Internet Retailing

Selling in the digital age

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MARTHA LANE FOX

Helping UK retail and consumers

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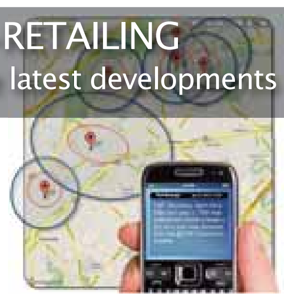

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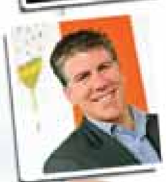

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EDITOR'S COMMENT

Another Christmas has passed, returns have been handled and trading statements have been issued. In this issue IMRG and Capgemini report on the value of Christmas 2010 and we look forward to 2011. Patrick Wall, CEO of MetaPack shares his insight on the hot topics in the delivery arena for 2011, while eCommera discusses ecommerce metrics having asked retailers how they measure profitability online. On page 27 Alison Clements asks where the ROI in online marketing spend lies and whether social media is a real challenger to the search and affiliates budget.

Having reported on such huge advances in mobile retailing in 2010, M-retailing's Editor, Paul Skeldon, believes that 2011 is going to be the year that smartphones come to play a hugely significant role in retailing – perhaps even laying the ground work for mobile's eventual take over of ecommerce.

Mobile retailing is one of the topics being discussed at the Internet Retailing Expo on 23 & 24 March. A new addition to the IR stable, it combines JumpStart events, workshops and 2 conferences with 120 exhibition stands highlighting the suppliers, channels, interests and disciplines within our growing and dynamic industry.

All at IR Towers look forward to seeing you there.

Emma Herrod
Editor

FEATURES

REGULARS

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CARPETRIGHT SEES RESULTS FROM INVESTMENT

Carpet retailer Carpetright says it is reaping rewards from its investment in multichannel sales. The company says that it is seeing significant traffic to the site, resulting in hundreds of appointments a week. Each week some 55,000 unique visitors arrive at the carpetright.co.uk site, resulting in 800 samples being sent out and almost 700 appointments being made. The Carpetright website offers free measuring and estimating appointments.

"The samples/appointment leads can be specifically tracked to store sales, demonstrating the importance of having an effective and integrated multichannel proposition," said the company in its half-year results announcement to the stockmarket in December.

The company added that pre-tax profits fell to £9.8m in the 26 weeks to October 30 from £11m at the same time the previous year. Total group sales was also down, at £248m from £258m last time, with like-for-like sales down by 6.1% in the UK and Ireland. But at the same time net debt fell by £12.8m to £58.5m.

Lord Harris of Peckham, Chairman and Chief Executive, said the company had remained profitable against a 'challenging' economy.

He said: "Whilst we remain cautious about the retail market in the balance of the financial year and throughout 2011, the board has confidence that the group is well positioned to deliver future sales growth when consumer demand in our sector improves."

The company's strategy is therefore focusing on measures including developing additional sales channels, such as multichannel.

The Carpetright website was voted retail website of the year in the Retail Systems Awards 2010.

HOUSE AND GARDEN WEBSITES RANKED BY SHARE OF UK VISITS

Rank	Website	Domain	Visits Share
1	B&Q	www.diy.com	7.15%
2	Homebase	www.homebase.co.uk	4.97%
3	IKEA	www.ikea.com	4.84%
4	ScrewFix.com	www.screwfix.com	3.88%
5	Matalan	www.matalan.co.uk	3.47%
6	mothercare	www.mothercare.com	2.98%
7	wilkinson	www.wilkinsonplus.com	2.03%
8	Wickes	www.wickes.co.uk	2.00%
9	Laura Ashley	www.lauraashley.com	1.65%
10	Lakeland	www.lakeland.co.uk	1.64%
11	dfs	www.dfsonline.co.uk	1.45%
12	Dunelm mill	www.dunelm-mill.co.uk	1.40%
13	mydeco	www.mydeco.com	1.13%
14	The White Company	www.thewhiteco.com	1.09%
15	kiddicare.com	www.kiddicare.com	1.01%

Source: Experian Hitwise

NEW LOOK LEADS CHECKOUT

Fashion retailer New Look has been singled out for the usability of its checkout in a study from web design and accessibility agency Nomensa. The agency says the website rated highly in efficiency and user-experience design, but was "streets ahead of all the other sites" for emotional engagement.

