

The last decade in retail, as in the broader economy, had been a time of unprecedented and interrupted growth. The reasons for this growth can be linked to two phenomena:

- 'cheap money' – historically low interest rates have made cash freely available to businesses and consumers, wherever schemes and investments might deliver returns above those from bank or government securities. Private Equity firms in particular borrowed large amounts cheaply to buy businesses. Debt repayments were manageable given low rates and continued growth projections.
- 'securitisation' – traditionally one could borrow money against solid assets – one's property, contracted cash flows, inventory. The last decade has brought evermore-exotic 'assets' against which companies can borrow.

Securitisation examples range from future cashflows, intellectual property, and even in some cases the underlying IT systems in a business. These can be turned into cash today – but of course need to be repaid over time.

Some companies used this cash to over-reach themselves, or to "buy time" to restructure or change their business model. While short-term credit facilities remained cheap and plentiful there was no need to address underperformance or eventual repayment of the debt – not to mention that the assets might be worth nothing and so not cover the debt.

PRE-PACKS

There are occasions where a business goes into Administration and is immediately bought by the management team, apparently to the detriment of creditors and employees. These arrangements are sometimes called "pre-pack" arrangements inasmuch as the deal is done in advance of the Administration. This happens where commercial pressures demand immediate action to avoid a total loss of value.

These arrangements have elicited media condemnation, but they are not well understood.

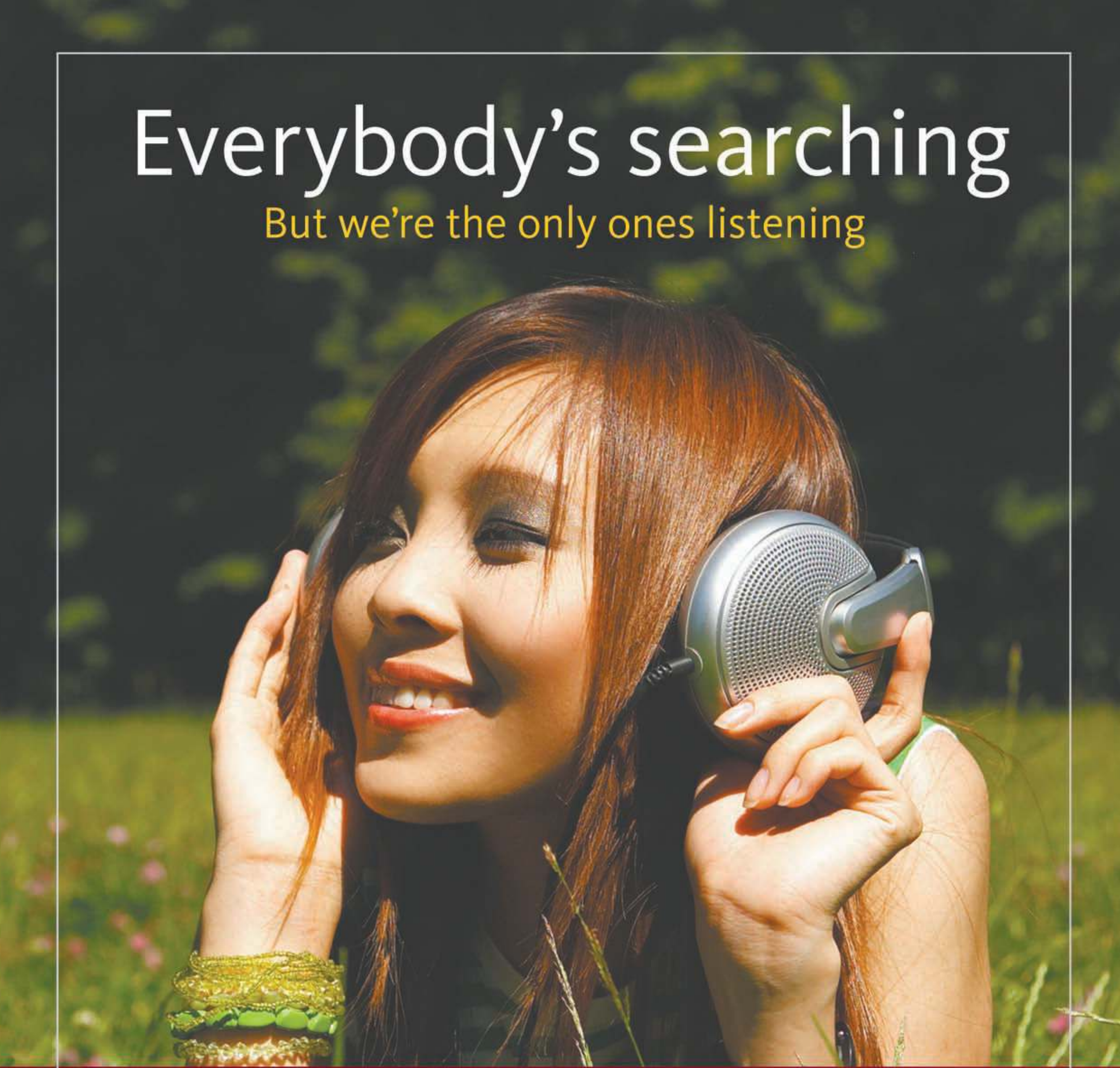
Once an Administrator is appointed she is an officer of the court and bound by law to obtain the best deal for creditors. Where a business has been on sale for many months and not attracted a buyer, or the business appears utterly worthless, the best offer for the assets may come from the management team. They have an intimate understanding of the business, and may also perceive value where others don't.

The Administrator is prohibited from selling at undervalue or from showing a preference for the management.

As of 1 January 2009 the Insolvency Service has tightened the disclosure requirements for pre-pack arrangements. Administrators must explain to creditors the background to their appointment and the reasons a "pre-pack" sale would be the best outcome for creditors. Administrators must reveal the name of the purchaser of the business, provide details of any connection to former directors or shareholders, and the price paid.

Richard Boys-Stones, a Partner in PwC's Business Recovery Service, applauds this guidance, noting that this has been their best practice approach throughout, even to the extent of advising directors who are considering a pre-pack in certain circumstances remove themselves from board meetings, or take other actions to ensure fairness and integrity.

Graham Horne, Deputy Chief Executive, of the Insolvency Service said: "Pre-packs can be a good thing, as we agree with the view that in some circumstances they will improve returns to creditors. In addition they can help to preserve the business of the failed company, thereby saving jobs." He went on to note that "the Insolvency Service welcomes the greater transparency that the new rules relating to "pre-pack" administrations will provide. Creditors will have better access to information about the new owners of a troubled business providing them with greater clarity about the administration process."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Opening the world

Cash is at the heart of retail. Insolvency is the moment of realisation that a business does not have the cash to meet its obligations as they fall due, or has more liabilities than assets. Once possessed of this realisation Directors are obliged to seek the advice of an Insolvency Practitioner or professional advisor and take steps to protect creditors.

Richard Boys-Stones, a Partner in PwC's Business Recovery Service, specialising in retail, notes that "as you move closer to crisis your options reduce dramatically" and he counsels getting early advice in order to have sufficient options. There are two aspects to this prescience: continuous modelling of your business, and a parallel assessment of funding and cash flow options.

SCENARIOS

While the specifics of our current climate – "global financial meltdown" or "destruction of consumer confidence", to cite two lurid descriptions – may not have been foreseeable, it's entirely reasonable to have asked a less emotive "what if" question at the quarterly forecasting meeting… What if our sales drop by £x?, what if we cannot renew our borrowing facility? What if our main supplier goes out of business?

Scenario planning is an established approach that models the current business plan under different circumstances – an example would be halving the revenue forecast while maintaining the same number of despatches, or to assume that debts are received after 120 days, rather than 30. In such scenarios the loss of 90 days' cash benefit might make it difficult to meet payroll in the second month, or mean that the quarter's rent payment would breach the overdraft limit.

Following such a long period of growth today's business leaders may not have experienced the 'perfect storm' of problems from the 1980s, or the dot com crash, and so may not have modelled catastrophes. As Boys-Stones comments: businesses need to habitually "stress-test their business plans".

PERFECT STORM

The components of our current perfect storm are now clear. Consumers not only reduce discretionary spending, but allocate a proportion to repaying debt – so the impact on retailers is amplified. Consumer spending is then 'bought' by means of retailer discounts. Cashflows inwards drop significantly. Where the retailer has covented debt repayments due and lacks further borrowing facility, there is a risk that they may default – a trigger to the company being placed into Administration by the loan-holder. Where working capital is strained credit agencies (who 'insure' suppliers that they will be paid) decline to that company's purchases. This leaves the retailer without goods to sell, and the supplier holding goods instead of cash. Suppliers may require cash in advance of delivery, further eroding the retailer's cash position.

As confidence declines in a retailer the bank may withdraw credit facilities, creditors may instigate recovery proceedings in an attempt to get their dues 'while there's still something left' and a business' short-term cashflow problem has brought the business down.

ADMINISTRATION OVERVIEW

Insolvent

When a company no longer has sufficient cash to pay its due debts, or liabilities exceed its assets (or the Directors can foresee that this is inevitable) it is "insolvent". Directors are duty-bound to put an insolvent business into Administration or risk 'wrongful trading', a criminal offence. Administration is a structure to resolve insolvency to the benefit of creditors and maybe staff and the business.

The Administrator's powers

An Administrator is appointed by the court, following an application by a creditor, director or qualifying loan-holder, to rescue the company as a going concern, achieve a better result for the company's creditors as a whole (compared with immediate liquidation), or liquidate assets to pay preferential creditors.

Administrators have broad powers to conduct a company's business and sell its assets. They displace the company's Directors from their management role and their primary duty is to the creditors of the business. Administrators are Insolvency Practitioners, usually accountants or solicitors, authorised under the Insolvency Act 1986.

Creditors

Upon Administration a company's debts are frozen. If the company survives the debts will be paid as normal, but if not creditors will be paid from sums realised by the Administrator.

If there are insufficient funds to pay creditors the company will be Liquidated – the proceeds paying the Liquidator, preferential creditors, secured creditors and then unsecured creditors.

Resolution

At the end of an Administration the company may be returned to the control of its Directors or liquidated (distributing any residual funds to creditors).

Further information

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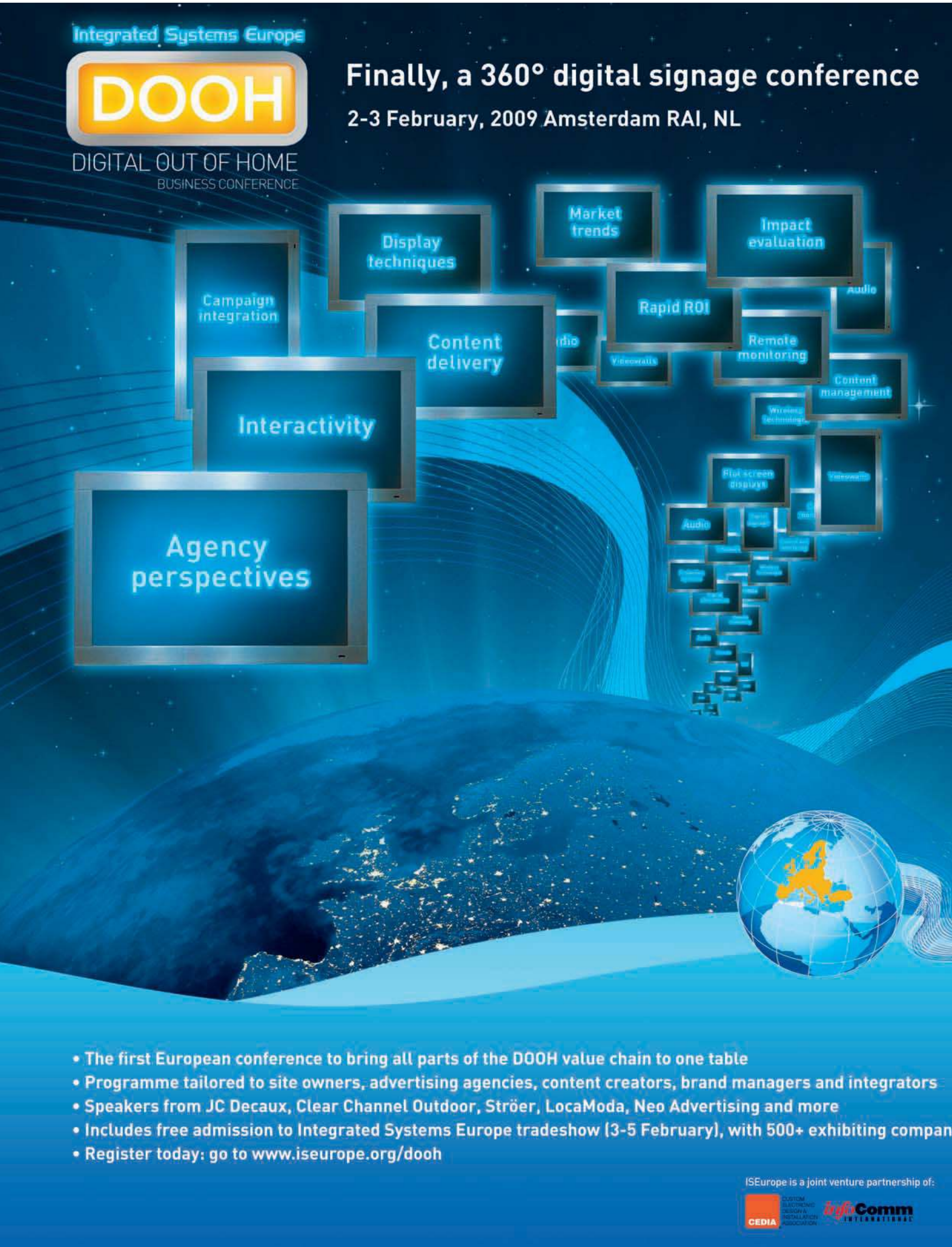
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In a climate of fear and concern it's even possible that a company's prudent cash management is taken as a 'sign of trouble'. Extending supplier payment terms, for example, can give a one-off cash boost to a business by creating a cash cushion of their suppliers' money. Should this exercise be undertaken in too peremptorily a manner it could be interpreted as a sign of desperation and imminent collapse, rather than a sensible (if unwelcome!) business move. This could feed or create a perfect storm and so careful communication is vital.

DIRECTORS' DILEMA

Directors who have been flexing their business plans may have foreseen possible problems – indeed, commentators have been calling a downturn for at least two years – and have sought advice from their professional advisors. They have in all likelihood been preoccupied for a year or more with protecting the business – all the while maintaining a front of confidence.

We've seen how the loss of confidence in a business can be catastrophic and so Directors are in a difficult position. As business people they'll know that it is often an effort of pure will, confidence and sales acumen that turns a glass from being 'half empty' to being 'half full'. Indeed, retail in particular needs this flair and jutzpah to survive.

This conflicts, however, with their legal duties to enter into Administration as soon as the business is insolvent. The bare outline of the Administration process hides the subtleties and tension. The Directors are legally obliged to put the business into a form of Administration as soon as they see it's insolvent, however if they believe that they have a successful Christmas ahead, then are they trading wrongfully while insolvent? Or simply being tough retailers, maintaining shareholder value?

This conflict is the reason that external advice and modelling is necessary. Steve Parker, Director at Tenon Recovery (which specialises in the £1-80m turnover business sector) notes that directors may defer this step since it's akin to "making a will" and considering the worst outcomes. However, as soon as insolvency is a certainty the Directors' duties immediately switch from shareholders to protecting the interests of creditors.

Boys-Stones of PwC advocates an ongoing communication with advisors. His firm will keep in close contact with major clients throughout the year, deploying audit, tax, corporate finance or even corporate recovery and restructuring specialists as needed.

ADMINISTRATION'S POSITIVE ASPECTS

The administrative regime in the UK is designed to give viable companies (or parts of companies) an opportunity to survive and prosper. This preserves employment, value in the economy and ensures that creditors who have trusted in a company do not suffer loss. The regime is protective inasmuch as a strong creditor, or the 'first to strike' does not benefit themselves at the greater expense of all other creditors or the survival of the business.

An Administrator can rapidly restructure a company, amend onerous leases and obligations and establish the business on a secure footing. There are instances recently of Administrators running businesses, breaking them into components and selling some as going concerns, preserving jobs, custom and brand.

Importantly, the administrative regime makes an attempt at fairness – returning as much as possible to creditors, shared appropriately, even where the business cannot be saved.

Administration also gives opportunities for investors with available cash to acquire businesses and assets at a 'bargain' level compared to values touted at the height of the boom.

Clearly, there is significant impact upon the company staff, and the corporate convulsions have personal and wide-ranging impact on staff who are made redundant, placed under stress or at least demoralised. We will be considering the human aspects of restructuring in our November 2009 issue on retail in a recession.

JUGGLING FEATHERS IN A TORNADO

Company failures and forced restructurings are an unfortunate sign of turbulent times. While companies with strong balance sheets will welcome this recession as an opportunity to create a market-leading position, there's no doubt that the destruction of value is painful – for creditors, staff and consumers.

Business leaders have a difficult task that at times may feel like juggling feathers in a tornado – balancing conflicting (and equally-unpleasant) demands, seeking to drive a business with confidence, while planning for the worst. Where current problems are a result of previous management decisions and poor cost control or investments, then the pain of '20-20 Hindsight' will also be present.

That said, retailers can plan to create options, take firm action now, and work to rebase their businesses on a firm footing: preserving value and preparing for later growth.

MARKS & SPENCER REVIEW

Internet Retailing asked 4 retail experts to take a look at Marks and Spencer.com and give readers insight into the company's retail strategy, site performance, usability and customer experience. We only have room for a synopsis in the magazine – visit InternetRetailing.net for more, in depth coverage and to voice your opinion.

RETAIL STRATEGY

Ray Fowler, Retail Consultant, CVL

The freezing cold of January 2009 has brought with it difficult times for the UK's retail industry. Retail giant Marks and Spencer is one of the latest to announce disappointing Christmas sales figures, store closures and job cuts, but is there light at the end of the tunnel for the company? Yes there is - and it will all come down to good old-fashioned customer service (with a modern twist).

With its renowned incorporated returns policy and integrated customer service, M&S really is still the 'King of Service'. All customer orders, irrespective of how they are made, are all accessible from one single customer contact point, and customers are able to track orders online, change and cancel them up to the point of despatch. All of this means that customers benefit from the clear, informative and helpful service that we have come to expect from the brand.

So where next in improving M&S's offer, and what should they be developing as part of their propositions?

The obvious move is to leverage the retail stores by developing customer collection points, and creating the opportunity for those stores restricted by ranges to allow customers to order the wider ranges in-store. Enabling either home delivery or in store collections of ordered stock would ensure continued integration with the existing customer experience through the customer contact approach.

For a long while, M&S stores have had the ability to look up product codes and order from each other, and incorporating this into their customer service strategy would strengthen their position of consumer trust. M&S Magazine, currently a charged magazine, could also be incorporated into a free catalogue to widen the stores' offer.

Developing these propositions and building a virtuous circle between online and offline channels will almost certainly drive gains in M&S's customer share in these uncertain times.

USABILITY

Lorraine Paterson, Usability Consultant, User Vision

Marks and Spencer's website is not the worst example of a site with usability issues. In fact there are many examples of good usability. However, no website is ever perfect and there are always things that a company can do to improve their customers' online experience.

Trust is always an important issue in ecommerce and it does influence a customer's decision to buy. In line with many other leading ecommerce sites, M&S has recently started to harness the power of customer reviews. However, to leave a review you are required to login. From a user's perspective, this is an unnecessary extra step. It may also imply that a review cannot be posted anonymously which can be off-putting.

Product information is also quite cluttered making it more difficult for customers to identify the calls to action. While suggesting alternative items increases cross-selling opportunities, it is important that these additional messages do not have a negative impact. Detailed product information is more difficult to find and is hidden below the page fold, often below other recommendations. More priority should be given to things such as product details over 'Other customers also bought' type messages.

Navigation is central to any website and research has shown that users search for content using trigger words. In Marks & Spencer's case, visitors may arrive at the site looking for specific links such as 'Jeans' or 'Womenswear'. The homepage advertising has recently used words such as this within the 'Perfect' range. This is potentially problematic as customers may use these links expecting to view the entire range from M&S, not realising Perfect is a particular product line. As a result, being given a far smaller selection of items than would be expected, customers may leave the site, believing M&S did not have the item they were looking for. It is a similar situation for the M&S sale which is cleverly disguised as 'Current Offers'.