Nomensa's checkout usability study analysed websites from leading UK ecommerce websites, chosen from the IMRG's Hot Shops Top 100 List of June 2010.

Judging them on emotional design, efficiency, and user experience (UX) design of the checkout process, it put New Look in first place with 77 points out of 90, Argos (70.5) in second and John Lewis (68) in third. They were followed by Debenhams, Apple's UK store, B&Q, Next, Play and Marks & Spencer. Two further retailers could not be analysed because of difficulties adding addresses to an order on their sites.

Report author Juliet Richardson said New Look gained its advantage through the emotional engagement of its site, which included features to inspire confidence and trust. For example, information about delivery charges, returns and security, and the customer support number were displayed prominently.

TRADITIONAL RETAIL KEY TO ONLINE

Traditional retail skills are just as important to online businesses as to their high street counterparts. That was the message from online retailers Nick Robertson, Chief Executive of ASOS.com and Mark Newton-Jones, Chief Executive of the Shop Direct Group, speaking at a Skillsmart Retail Parliamentary session to mark the launch of Skillsmart's Understanding the Impact of Online Trading on UK Retailing 2010 report.

Nick Robertson said: "I think the reason we've been able to grow as quickly as we have is because a lot of the skills we have at ASOS are just good, traditional retail skills. We have a very big buying and merchandising team and all those buyers and merchandisers have come from high street stores. The good news for us is that we have been able to grow because a lot of the skills already exist out there."

Focusing on customer service, Mark Newton-Jones said: "This is really difficult and it's one of the things people struggle with when they move from high street retailing to remote retailing. You never see the queue at the till; you never see somebody trying something on; you don't wander around the shop and pick up a product to see how broad your range is. You just don't get that so you have to work really hard at it."

Robertson sympathized with the difficulties faced by traditional retailers but said standing still was not an option.

"Retail has a knack of surviving; we all need to buy things; so really it comes down to innovation, speed, quality of the skills available in the workplace and embracing change. If we don't embrace the change, the other issue we are going to have is international retailers who look at us as easy prey if we're not evolving quickly enough."

RICH MEDIA FOR ANTHROPOLOGIE

US fashion and lifestyle retailer Anthropologie has introduced rich media imaging and video on its UK website. It says that giving visitors the opportunity to examine its goods up close helps turn browsers into shoppers.

Michael Robinson, Head of Ecommerce for Anthropologie Europe, said: "Our aim is to achieve global consistency with our online customer experience. We've looked at what's worked in the US and implemented that best practice here.

"Our products are highly detailed so we know that when customers are able to zoom in to closely inspect and 'feel' each item this has an impact on sales and reduces return rates."

It also allows the company to use imagery created in the US and to serve it in the UK. This will also be used for future European website launches in French and German.

The company, a subsidiary of Urban Outfitters, is using technology from Adobe Scene7 to achieve this.

GROUPON EXPANDS WITH $1BN

Group buying website Groupon has raised almost $1bn (£641m) to invest in global expansion. The US business, which launched into the UK during 2010 as part of an international drive that has seen it widen its coverage from one to 35 countries, has won $950m (£609m) in investment from companies including Kleiner Perkins Caufield & Byers, Maverick Capital, Silver Lake and Technology Crossover Ventures.

Groupon is known for harnessing the power of collective buying to negotiate deals with companies in local markets. During the last year it has increased its subscriber numbers by 2,500% from two million to more than 50m, and says it has saved them more than $1.5bn (£960m) along the way through daily deals that offer local consumers the ability to negotiate together a larger discount than each could get individually.

Thanks to the new funding the company will expand its reach further around the world, invest in technology and will also use some of the funding to give liquidity to employees and early investors wanting to realise their holdings in the company.