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......all in one box?
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Storage/Warehousing
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SITE PERFORMANCE

David Flower, Vice President, EMEA, Gomez

Gomez's services test and monitor the performance of websites from the outside-in. This provides a view of how a website is performing from the internet backbone (eg ISPs) as well as from actual desktop connections which show real-life online customer experience (or Last Mile).

Over the past 12 months, the performance of Marks & Spencer's home page has been variable to say the least. At the beginning of the period, the average home page download from the internet backbone was an acceptable 1.7 seconds. However, the performance dipped significantly in the months to follow, with an additional second added to the download time. The good news for Marks & Spencer's customers is that there has been a steady improvement in home page performance from September through to the New Year when it was almost back to its peak performance at the beginning of 2008.

Performance measured from the internet backbone is one thing, but how did Marks & Spencer's home page perform from the Last Mile where real revenue is being generated? Actually, the good news is that the site was available to UK web users 98.97% of the time during the critical Christmas and New Year period. The less than favourable news for Marks & Spencer is that its online customers had to wait on average a disappointing 7.2 seconds for the page to load. (This reflects total load time not necessarily perceived load time.)

While most ecommerce sites look like one entity they are in fact a mix of lots of other multiple entities brought together. The Marks & Spencer site is no exception. 3rd party hosting issues adversely impacted the speed of the home page performance during critical pre-Christmas and New Year high traffic times. These issues, while significant from an internet backbone perspective, were amplified at the Last Mile where the web-users sit, adversely impacting their experience of the site.

EYE TRACKING ANALYSIS

Guy Redwood, Managing Director SimpleUsability

M&S seems to have some issues with a key roll-over menu that's hidden to some users and secondary navigation/filters that could be made more efficient. The site performed reasonably well and is commonly quoted by our research participants as a benchmark ecommerce site for ease of use.

Our user group was made up of 50:50 split of male to female with 40% having previously ordered online from Marks and Spencer. For this eye tracking analysis, users were asked to buy an outfit for a black tie event.

People who hadn't bought from M&S used the in-page links on the home page instead of the main menu. Eye tracking confirmed that they had all looked at the navigation early on, but unfamiliar users failed to realise that most areas of the shop were accessed through the drop down menu. One user needed help to find this menu. We would recommend making the 'Shop all Departments, Your M&S, My Account' items look more like navigation devices, since much of the site seems dependent on users realising this.

Once into the different clothing sections of the site, the left hand navigation was heavily relied upon and took much reading. We can see that, for this task, there is scope for making it more efficient. The categorisation in the male suits section failed to include an in-page link to eveningwear, which forced one user to exhaustively scan the page and still not find what he needed, even though eveningwear was listed in the left hand navigation. Section home pages should ideally give people multiple routes into content, either in-page links and through secondary navigation.

Overall, users showed a high level of confidence in the site, using photography as the main reference for making decisions, supported by the descriptive labels and then occasionally price. Users did notice the promotional flashes for offers and were sometimes distracted by the 'perfect' range labelling.

YOUR M&S

BUMPER ONLINE CHRISTMAS

£4.67bn spent online in December despite credit crunch slowing growth

UK SHOPPERS spent over £4.67bn online in December, according to figures from the IMRG Capgemini e-Retail Sales Index. Sales were up 14.2% on December 2007 - equivalent to £76.67p for every person in the UK.

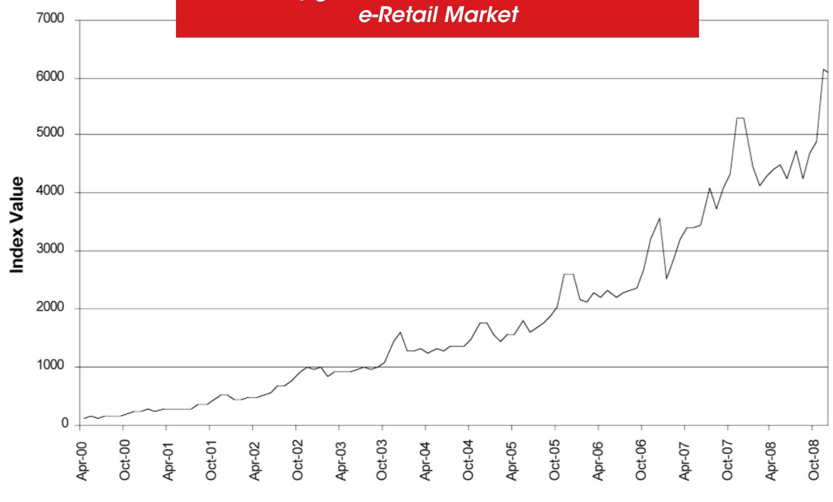
Overall online spending in 2008 reached record levels for each individual month with November seeing the highest sales. However, the year-on-year in growth has fallen, showing that online is still experiencing growth but at a slowing rate. The latest figures show that the first week of December saw a slight decrease in online spending and this downturn sharpened week by week in the run up to Christmas as the credit crunch began to bite.

In November the e-Retail Sales Index was up 25.7% month on month, this compared to an increase of 13% in the high street (according to the ONS Retail Sales Index). Year-on-year growth of the ONS RSI has hovered around 0% in the second half of 2008 compared to 16% in the IMRG Capgemini e-Retail Sales Index.

Christmas Day itself is now a favourite online shopping day with consumers and retailers alike. 3.8 million people bought goods online on Christmas Day and spent a total of £102m. This works out as an average of £26.80 per shopper, compared with £19.09 per shopper last year.

James Roper, CEO at IMRG, says: "Though the number of people shopping on Christmas Day was 14% lower than in 2007, the volume of transactions was 26% higher, and the value rose by 21%, indicating that serious bargain hunting was the order of the day."

IMRG Capgemini e-Retail Sales Index for UK e-Retail Market



This chart shows UK online shopping sales January 2004 to December 2008

Traffic to retail websites during the run-up to Christmas was higher than the 2007 level, but transaction volumes rose even more sharply – up 9% in November and 28% in December, according to payment processor Secure Trading. Ticket values were down, however, indicating that more people were buying but spending less in each transaction.

This is supported by online digital research experts eDigitalResearch, which highlighted that aggressive sale tactics from online retailers in the run up to Christmas saw people monitoring sites for the best deals, with traffic up from 2007 on 22, 23 and 24 December. However, traffic leapt by almost 100% between Christmas Day and Boxing Day, which was the busiest single day for online retailers in 2008.

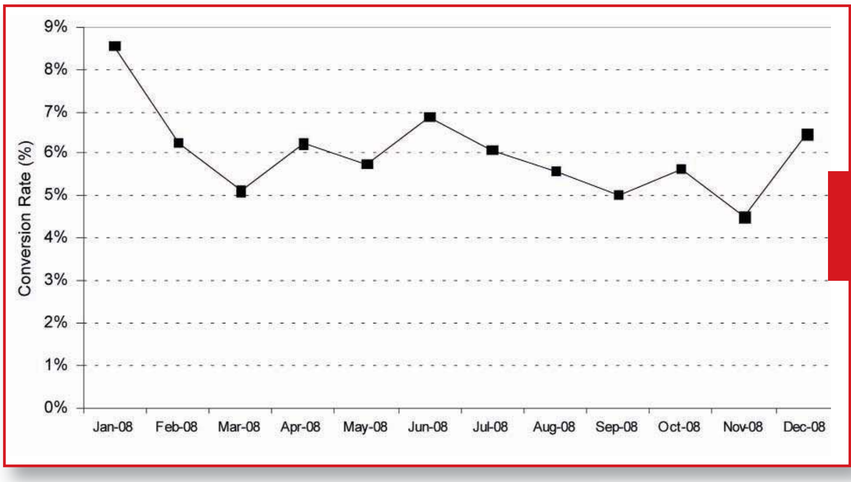
"The traffic online during Christmas was heavily affected by the sales starting early this year," comments Director at eDigitalResearch, Chris Russell. "We noticed that most traditional retailers commenced online sales when stores closed on Christmas Eve, with pure play retailers starting after last delivery day deadlines were reached. This means that the increased purchases on Christmas Day and the huge surge in traffic on Boxing Day could have been as a result of this."

Jon Prideaux of Secure Trading explains: "More people are spending but they're spending less and they hung on later before getting out their cards. Normally, November is our biggest month; however this year Christmas sales came, but later: in 2007 there was a 2% drop from November to December as people finished their shopping in good time. This year we saw a 15% rise. In the week of Christmas itself, people went crazy with an increase of a 91% in the number of transactions processed – values were up by three quarters. But the recession is still a factor with transaction values are steadily dropping throughout the year. The average purchase size reduced in comparison to the previous year: from an average spend of £92 (2007: £94) in August, we hit a low of £77 (2007: £83) in December."

However, monthly growth for December fell for the first time since December 2002 with consumers spending 1.5% less online than in November. This is attributed to record high sales in November, which saw higher than average yearly growth, and the timing of Christmas 2008 where the peak shopping weekend fell on 29 and 30 November.

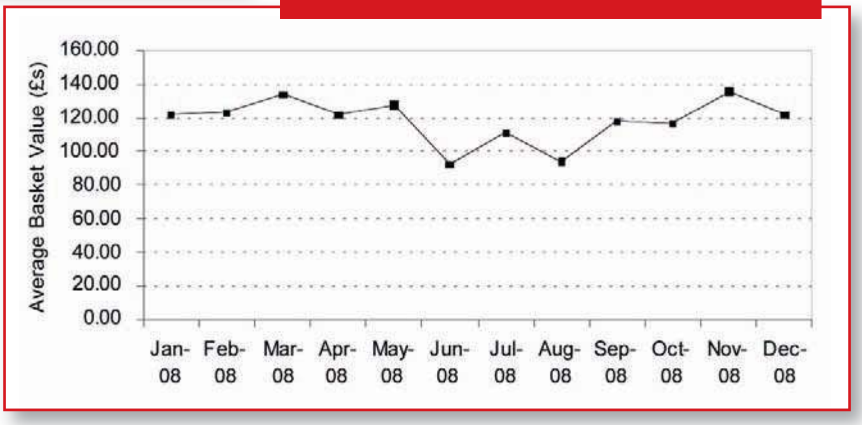
SECTOR SPLITS

Consumers looking to stock up on alcohol for Christmas celebrations turned to the internet for the



Monthly Sample Average Conversion Rate of Participants in the IMRG Capgemini e-Retail Sales Index - Total Market From Jan 2008

Overall Total Market Monthly Average Basket Value of Participants in the IMRG Capgemini e-Retail Sales Index - From Jan 2008

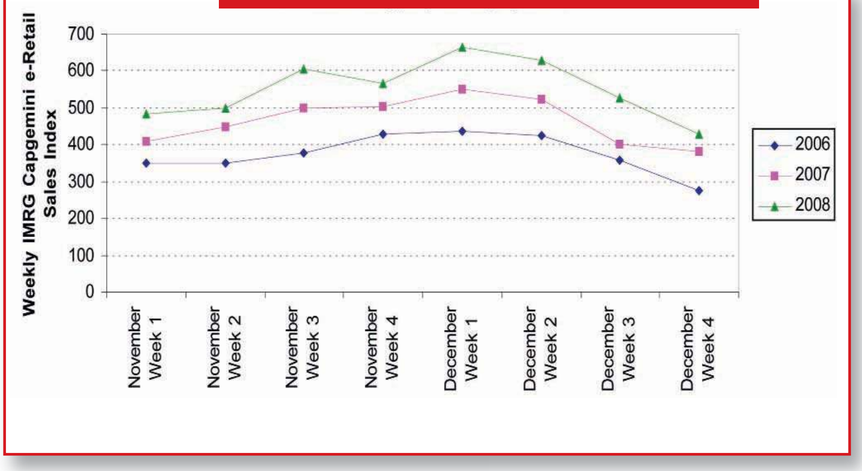


best bargains spending 13% more in December compared to November. Gifts and electricals also saw a marked increase in sales for December – with shoppers spending 7% and 5% more respectively. Although clothing, footwear and accessories saw flat growth compared to November, shoppers spent 32% more compared to December 2007. In contrast, the lingerie and health and beauty sectors saw a decline in sales both month on month and year on year.

IMRG and Capgemini have also calculated the average online spend Average Basket Value (ABV) to reveal consumer's average spend per order online for each sector in December.

Clothing, footwear and accessories is the fastest growing sector – it has consistently outperformed the total market and other sectors throughout 2008. Although the total market for online spending has experienced slowing growth, the clothing, footwear and accessories sector has seen around 30% year-on-year increases every month for 2008. Capgemini's polling also debunks the myth that a significant proportion of online garment sales can be attributed to shoppers ordering multiple sizes to return those that do not fit. In fact only 21% of consumers often or always do so. This may relate to the inconvenience of returning items with 20% of online shoppers stating this discouraged them making more purchases online.

Christmas Shopping Activity By Week



Sector	Monthly change in IMRG Capgemini Index	Annual change in IMRG Capgemini Index	Average Online Spend in December
Beers, Wines and Sprits	+13%	-16%	£67
Gifts	+7%	-1%	£44
Electrical sector	+5%	+7%	£136
Clothing	0%	+32%	£57
Lingerie	-13%	-11%	£22
Health and Beauty	-13%	-4%	£38

WHAT A DIFFERENCE A YEAR MAKES

How has online retailing changed since January 2008 and what does 2009 hold in store? Forecasting is not an easy task even at the best of times, but even doing a 'finger in the air' prediction in this fast-changing economic climate is not straight forward.

FROM CREDIT CRUNCH to bank bailout, interest rate cuts to recession, the market twists and turns every day. Redundancy figures seem to be rising faster than the level of discounts and the number of money-off voucher codes offered by high street and online retailers.

It's not all doom and gloom, though. Online retailing is still growing, with internet sales in the final quarter of 2008 up by 15% compared with the same period of 2007, according to IMRG and Capgemini. Although this is lower than the 54% growth seen in the run-up to Christmas 2007, it's encouraging nonetheless. Earlier in the year internet retailing was growing at 38%, with £26.5bn spent online in the first six months of 2008. This equated to 17p in every £1 spent online, or half of all supermarket sales.

The researchers predict that between 30% and 50% of retail sales will be online in five years. "This is because, as online reaches 20% of all retail sales, retailers experience a tipping point which forces them to seriously rethink the future viability of their business model," explains Mike Petevinos, Head of Consulting for retail at Capgemini UK. "We have seen this happen for books, music/DVDs and electricals, and as the industry as a whole reaches this tipping point in 2008, more categories are sure to follow."

Verdict Research predicted that online retailing would account for 6.8% of retail sales in 2008, growing to 8.7% in 2009. In light of the considerable change in economic conditions since these predictions were made, it revisited its figures in December and now expects online to reach 8.5% of total retail sales in 2009. The longer term impact is that online will account for 13.2% of total sales in 2012 with a value of £42million.

Market Value

	£m	Year-on-Year Growth %	Online Penetration Rate %
2008	19,454.36	32.0	6.7
2009	24,864.50	27.8	8.5
2010	30,342.58	22.0	10.1
2011	36,309.26	19.7	11.7
2012	42,357.08	16.7	13.2

Source: Verdict Research

Though online is just a channel and therefore impacted by the downturn, it is slightly more immune to the downturn and will continue to grow faster than, and outperform, physical retailing. However, a great deal of this spend is transference and not new or additional spending," says Malcolm Pinkerton, Senior Analyst at Verdict Research.

RURAL BROADBAND

But what about the shoppers themselves? Almost 16.5 million households (65%) have access to the internet, according to the Office for National Statistics (ONS), an increase of 1.2 million (8%) on last's year figure. Broadband penetration has risen as well, with just over half of UK homes now connected and only 9% still using dial-up. In May, OFCOM announced that there was a higher penetration of broadband in rural than in urban areas.

According to the Royal Mail Home Shopping Tracker Study 2008, some 44% of adults have shopped online, spending an average of £1,502 a year across eight websites. Consumers still cite convenience as the driver for making purchases online, with two-thirds using price comparison sites before making a purchase. The study also shows that some 40% use an online forum/review or chat room to inform their purchases.

As the economy took a nosedive, moving swiftly from September's difficult times to November's announcement of an imminent recession, so consumer behaviour changed online. Hitwise recorded a drop in visitor numbers to retail sites of 0.5% in October compared with the level of traffic in 2007. November's figure was down by 8.4%. However, since October, there's been a 9.6% upward swing in visits.

FINANCIALS

Most retailers reported tough trading conditions in 2008 but there was still room for some strong financial results. Asos.com, which reported growth of more than 100% in November, says it views the coming months with "cautious optimism".

Multi-channel retailers have also reported growth, seeing sales buoyed by the online channel. For example, Next plc reported that its total sales for the 14 weeks to 1 November were up by 0.9%. Although like-for-like sales across its 334 stores were down by 4.4%, Next Directory sales were up by 2.1% on last year. This growth in online and telephone sales and decrease in high street sales is predicted to continue in 2009.

The company's interim management statement reveals that it expects a tough trading year: "The outlook for consumer demand in 2009 is mixed. On the upside, lower interest rates and falling fuel and food bills are likely to increase the amount available for discretionary spending at some point during the year. On the downside, rising unemployment will reduce earnings and falling house prices may encourage people to save more. On balance, we therefore expect negative like-for-likes to continue throughout next year, though not necessarily at any worse rate than the current year."

Marks & Spencer says it plans to "manage the business through the economic downturn by tightly controlling costs, capital expenditure, cash flow and stock". Chairman Sir Stuart Rose is upbeat, saying: "We are well positioned to compete by improving our operational delivery and continuing to focus on quality, value and choice."

One sector that saw continued growth during 2008 was groceries; of course, this segment constitutes more than just food. The supermarket giants have continued to expand into non-food sales, with traffic to sites such as Tesco Direct, Asda and Sainsbury's Kitchen Appliances increasing 10% year-on-year in September, according to Hitwise.

The most popular search terms taking internet users to supermarket sites are big ticket consumer electronics, including laptops, washing machines and fridge-freezers. These retail giants are flexing their market muscles and bumping up their search marketing budgets to pick up this traffic, rather than optimising for higher converting etail terms. According to Hitwise paid clicks account for 80% to 90% of the sector's traffic from most terms. Search terms such as 'bed' and 'bedroom furniture' show that the supermarkets are taking advantage of the consumer switch to spending on home improvements rather than house sales.

Tesco is among those benefiting the most from this change in consumer habits. It says that in 2008 it has experienced: "robust growth in newer areas such as electricals, furniture and DIY, helped in part by an excellent first full year of trading in Tesco Direct". Chief Executive Sir Terry Leahy is positive about the company's outlook, saying that it is trading "a little ahead of our planned performance range".

Grocery shopping now accounts for a higher percentage of online sales that consumer electricals, according to consumer research by discount and voucher code website MyVoucherCodes. It reveals: "More people are looking to find bargains on their essential items such as bread and milk and are being attracted to the online supermarket sites because of the exclusive offers and discounts on home delivery as well as shopping.

"The top four current online shopping sectors are online grocery shopping, with 31% of sales, 25% of sales for electronic items such as computers, TVs and gadgets, 21% of sales attributed to clothing and fashion items, and 15% of sales related to holidays."

The number of visitors to grocery, electricals and computing sites are very close, according to Neilsen Online, with 9 million (27% of internet users) visiting the top 10 grocery sites compared with 9.4 million visiting electricals.

CHANGING HABITS

Shoppers are not only cutting back on the amount they spend online; they are also spending their money in different ways. Sewing machine sales and shoe repairs are on the up, as are searches for DIY as consumers increasingly turn to search engines and price comparison sites to source the lowest prices, to DIY stores and information services to spruce up their homes, and turning away from ethical consumerism in favour of energy efficiency.

Searches for ethical consumer products such as 'fair trade' and 'organic' have not increased over the past 12 months, according to Hitwise, but searches for energy efficiency terms, such as 'loft insulation' and 'underfloor heating' have more than doubled.

It is important to offer consumers a choice, and that choice should include some form of unattended delivery. But many still believe unattended delivery is not the same thing as home delivery. Consumers driving home from work, the school run, etc, may find it easy to stop and collect a parcel, but what about those travelling by public transport, or on foot? Surely if they wanted to collect their goods, they'd go to the High Street!

All of these options, attended or unattended, require better communication between the retailer, carrier and consumer than currently takes place. Retailers must provide consumer information to the carrier. They must also be very clear about delivery options up front on the website, telling consumers when and where goods can be delivered and at what cost.