"We're thrilled that Groupon has earned the confidence of some of the world's most respected investment firms," said Andrew Mason, Founder and Chief Executive of Groupon. "With their support, we will continue on our mission to change the way people shop locally and serve the world's local businesses."

The investment comes just a week after it emerged that Facebook had won $500m (£320m) investment from Goldman Sachs and a Russian investor that valued it at $50bn (£32bn) – and appears to signal a growing appetite for investment in internet technology that brings together online consumers.

82% MORE FROM MULTICHANNEL

Multichannel shoppers spend 82% more in each transaction than those who only shop in store, finds research for business adviser Deloitte. The company revealed that multichannel customers buying in the clothing, home and electrical categories spend on average £116 per transaction compared to £64 for those who only buy in-store. The researchers defined multichannel as consumers who use more than one channel, such as store, online, catalogue or contact centre before making a purchase.

Ian Geddes, UK Head of Retail at Deloitte, said: "The commercial imperative for retailers to tackle multi-channel and the incentive for getting it right is clear. The multi-channel consumer is particularly well informed about the products they buy and this greater confidence is resulting in a higher value and a higher volume of purchases.

The research found that 38% of all retail transactions across clothing, electrical and home sectors were now influenced by the internet. That breaks down as 21% bought directly online and 17% which are multichannel purchases.

In the electricals category, 62% of transactions were influenced by online, compared to 37% of homeware purchases and 26% of clothing transactions.

Multichannel electricals consumers spend £238 per transaction compared to £160 for those shopping in-store. Homeware customers spend £143 on average, compared to £83 in store, while in clothing, multichannel customers spend £65, compared to £52 in-store.

The research found that consumers from higher socioeconomic groups were more likely to be multichannel shoppers, with 33% of shoppers from groups A and B employing several channels compared to 22% of those from groups D and E.

PLANES, TRAINS AND AUTOMOBILES...

The recent travel mayhem as a result of snow across the UK has brought the topic of travel and - vitally at Christmas-time - delivery to the front of our collective minds in ecommerce. However, in addition to the trials and tribulations experienced in the final mile, the transport metaphor has been a fertile one as Ian Jindal considers the balance of service within multichannel retail.

THE PRE-CHRISTMAS snow was perfectly timed to remind those of an ecommerce persuasion how the glorious promise of a slick web front-end can founder upon the logistical realities of delivering (literally) upon one's promises. Many in ecommerce had predictive delivery grief based simply upon concerns over network capacity to cope with the predicted increase in demand. More retailers online, higher levels of online purchasing and increasingly high levels of delivery promises - all powerful elements within a looming 'perfect storm' of too many people wanting too many products too soon... with too little time available before Santa hangs up his reindeer spurs and cracks open the post-pudding port.

The customer, of course, was in a state of cognitive dissonance. One minute, shopping online to avoid the crowds; the next, scouring websites for store opening times, in-store stock availability and the phone number of the local stores! Despite the allure of the web - convenience, price, information - there's no substitute for a store when you need to get your hands on Junior's must-have Christmas toy!

Under the pressure of a crisis situation, the web held up well. Sites functioned, ordering was slick, all appeared fine... but the cracks between ecommerce front-end and logistical capability became all too clear. The lack of store-level, real-time stock information suddenly became important. When tracking orders, the rubric "Out for Delivery" in the normally-helpful track-and-trace systems rang resoundingly hollow. The abdication of delivery promise to most of Scotland reminded us that while the web might be universal and resilient, access to the M8 was not.

Stores seemed to fare better in some respects, and the transport analogy illustrates the difference in capability (and management approach?) between stores and ecommerce.