"First-time delivery is key", emphasises Christian Robinson, MD of Firebox.com. "We tell customers about our standard delivery and whether we will use a carrier with a lifestyle courier, ideal for larger, more bulky items, or one that delivers to their door. We now want to develop better communications with the customer so two-way text messaging can be used to tell the consumer when the goods are coming and, if it is not convenient, allow them to choose another day.

"We've increased first-time delivery rates by being involved with the whole delivery process ourselves. We ensure we have the correct address, manage the communications and make it clear what service is being used and if the customer will have to sign for the parcel. If the consumer wasn't in when the courier tried to deliver, we are told immediately so we can email the customer and arrange re-delivery.

"A lot of retailers pay lip service to delivery, but we put ourselves in our customers' shoes. Our call centre doesn't have scripted questions or responses, either: we genuinely want to listen to our customers and help sort out any problems. It may be more expensive to do things this way, but service is so important."

Lakeland also puts customer service as a top priority. "What our customers want," says Operations Director Gary Marshall, "is a reliable, consistent and competitively-priced service. We need to manage customers' expectations, so if we can't despatch tomorrow, we tell them - and tell them when we can despatch their order. If a customer has a problem, we try to sort it out, rather than argue with them."

But however much some retailers try to offer a good fulfilment service, there seems to be a major disconnect between retailers and their carriers. Carriers insist that they try to talk to retailers and to offer a wider range of services but retailers don't listen; retailers claim they can't get the level of service they want, or at least not at a realistic price.

WHO PAYS

Price is often the sticking point. Who pays - and how much? "Retailers do not charge customers to go into a shop, so why should they charge for basic standard delivery?" asks James Roper, CEO of IMRG. Many carriers think Saturday should be part of the standard package, too.

While carriers claim the retailers use the delivery charge as a revenue stream since the charge to the consumer is far more than what they charge to the retailer, and the retailers insist they subsidise the cost, the consumer is caught in the middle. "Carriers and retailers must sit down and discuss this constructively," says one retailer, who wished to remain anonymous. "Day-definite delivery is something we all want, as it would improve first-time delivery dramatically, but few seem to be able to offer it. The problem is costs and margins."

Whoever's fault it is, something must be done if internet retailing is going to continue growing. As the credit crunch tightens, how much longer will consumers be prepared to shop online if they cannot get the delivery service they want at a price they are prepared to pay?

"This is the first real economic downturn to have occurred during the internet age," says Robin Goad, Research Director for Hitwise in the UK. "As you would expect, people are using the internet to find cheaper goods and services, but also to find information on everything from the reasons behind the credit crunch to money-saving DIY tips."

Shoe repairer Timpson says sales are up 9%, and it's planning to open 40 new shops in 2009, according to a report in ThisisMoney. The finance site also notes that Argos has reported an increase in sewing machine sales and says the market for rented electrical appliances is expected to see a strong revival as consumers turn to renting rather than buying white goods such as fridges and washing machines. Stephen Edwards, Special Projects Manager at Forbes Rentals, backs this forecast, saying: "We are starting to see a big resurgence in rentals.".

Following a two-year decrease in traffic levels, UK internet visits to retail price comparison sites increased by 20% between July 2007 and July 2008. Similarly, searches for summer sales trebled this year compared with last, while consumer searches for discount vouchers have led to a 130% upswing in traffic to specialist voucher websites.

VALUE

As the Christmas period has shown, consumers are searching even harder for value – and discounts – so will turn to the internet and price comparison sites, according to media agency ArenaBLM. Consumers are avoiding high ticket or debt-funded purchases that they consider non-essential. They're more likely to switch brands, ditching lifetime favourites in pursuit of value, trust and reliability, explains ArenaBLM founder Charlie Makin.

These sentiments are echoed by Phil Dunseath, E-commerce Director of retail and office supplies retailer The Retail Factory. He predicts that 2009 will see an increase in value search as consumers and businesses look for improved prices on products that they already buy or are considering buying. There will also be a rise in the use of price comparison sites, but with consolidation in the price comparison market. Those that stay afloat, says Dunseath, will be the players which already have, or who can afford to continue with, heavyweight above-the-line advertising.

Offering a comparison site view of the industry, Bastien Duclaux, CEO of shopping search engine Twenga, says he expects 2009 to be a good year for multi-channel and pure-play retailers. "The industry now has a good understanding of what motivates people to shop online as well as the barriers that prevent it," says Duclaux. "We hope that 2009 will be the year that the economy starts recovering. It should be an exciting time for our industry, which is collectively enhancing the motivation and addressing any of the old online barriers."

2009?

The overriding feeling [as I write this] is that while 2009 will be a tough year, it will not be all doom and gloom. It will certainly not be a time to cut back on marketing. In fact, consumers with reasonable job security who don't need to move house will actually have more disposable income, thanks to interest rate and VAT cuts.

Retailers will have to work smarter, and in some cases leaner, in order to keep existing customers and ensure they come out of the recession in a strong position. According to retail billionaire Sir Philip Green, the tougher trading conditions should allow proper retailers to flourish.

Digital agency Design UK says: "Retailers will be employing tactics to maximise their conversion online and reduce leakage. Activities that drive footfall or raise the average transactional value will all be key to achieving this. Customer retention will be particularly important; deepening relationships with existing customers has to be a key focus to ensure continued spending."

David Smith, Director of Site Intelligence, agrees: "Businesses are likely to be trying to learn more about the customers or prospects they already have to further refine the 'right message, to the right customer, at the right time, in the right way'."

"The battle will be fought and won on the grounds of which etailers can best engage their customers, keep them transacting online and reduce churn," adds Guy Westlake, Senior Product Marketing Manager, EMEA, Vignette. "This is where engaging tools – such as rich media, video, community services and so on – and value-added services available exclusively online (infotainment videos, podcasts, vodcasts, blogs, Flash applications) will be key to winning and keeping new and existing business."

So, the key theme for 2009 is value. Do what you do best, while investing in the most effective cost-against-return activities. Understand your customers and get personal – while they seek value from trusted brands. Retailers have to improve their understanding of where their value proposition lies and what value really means to each customer.

Yes, 2009 will be tough, but online is still the place to be. When the tide begins to turn again it will be a fitter, leaner etail sector that's ready to unfurl its sails and take control of the retailing high seas.

MONETISE TOMORROW AND TODAY

Ben Langdon, Chief Executive of Digital Marketing Group looks ahead to monetising ecommerce data

DURING tough times brands tend to redirect above the line marketing spend to below the line opportunities. However, the unprecedented economic circumstances facing us today mean a sharp decline in marketing spend across the board; with only investment in digital rising. It's therefore no surprise that retailers are looking to digital techniques to manage each customer interaction and to optimise their marketing activity and every pound of their marketing spend.

This doesn't translate to mass marketing through digital channels; retailers have an opportunity to differentiate themselves by implementing tactical yet highly targeted digital campaigns.

Unlike many other brands marketing online, retailers are blessed with sophisticated and flexible ecommerce platforms that handle valuable data relating to consumers and transactions. They have the opportunity to produce the type of personal cross-channel communications to which most brands merely aspire. And yet it's not easy; from a marketing angle alone, many companies are grappling with online and offline data being held in separate silos, and campaign history being under used or inaccessible.

Such limitations can be overcome; in working with our clients we have come to understand and appreciate the challenges faced by today's internet retailers, in servicing a market that increasingly seeks out information from social networks, forums and comparison sites - as well as direct from retailers themselves. This has led to retailers creating Web 2.0 features such as customer review and rating, engaging media rich content, collaborative filtering navigation and search techniques. Beyond this, making brands' communications personal and impactful – by cutting through the noise - has become a major priority, and it's this angle that has driven the development of a technique known as 'synaptic marketing'.

So called because of its likeness to a 'digital brain' in accessing and analysing multiple inputs instantly, synaptic marketing involves combining data from online (e.g. browsing and purchase history) and offline (e.g. purchase and customer service interactions). The result is a comprehensive and real-time view of the customer that drives complex and dynamic decisions on which messages are shown to which customers, and when. These messages are then delivered to the customer through whichever channel they choose to use, or is identified as most pertinent to the interaction in question.

Based on proven direct marketing principles, the challenge behind this technique has been to create an environment in which data can be held, analysed and acted upon without interruption; either to the business or the site/communications channel. At the heart of this is the combination of technology and analytical expertise – the 'gold dust' of skilled people with a commercial and statistical focus. Furthermore, data are held and managed using a 'data light' principle, based on identifying key data items and drawing on them only when needed.

Ambitious marketers are right now seeing the benefits of bespoke communications across web, email, DM and phone, using the powerful combination of data, decisioning and cross-channel communications that embody this cutting edge approach. Also, smart retail marketers will be looking ahead to identify and implement leading edge technology as a prelude to future advances in this concept. In doing so they can use a refined approach to customer communication as a means of weathering the upcoming economic storm, whilst positioning themselves ahead of the game when the market does begin to settle.

LEVERAGE VALUE

'Web 3.0' – defined as a collection of small, customisable applications using data 'in the cloud' and running fast on any device – has extraordinary potential. The principle is that processes will have more built-in intelligence – thereby reducing the amount of input and context needed from the user. The key within an etailing landscape could be to aggregate large groups of data held within user logins, friend lists, messaging systems and feeds for relevant targeting and viral distribution, whilst integrating with payment systems and online wallets in order to close the loop for ecommerce transactions.

To begin the technical journey towards this, mature etailers need to focus on how best to eliminate data silos between applications and data objects in applications, thereby enabling the deduction of meaningful relationships between users and behavioural data. Some may say that this is where Web 3.0 will come in; by allowing data across applications to be organised into useful insights retailers will have access to a new platform for making money via their ecommerce site.