Ecommerce is like a railway: networked, highly connected, oozing efficiency and generally very predictable. The operational approach is towards efficiency and operational excellence, while continually cranking up the throughput or the 'network capacity'. Bottlenecks and crashes are avoided, and the prevailing trend has been to higher and higher operating levels at reduced tolerances. However, when there's an error or a problem it's clear that the set processes fall down. Trains can but follow the set track. Furthermore, problems have immediate knock-on effects for other track users (can't pass) and for line users (the train rolling stock is in the 'wrong places' for the service). Fundamentally, the characterisation is that of a machine, efficient when all goes well, but lacking in flexibility and with limited opportunity for say an individual train driver to make an impact.

Planes and boats - like shops, perhaps - have more individual flexibility. Once a ship leaves harbour the exact route is a matter of negotiation and the vessel is essentially independent until it docks. Staff can "manage" most situations, given open doors, some electricity and something to sell, motivated staff can overcome POS and till system glitches, network outage, loss of payment processing, partial out of stock and - in the glorious case of John Lewis in High Wycombe in 2009 - even accommodate 100 stranded customers in their bed department. Of course there are limits to this analogy, but the combination of resourceful staff and quasi-autonomous operating lead to a level of resilience that's not available online.

As 2011 bring further growth in digital channels, the challenge is to make the connection to our infrastructure more robust so that the web can be part of that responsive and connected customer response during abnormal situations. Improved tracking of deliveries, of stock information and ordering processes are necessary, as well as more elegant options for service degradation than on-site notices saying that nothing can be guaranteed.

It's neither an easy nor a glamorous undertaking, but it's the difference between being the captain of the ship and simply a passenger.

To all captains and crew on the Good Ship Multichannel, we at Internet Retailing wish you every success for a prosperous, smooth and stimulating journey in 2011.

WHAT TO LOOK FOR IN A CARD PAYMENT PARTNER TO KEEP ONE STEP AHEAD OF THE FRAUDSTERS

GABRIEL HOPKINS, HEAD OF ECOMMERCE PRODUCTS AT WORLDPAY, EXPLAINS WHAT TO CONSIDER WHEN CHOOSING THE RIGHT PAYMENT PROVIDER FOR YOUR BUSINESS

DESPITE MORE THAN HALF (52%) of retailers reporting that an upgrade in payment solutions has a positive impact on their business, the card payment process is often overlooked in operational efficiency reviews. That is, until something goes wrong and the value of having strong systems in place becomes evident.

Reliability is vital to all businesses, especially when it comes to accepting payments from your customers. WorldPay is the leading processor of card payments in the UK, processing over four billion transactions in 2010, both on the high street and online. The trust that a large proportion of the UK businesses has placed in WorldPay has been earned through putting customer needs first and delivering consistently high levels of reliability, resilience and service. Our clients also benefit from the wealth of knowledge and experience that we have developed in over 20 years of processing, allowing us to optimise card acceptance solutions for the different requirements of every business.

With more and more transactions occurring on the internet, ecommerce is an area that no retailer can afford to ignore. And with smaller rates of growth at home, international trading, especially over the internet, is an avenue more and more merchants are exploring. WorldPay offers a full range of ecommerce payment solutions to suit every business and can help retailers large and small maximise the opportunity of the internet.

One area of particular concern to many online retailers is fraud. Fraud is a major issue for all kinds of retailers, whether they are small or large, experienced or inexperienced, local or international. WorldPay is able to work with retailers to implement key fraud management tools like Card Security Code and 3D Secure (also known as MasterCard SecureCodeTM and Verified by Visa).

In addition, WorldPay offers several tiers or fraud risk management services. We offer out-of-the-box automated fraud screening solutions that apply a battery of automatic checks to every online transaction. Such a solution may be all that is required for a merchant that operates in a low risk sector with relatively simple patterns of business. At the other end of the spectrum, we also offer bespoke solutions designed after intensive analysis of your particular business, sector and transaction load by a highly experienced Risk Consultant.

Our flagship risk management service, suitable for those merchants who process large numbers of transactions or operate in a higher risk sector, is called RiskGuardian. This solution can complete over 200 checks on an online transaction in less than a second, including velocity checking which looks at the number of times a particular card or account has been used within a defined period, IP location checks, email address and age and ID checking for key geographies. Customisation of RiskGuardian enables clients to decide on how they fine-tune their risk approach in relation to the goods and services they are selling and method of delivery. For example, a retailer might set strict risk criteria for downloadable content and less strict criteria for products delivered to a customer's doorstep. RiskGuardian's specialist risk analysts work with each client to build the most effective profile for their individual needs. Such specialist insight can make a huge difference to the bottom line.

Finally, when choosing a payment partner it's vital to look for a high level of ongoing support. Aftercare is of critical importance to maintain success and adapt to the constantly changing business environment. At WorldPay we have a customer support team which is dedicated to providing ongoing expertise and guidance for our clients. We recognise that our business success is dependent on long-term customer satisfaction and providing secure solutions that accelerate payment processing and ensure that your business stays ahead of the game.

Contact one of our UK Account Managers to guide you through our payments solutions and answer any questions you have about WorldPay's products and services on 0845 301 6251

GETTING AHEAD & RACING ONLINE

Martha Lane Fox, who, in her non-exec roles at Marks & Spencer and made.com and her government-appointed position of Digital Champion, has many markets across the retail sector in her sights. She talks to Emma Herrod about her Race Online mission and the trends in UK retail in 2011.

TO DATE, some 40 million people in the UK have used the internet, with 30 million going online every day. According to Boston Consulting Group's report 'The Connected Kingdom', 31 million people have shopped online and their spend on goods and travel reached about £50bn in 2009 – or £1,660 per person – a figure that's forecast to keep on increasing.

However, almost a fifth of the population have never used the internet and it is these 'unconnected' people that Martha Lane Fox and her Race Online 2012 group have been appointed to champion. Since launching the Race Online 2012 campaign in March 2010, they have been working with partners in the private and public sectors to help inspire, encourage and support as many people as possible to get online by the end of the Olympic year.

The group's aims are set out in its Manifesto for a Networked Nation, which states: "By the end of this parliament everyone of working age should be online and no-one should retire without web skills."

Whether for altruistic (Corporate Social Responsibility) or for commercial reasons (an increase in the potential customer base for retailers), organisations from all areas of the private and public sector have already pledged to help these nine million people experience the internet. (Internet Retailing is pleased to be doing our bit to help in the run up to the Internet Retailing Expo in March.)

We all know that online shoppers are more financially beneficial for retailers and, of course, those who shop online and in-store are the most desirable. Research by business advisory firm Deloitte has shown that multi-channel shoppers spend 82% more per transaction than those who shop in-store only.

Using the internet is financially beneficial for shoppers as well, and not just because of the savings they can make by comparing prices online. Usage brings a host of benefits such as improving children's educational attainment, opening up employment opportunities for the unemployed, boosting the standard of living for older people and their general engagement in society; in some cases, it can prove to be a lifeline. PwC estimates that the total economic benefit of getting everyone in the UK online is in excess of £22bn, listing the specific benefits as:

- Consumer savings of £560 per year;
- 3.6m low-income households could save more than £1bn a year by shopping and paying bills online;
- If the 1.6m children without internet access were online at home, they could boost their lifetime earnings by more than £10bn;
- If just 3.5% of unemployed non-internet users found a job by getting online it would deliver a net economic benefit of £560m;
- People with good ICT skills earn between 3% and 10% more than those without;
- The government could save between £3.30 and £12 on each contact or transaction if it was switched online. Currently, 20% of the estimated 1.8bn contacts with public services every year are online. If every adult switched just one of these contacts from the telephone to online each month it would save an estimated £900m a year.

Whilst nine million people in the UK have yet to make the move online, four million are among the most disadvantaged. This group is made up of 39% in the 65+ age group, 38% unemployed and 19% families with children.