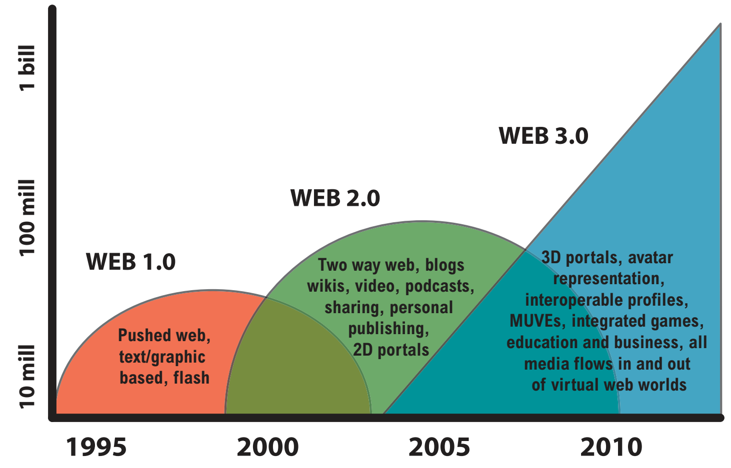
But right now it's clear that many brands and etailers are not ready for this, and the current economic situation will rightly lead to focusing on shorter-term issues. Cybercom, the ecommerce specialist within our group, is seeing CIOs initiating projects to leverage value from data that they already have locked away within in-house applications. And they will be looking to create infrastructures such as Service Oriented Architectures (SOA) as enablers to utilise Web 3.0 when it does arrive. Web 3.0 will likely result in two types of value: direct value and indirect value.

Direct value is generated from realising a relationship between two items that a human mind would not have connected; imagine receiving a new email from a potential customer, and having the application available to tell you that this is someone who you've met before (it was on your electronic calendar), and that they have friends that are near the same stage of making a decision to purchase products that you sell through your ecommerce site.

Indirect value is derived from analysing the connections between objects in your data universe, typically using some kind of machine learning techniques. The data universe will not just be limited to a single organisation, but includes data from business partners and affiliates, as a result of companies creating new internet business models for themselves. For example, imagine collaborative filtering, but applied not just to the books or movie purchases you made via Amazon, but across your entire life. For an overly simple scenario, such a system might be able to suggest, based on the fact that you purchased swimming goggles, swimming trunks and read a lot of books on the Mediterranean, that an airfare ticket to the Mediterranean might be of interest to you. This is only possible in a world in which activity stream data is accessible across all of your applications, and is not locked into just one service.

It's important to note that the above examples are based on the understanding that either the

The Changing Intraweb - from 1.0 to 3.0



Source: Gary Hayes (www.personalized.com)

consumer's permission to use their data has been sought, or that the activity is based on non Personally Identifiable Information (PII). Adhering to the principles of permission and privacy are a vital prerequisite to any marketing activity, and even more pertinent when we reach this level of data-driven decision making.

Currently these examples seem like science fiction; and tellingly I don't believe that we yet have access to the kind of artificial decision engine needed to make these kinds of intelligent connections. But this approach - generating insight to direct relevant and meaningful interactions with customers - is already available, in the discussed synaptic marketing technique. The only difference here is the necessary (human) analytical element, which ensures that the scope of possible outcomes is comprehensive enough to meet the level of data input being made.

NEW MODELS

The decline in the global economy will be a catalyst in bringing forward new challenges and opportunities to etailers, and crucially new internet business models. If Web 2.0 was concerned with making the web a compelling application interface platform, then the next stage of evolution would be leveraging this interface platform with open data interfaces and combined services to create a more dynamic value chain and to initiate multi-business solutions that help customers live more productive and profitable professional and personal lives. Whilst there aren't yet computers that can approach the remarkable feats that the human mind can perform - necessary to drive Web 3.0's ultimate potential - the benefits of this kind of joined up thinking are already becoming accessible.

DELIVERY SERVICE

Marcia MacLeod rounds up the delivery year and looks at the issues to be addressed in 2009.

ACCORDING to an IMRG survey carried out earlier this year, half of online shoppers look for delivery information before starting to shop - and many don't order if they have had, or feel they might have, a delivery problem. So why, after so many years in which retailers and carriers have had to get it right, is delivery such a problem? And what can we do to resolve this damning indictment of our industry? Haven't we introduced next-day, evening, weekend, before noon, even before 9.00am deliveries? Isn't this enough?

Well, yes we have, but no, it obviously isn't sufficient - or it isn't working.

To be fair, both retailers and courier companies have introduced a number of new initiatives over the past year. More retailers are offering delivery out of normal hours - but often at such a high premium, it puts many consumers off the idea.

Lifestyle couriers solve a lot of the problems because they get to know their 'patch'. Orders are dropped off at the courier's home and he or she delivers them to consumers within their area. As well over half of online orders are bought by people who have shopped from home before, the courier soon knows who is out at work all day, who works part-time (and when), who is out on the school run etc.

DHL@Home uses lifestyle couriers, as does Parcelnet and Parcel Country, which has just begun trials in Hertfordshire. The latter operates in a slightly different way to most lifestyle courier networks, though. Instead of the carrier delivering all of their parcels for that area to the courier which they have recruited, the consumer uses the courier's delivery address at point of order instead of their own. The retailer's carrier delivers to that address and the consumer then collects the item from the courier, handing over a fee of £1.50.

Pre-alerts sent to the consumer by the carrier (or, less often, the retailer) to warn of impeding delivery are also growing. Companies like Home Delivery Direct claim the first-time delivery rate is vastly improved if they can email, sms, or even phone the consumer the day before delivery and then again an hour or two before estimated delivery time. VoiceSage Alert'r has even launched a product that can send voice or text messages to a number of consumers at once, saving call centre and drivers' time and effort.

To make it easier to select the best carrier, IMRG and Metapak have launched IDIS Delivery Manager, which allows retailers to input the size, weight and number of parcels in an order and select the optimum carrier for that job. So far 50 merchants are using the system.

UNATTENDED DELIVERY

Unattended delivery is also growing. Home Delivery Network is developing a Drop & Collect service based on convenience stores, initially focussing on returns, but with the potential to handle outward deliveries, too. By-Box has begun rolling out its intelligent drop-box system, with initial plans to install up to 300 shared-user boxes in 'well-trafficked' consumer locations such as high streets and railway stations; there are further plans for up to 1,000 of these boxes - and some of these may even be converted phone boxes.

Royal Mail has seen its Safe Place, in which consumers can specify an alternative delivery address when ordering - including an unattended box - and Local Collect, in which consumers nominate their local post office for re-delivery, growing, too.

It is important to offer consumers a choice, and that choice should include some form of unattended delivery. But many still believe unattended delivery is not the same thing as home delivery. Consumers driving home from work, the school run, etc, may find it easy to stop and collect a parcel, but what about those travelling by public transport, or on foot? Surely if they wanted to collect their goods, they'd go to the High Street!

All of these options, attended or unattended, require better communication between the retailer, carrier and consumer than currently takes place. Retailers must provide consumer information to the carrier. They must also be very clear about delivery options up front on the website, telling consumers when and where goods can be delivered and at what cost.

"First-time delivery is key", emphasises Christian Robinson, MD of Firebox.com. "We tell customers about our standard delivery and whether we will use a carrier with a lifestyle courier, ideal for larger, more bulky items, or one that delivers to their door. We now want to develop better communications with the customer so two-way text messaging can be used to tell the consumer when the goods are coming and, if it is not convenient, allow them to choose another day.

"We've increased first-time delivery rates by being involved with the whole delivery process ourselves. We ensure we have the correct address, manage the communications and make it clear what service is being used and if the customer will have to sign for the parcel. If the consumer wasn't in when the courier tried to deliver, we are told immediately so we can email the customer and arrange re-delivery.

"A lot of retailers pay lip service to delivery, but we put ourselves in our customers' shoes. Our call centre doesn't have scripted questions or responses, either: we genuinely want to listen to our customers and help sort out any problems. It may be more expensive to do things this way, but service is so important."

Lakeland also puts customer service as a top priority. "What our customers want," says Operations Director Gary Marshall, "is a reliable, consistent and competitively-priced service. We need to manage customers' expectations, so if we can't despatch tomorrow, we tell them - and tell them when we can despatch their order. If a customer has a problem, we try to sort it out, rather than argue with them."

But however much some retailers try to offer a good fulfilment service, there seems to be a major disconnect between retailers and their carriers. Carriers insist that they try to talk to retailers and to offer a wider range of services but retailers don't listen; retailers claim they can't get the level of service they want, or at least not at a realistic price.

WHO PAYS

Price is often the sticking point. Who pays - and how much? "Retailers do not charge customers to go into a shop, so why should they charge for basic standard delivery?" asks James Roper, CEO of IMRG. Many carriers think Saturday should be part of the standard package, too.

While carriers claim the retailers use the delivery charge as a revenue stream since the charge to the consumer is far more than what they charge to the retailer, and the retailers insist they subsidise the cost, the consumer is caught in the middle. "Carriers and retailers must sit down and discuss this constructively," says one retailer, who wished to remain anonymous. "Day-definite delivery is something we all want, as it would improve first-time delivery dramatically, but few seem to be able to offer it. The problem is costs and margins."

Whoever's fault it is, something must be done if internet retailing is going to continue growing. As the credit crunch tightens, how much longer will consumers be prepared to shop online if they cannot get the delivery service they want at a price they are prepared to pay?

DRIVING RICH EXPERIENCE BEST PRACTICES

Doug Mack of Adobe Systems discusses the latest trends and best practices in building rich online customer experiences.

THE web shopping experience continues to mirror or evolve towards the in-store shopping experience and to surpass mail order by providing more relevant information textually and visually with increasing consumer involvement and interactivity. Nonetheless, throughout this evolution, what remains constant is the critical importance of creating great, highly-differentiated customer experiences, which are imperative for today's ecommerce managers as their businesses have been validated as one of the fastest growing retail channels.

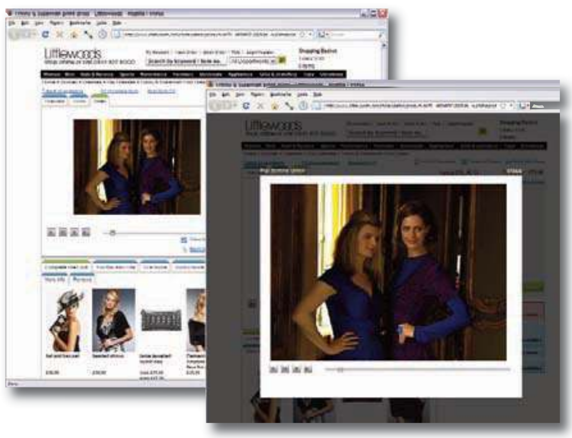
Over the last three years, there have been some dramatic and not so dramatic changes to the key principles for creating great customer experience. The following trends and best practices have been observed as the next wave of innovations.

CONTENT IS (STILL) KING

A picture is worth a thousand words, and bigger is better. These sayings clearly hold true for visual merchandising as seen by the dramatic increase in the use of imagery to merchandise a product including additional views to showcase different angles, in-context and even user-provided imagery. Not only is there more product imagery, (with some retailers increasing the number of images per item to as many as 17, not including colour options), these images are now larger, embedded in the product, category and browse pages and they are all higher quality and zoomable to show intricate details. What was once critical "white space real estate" only used for product copy and critical ordering information is now life size or larger-than-actual imagery with product information "overlaid" on the image. The impact of better quality and increased quantity of imagery has high effectiveness.

By adding video, or animation, combined with voice, merchants can tell their shoppers a better product story than just through the use of dynamic imagery or static copy. Videos can demonstrate products in use, show and tell subtleties such as flow, fit and feel, and turn a passive shopping experience into "active selling mode". Importantly, users love to watch videos. If offered a choice to click on a video versus any other rich media type, videos are clicked on most often. Also, qualitative user testing has revealed that the shoppers' eyes are always drawn to the largest visuals, but when competing with animations or self-running videos, the moving visuals were viewed first. Videos have proven to significantly increase conversion; but despite a potential up to 2X increase in conversion rates, only a minority of ecommerce managers currently use video on their sites – surveys estimate that approximately 21% to 30% of all websites use video.

Shop Direct recently produced and added over 1500 videos onto its nine ecommerce sites. The implementation was well integrated and complementary to product imagery. Particularly helpful is the ability to view the video in two different sizes, one embedded in product page and the other via a full-screen view.



Movement also brings more meaning to sites that have pushed the animations and videos to their category pages, providing an experience that truly comes to life. Models walk into the web pages, they move at the same time, and in some instances provide the ability to purchase directly from where the video or animation is offered.

Just as transitions in movies connect one scene to another, cinematic transitions and interaction feedback in applications help keep the shoppers oriented so they always know where they have come from and where they can go. They should not be used to just inhibit exploration of a site, but to guide users along.

SEARCH GETS SEXIER

The focus of offering rich experiences should move beyond the product detail pages and home pages, to include the browse, category and search results pages. In an effort to provide shoppers with more information quickly and easily to shorten sales cycles and eliminate clicks to purchase, richer visual information should be made available and consistently accessible throughout the website providing a totally immersive experience.

Particularly unique experiences addressing this principle include offering shoppers the ability to view different size visual thumbnail images based on the number of items they choose to browse. The size of the visual thumbnails can be automatically increased as the number of items viewed decreases providing shoppers better visual feedback despite showing fewer items at the same time.

To make browsing better, we are seeing the use of modal layers built in the category pages that display full product detail information including zoom, product description, pricing and add to cart.

Another example of visual browsing improvements is the ability to show the size of the thumbnails in relative proportion to each other. For example, floral arrangements come in different widths and heights. Displaying thumbnails in relative sizes enables shoppers to gain a better perspective of an item prior to ordering, which helps eliminate customer dissatisfaction upon delivery, lowers returns and increases repeat purchases.

Navigation when you need it combines the principle of "Content is king" with the concept of letting this content drive the interface. Since content is what browsers care about most, and the "interface" or "chrome" is a barrier between users and what they want, allowing them to work on, play with, watch, listen to, or otherwise focus on the content, and not to see buttons and navigation enhance their experiences and drive loyalty. Keeping the content centre-stage, allows users to interact directly and minimize anything that takes away from its primacy – mirroring the interactive, tangible experience of shopping in retail stores.

Too many sites create clutter for shoppers with user interface (UI) elements and choices. Rather than designing and building the UI and controls first in an application, let the content BE the interface, and all interactions should fall naturally around it, enabling direct manipulation or in-line navigation. A focused UI, especially when an item requires a complex decision making process or offers many customizable options, can help increase revenues by up to 40%, while shortening the sales cycle by 75%.

MAKE IT PERSONAL AND EMPOWERING

User-provided content allows for great digital experiences that adapt to the personality and profile of the user. The more relevant the content displayed, the more engaged the user is. A recent study found that almost two-thirds of respondents were interested in personalization and are either using or planning to use it to support their customer experience plans. Explicit personalization which is tied to authenticated users and many consider easier to deploy, microsites tied to search pages, implicit personalization tied to site user behaviour, and user recommendations were all considered important personalization tools for driving their businesses.

Wine Enthusiast added sophisticated personalization and increased conversions by 2x.

Not only empowering shoppers but also providing tools that empower their community (groups, friends and peers) is truly a significant online shopping shift. User reviews are just the start of how social shopping can drive the ideal ecommerce experience. Community collaboration – sharing and rating of user created merchandise and suggestions, to full collaborative shopping – the ability to shop with your friends on the same site simultaneously, will take what was once an individual, personal and private experience on the web to a completely shared experience. Great examples of sites which allow the community to create or contribute the content exist - Oli.co.uk and etsy.com.

WHAT'S NEXT?

The industry is still scraping the surface of how the web can evolve to further drive retail business. In the near term, the web will become more accessible and "device agnostic" with increased availability via set-top boxes on shoppers' plasma screens and mobile phones as well as continued access on the desktop. Shoppers will continue to push the industry to evolve and develop consistent, pervasive, social and immersive experiences.

HARNESSING THE WISDOM OF CROWDS

Pontus Kristiansson, CEO of Avail Intelligence, looks at the future of behavioural merchandising.

THE RETAIL sector faces its most challenging conditions in recent memory as the global financial crisis has led to a 5% decline in overall sales. But spare a thought for sectors that have seen their entire profit margins decimated in the space of months. For example, Volvo trucks has consistently sold approximately 20,000 trucks per quarter. In the third quarter of 2008, it sold only 115, according to This is Money. Meanwhile, the BBC reported that Panasonic slashed its annual profit forecast by 90%, saying it now expects $316 million in net profit for the fiscal year ending March 2009, down from its earlier forecast of $96.8 billion.

Uncertainty reigns but one thing is for sure – the worst is yet to come. This makes ecommerce's emergence all the more important, as it remains the only source of growth for the retail sector.

Even the economic crisis has failed to stop ecommerce's inexorable rise, though it has put a dent in it. Projected to rise by 30% this year, figures from ACSEL reveal that ecommerce has grown by 20%, still impressive considering the circumstances. So online retail is proving to be the silver lining in an otherwise very dark cloud, but this begs the question – how to merchandise to online consumers in an efficient and effective manner?

INCREASING MARKET SHARE

Four factors can affect a company's profit: average cost per visitor; average conversion rate; average order value and average product margin. Two factors are outside the merchandiser's control, as the budget they would allocate per visitor is based on market value – so the same as any competitor. The same occurs with product margin: most of the time, the size of the margin depends on the volume of products purchased from the supplier. So in essence, it depends on the success of the other factors, since the more profitable enterprise can order in greater volume.

As a result, a marketing director only has two factors he can really control; they must excel in conversion rate and order value to maximise profit. Profit can be reinvested in advertising – higher profits mean more investment in marketing, which drives a greater number of visitors, resulting in a positive spiral of market share. The ecommerce operation that successfully influences those factors will sell more products, buy in larger wholesale volumes and negotiate larger discounts.

HARNESSING CROWD WISDOM

Reaching out to an online audience is a whole new ball game – the internet is an uncontrollable medium where the crowd is king. Advertisers find it notoriously difficult to gain an advantage in a forum where their motives are continually doubted. Our own Trust Index research early in 2007 highlighted that up to two thirds of online consumers explicitly distrust marketers. The upside to this is that research has also shown that two thirds of consumers have bought a product purely based on the advice of an anonymous online user. That is because the information is relevant and user-generated, thus built on trust.

Personalised merchandising builds on these principles. It aims to treat each individual consumer differently, through the analysis of behavioural data. And a user simply visiting your site is a behavioural trend. The fully automated technology doesn't care who the person is or deal with any personally identifiable information – so it makes no distinction between the 18-year-old student and 65-year-old silver surfer. All it needs to know is what the consumer is interested in and when they visited, to increase the relevance of the information. The result is that behavioural merchandising can contribute up to three times more added sales than mass or segmented merchandising.

People associate behavioural advertising with 'people who bought this item, also purchased this', which intuitively suggest that a person might be interested in certain other products. The simplicity of the suggestion masks advanced and complicated calculations needed to discover the long trail for each customer, as well as the computational power necessary to perform them in real time. Community intelligence drives the merchandising: information determines what product should be displayed to a particular visitor at the next touch point. In turn, this helps to maximise conversion rates and advertorial value.

THE FUTURE

The next stage in the evolution of behavioural merchandising is increased personalisation. It is going to become much more advanced and used in many more touch points around the customer interaction cycle. This model tracks each visitor's activity on the site – from entry to product purchase – and looks for ways to drive the visitor back as a returning customer. Eventually, every one of these touch points will be personalised.

Cross-integration will become more sophisticated. Companies will integrate call centres with ecommerce sites, so that call centre agents will be able to interact with potential customers browsing the online channel. That said, there will also be more automation of personalised experiences – automated agents that can take the role of a call centre representative and communicate intelligently without a human agent behind them.

Online retail's success is based on its convenience. Today's consumers can purchase just about anything online, but travel and leisure, groceries, media products and apparel have really taken off. One area still underexploited online is the sale of services. Prime examples are car repair, cleaning, laundry, painting and renovation. So far, the above are sold singularly, which is inconvenient, as customers need to research and approach each provider to enquire about suitability and availability.

> **"BEHAVIOURAL MERCHANDISING CAN CONTRIBUTE UP TO THREE TIMES MORE ADDED SALES THAN MASS OR SEGMENTED MERCHANDISING"**

The birth of the online service sector would see an advert from a large online retailer, offering a substantial assortment of services. Behavioural merchandising would suggest related services to the consumer, aggregating the offering so the user could access all the information they might need, instead of approaching providers individually. An example of this would be the online gifts website Red Letter Days, which has a catalogue of high-end experiences, packaged and retailed in a manner that never existed before.

NEW METHOD FOR A NEW MEDIUM

Online retail's potential is no longer in question – there is speculation that the financial crisis might even hasten its maturity as consumers put cost savings at the top of their priorities. Older forms of marketing, like segmented merchandising and the 30-second advert, are hopelessly outdated when it comes to selling to a sophisticated and media-savvy audience.

Behavioural merchandising typically improves a site's conversion rate by 20%; improves the average order value by 10 to 15%; and a combination of these two combined creates a potential increase in revenue per visitor of over 30%. The online channel needs a form of merchandising which can address each member of a global audience individually, in order to grow a business – a new method for a new medium.

INSIGHT FROM AR

COLUM JOYCE, DIRECTOR OF STRATEGY, IMRWORLD.ORG

This month we saw the UK government adopt one of the most aggressive, legally binding, green house gas (GHG) reduction plans anywhere in the world. Parallel to this we saw the EU and also US moving to more explicit policy and process positions on the environment.

Whilst some may think that the recession / depression will delay environmental measures it will actually accelerate them.

This is because business opportunities, efficiency gains and new forms of economic growth form the core of all emerging strategies on the environment. These will create jobs, generate consumption, drive growth, increase efficiency and increase competitiveness.

Ecommerce has a huge opportunity to get ahead of the curve by investing in the technologies, processes, procedures to attract concerned consumers and benefit from the environmental issue.

Key to this a central element of every ecommerce site: the catalogue. This forms the core information source that drives virtually every process engaged in.

The immediate opportunity for ecommerce retailers is in pre-positioning or updating their catalogue systems to be capable of managing the next form of price / tax that will be required by national and EU legislation. This is carbon pricing and carbon taxation.

The fundamentals are just like the price, tax and discount processes we follow today for monetary aspects of buying. It will be a required variable in business governance in the very near future.

Justification for immediate moves should be seen in the 62% of EU citizens who consider the environment as a major concern and influence on their purchasing habits. Failure to proactively address such a concern will rapidly undermine the ability of ecommerce merchants to attract and maintain customers.

Of all the channels used to service consumers, ecommerce is ideally placed to use its technological expertise and the environmental issue to learn, teach and lead policy makers, consumers and stakeholders in a changing retail landscape.

DANIEL LUCHT, SENIOR ANALYST AT VERDICT RESEARCH AND AUTHOR OF 'RETAILING IN EASTERN EUROPE 2008'

As we predicted, the ripple effect from the credit crunch is now acutely felt across the CEE region. While this has depressed growth in retailing overall – and ecommerce has been no exception – the underlying fundamentals for the future development of the channel continue to be strong. We expect those players with the necessary staying power that have positioned themselves clearly and early to reap the benefits once the economy rebounds and consumer confidence returns. As much of the electricals sector is in the doldrums across the EU, as consumers tighten their belts and cut out non-essential spend, much of the channel's growth in CEE hinges on the performance of the wider category.

Ecommerce is still developing in the Baltic States where growth in the online channel is spearheaded by electricals retailers, a growing number of whom are using the internet as their main channel. As broadband penetration continues to grow, we expect the internet to become an important channel for the whole sector.

In Lithuania, for example, Fortakas, Komvista and Akmila all offer a comprehensive selection of consumer electronics for purchase online. Meanwhile, online and catalogue retailer Netanttila sells electricals in Latvia and Estonia and more retailers in the region are likely to develop similar online platforms in order to become true multi-channel operators.

Internet retailing has a buoyant future in the Czech Republic where multi-channel retailing is already a watchword. But, there is farther to go. Relatively high broadband penetration levels spell out a rosy future for the channel which will see electricals at the forefront of this development, with clothing and grocery to follow.

Internet retailing is also at a rather advanced stage in Slovenia, when compared to the likes of Bulgaria or Romania, for example. More than half of all Slovenian households have access to the internet, translating into more than 40% of the population as active users. Around a quarter of Slovenes have made online purchases.

Although an underdeveloped market, Bulgaria offers opportunities for online retailers. Only 4% of Bulgarians have made an online purchase over the last 12 months but broadband penetration is increasing in cities and towns and gradually finding its way into the suburbs.

OUND THE WORLD

There is a lot of potential for retailers to develop multi-channel platforms, especially electricals specialists in the largest cities.

At the time of writing ecommerce in CEE is predominantly focussed on the electricals sector. Once electricals recovers from the slump etailing will be at the forefront driving incremental growth.

GEORGE GODULA, MANAGING DIRECTOR, MH DIREKT ASIA

China has the largest internet population in the world with 230 million users. However, growing internet traffic hasn't resulted in an increase in ecommerce. George Godula considers why this might be.

The internet is used mainly as an entertainment tool with music, instant messaging, video, news, search engines, online games and email being the most popular applications. The largest group online (representing 32% of total users) are the 18-24 year olds, most of whom are students.

Only 25% of Chinese internet users shop online, according to China Internet Network Information Center (CNNIC). These shoppers are characterized by a strong education, residency in urban areas (Shanghai, Beijing and Guangzhou have the highest number of online shoppers) and mostly work in joint ventures or foreign-invested enterprises. In economically less developed areas, the online shopping rate is rather low, since online payment is not very popular and significant problems remain with logistics.

Some 55 million Chinese internet users shopped online in 2007 spending $8.25 billion (excluding online travel bookings), according to the annual China Internet Research Center (iResearch) report. Online spending is projected to reach $58.5 billion in 2011. In the first quarter of 2008, China's online shopping transactions amounted to $3.46 billion – a year-on-year increase of 151.8%. The number of online shoppers is expected to hit 75 million at the end of the year. The most popular online goods are clothes and accessories, followed by books and audio/video products, and cosmetics and jewellery.

However, the lack of trust in online payment systems and a fear of card and ID fraud are limiting ecommerce. Cash on delivery is still very popular - labour is still so inexpensive that many strong local providers can afford huge workforces for delivery and payment collection.

Another limiting factor is counterfeit goods with delivered products sometimes not matching the product description. Nevertheless, the rapid growth of internet penetration and ecommerce in China is proof that online behaviour can change quickly.

SCOTT SILVERMAN, EXECUTIVE DIRECTOR, SHOP.ORG

Cyber Monday, the ceremonial kickoff to the online holiday shopping season, played out like music to my ears this year - and not just because we hosted our third annual Shop@Lunch event at Washington DC's Hard Rock Café. The term "Cyber Monday" was coined by Shop.org a few years ago. While it's not the biggest online shopping day of the year, it is becoming an important opportunity for online retailers to offer promotions and deals that encourage Americans to shop online.

The web continues to be a bright spot in US retailing, and Cyber Monday was no exception. A recent survey conducted for Shop.org revealed that 85 million Americans planned to shop online from home or at work on Cyber Monday. comScore, a company that tracks online sales, reported that Cyber Monday sales rose 15% over last year to $846 million. This news was exceptional for a time when retailers are facing financial woes and consumers continue to pinch their pennies.

In Washington, we were able to see online shoppers excited for the special deals first hand at our Shop@Lunch event. People came in droves to shop on computers we provided, enjoy a free lunch, and listen to the rock music for which Hard Rock Café is known.

But Washington wasn't the only place people were shopping. Shop.org's website, www.cybermonday.com, which features holiday promotions and savings from more than 600 retailers, had 2.4 million unique visitors on Cyber Monday, up from 1.5 million visitors last year. The site featured a "deal of the hour" on its front page, highlighting a different retail promotion every 60 minutes.

Though retailers continue to face a number of challenges this holiday season, Cyber Monday got the online holiday shopping season off to a strong start. Here's hoping the music continues well in to 2009 and beyond.

MOBILE

THE MOBILE YEAR?

THE MOBILE phone continues to raise its profile as a retail tool but while a high number of retailers use mobile to communicate with customers, only 20% currently use 'm-commerce' as a transactional sales channel.

Research by creative mobile marketing agency Sponge has shown that the use of mobile among retailers is high but the benefits of having m-commerce capabilities are yet to be recognised.

The study, which looked at how the retail industry perceives and uses mobile as a sales and communication tool, also revealed that 40% of those surveyed said they already had an information-led mobile internet site, or were considering building one. However, 10% were unsure and half said that a mobile internet site wasn't part of their growth plan. While the survey sample was small, Sponge believes the results are indicative of large retailers and backs up what it has been hearing from retailers.

Some 40% of online retailers said that their transactional websites are mobile friendly, while half of those surveyed said they would be doing so within the next 12 months.

Jon Beverley, Commercial Director at Sponge commented: "Recent research by analyst firm Juniper predicts that more than two billion mobile users globally will have made a purchase via their handsets by 2013. A fifth of retailers that took part in our survey already offer customers this capability – the option to make purchases via mobile phones is keeping them ahead of their competitors."

So will 2009 be the year of m-commerce? "Only in the same way that the last ten years have been," he commented. "It will be the year when people make more use of mobile" but, while there are a handful of retailers who will innovate, "m-commerce still has a long way to go". It "will come about by stealth," he said explaining that one day consumers will find themselves booking travel tickets via their mobile phone and not think twice about it.

"There are issues to overcome," including the downturn but primarily m-commerce is not easy. It's one thing to send a voucher to a mobile phone but it then has to be scanned at the checkout. "If it's not easy people won't do it."

He believes that in 2009, the mobile channel will be used to back up multi-channel strategies and "where it is really going to help is CRM". 2009 will be a metrics-driven year and since mobile is a low cost channel it will be used to help with every last bit of conversion. He explained that the company is working with one retailer to use mobile as a communications tool to reach customers who have discarded baskets online.

The survey respondents back this up. Some 70% use mobile to communicate with their customers and when asked what the main purpose of contacting customers via SMS was, Sponge found that 40% use messages to send product information. A further 40% use SMS to send stock alerts and delivery time confirmation. 20% said they inform their customers of special offers.

Of those who don't currently use mobile to communicate with customers, two thirds intend to start within the next 12 months. The rest said they are not considering using mobile in the future, citing that they had tried it in the past and not seen any benefits.

"Something else the research showed was a common misconception that you have to have ecommerce to use mobile successfully – you only have to look at multi-channel retailers who have store footfall to realise this isn't the case. Retail is a service industry and whether purely online or multi-channel, mobile can help inform, manage expectations and reduce the pressure on customer service departments," commented Beverley.

He explained that at the end of the day, the killer app for mobile has already been found - it is a communication device. What retailers need to do is to understand its power and its perils. "Argos' Check and Reserve service is still one of the best uses of mobile in retail."

The Retail Business Show

January 28th & 29th 2009, National Hall, Olympia, London