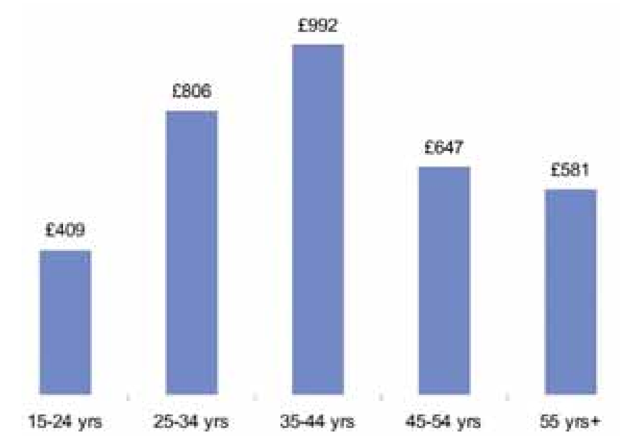
While many non-internet users are in the lowest socio-economic groups, some six million are not classified as socially disadvantaged. In fact, close to 50% of non-internet users aged 16-64 fall outside this category. As Lane Fox explains, about half are neither in the lowest nor the highest socio-economic groups.

Some 4% of adults in households earning more than £30,000 a year aren't online and 10% of 16-24 year olds don't have internet access. Contrast this with the figure for those aged 65+, of whom more than 60% aren't online. But these potential silver surfers shouldn't be ignored, because it's among this age group that there's been the largest take-up of broadband and the internet in the past year.

Why are so many people still not online? It seems that for a significant proportion of non-internet users the main barriers are insufficient knowledge or money, with nearly a quarter citing their lack of knowledge and 14% saying internet access is too expensive for them.

Companies, including retailers, are now being encouraged to play a part in breaking down these barriers and helping more people try out the internet, which its 20-year history shows leads to consumers spending money online.

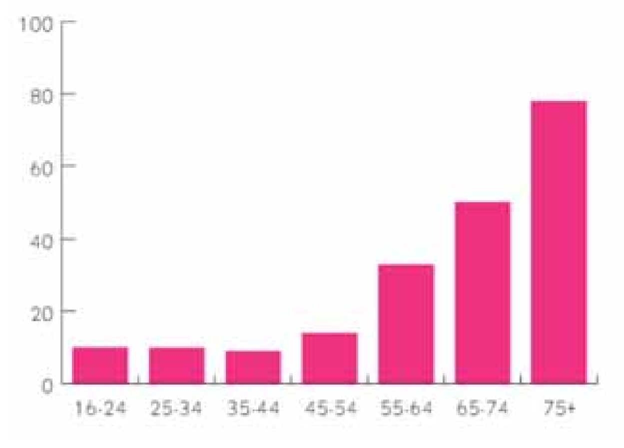
How much do they spend per head online?



Average spend per head = £700 per annum

Source: Verdict Research

Percentage of internet non-users



PASS IT ON

More than 900 companies, from the BBC to SMEs, have pledged to help Race Online 2012. Corporate Social Responsibility is one reason why companies get involved but, says Lane Fox, "it's not just on the fringes of being a worthwhile thing to do". There are business reasons, not least of which are the cost savings of operating online and the fact that online customers spend more. She explains that getting involved with Race Online really is a case of where "doing good is good business".

"We've seen great involvement from retailers," says Lane Fox, explaining how the first wave of

Race Online 2012 partners all committed significant resources to initiatives such as 'Pass IT on', aimed at helping, inspiring and educating everyone to get online. "The level of vision and commitment from our first wave Race Online 2012 partners has been extraordinary."

- BT aims to get at least 100,000 people online for the first time by encouraging all of its staff, consumers and corporate customers to 'Get IT Together' via a series of partnerships which includes UK online centres and Age UK. BT will also build on BT Internet Rangers with a particular focus on young people helping older relatives and friends to go online.
- Comet aims to Pass IT on to 50,000 digitally disadvantaged people via in-store online training for seniors and projects with selected charity and community partners, and it's also developing a low-cost hardware package.
- Google created and printed a simple guide to the internet that has been distributed nationwide and is working with internet developers to create and launch new online tools to make the internet more accessible, particularly for the over 65s.
- McDonald's will get new users online through a new ICT training module, asking its 80,000 staff to Pass IT on to friends and family. It will also use the Wi-Fi facilities in its restaurants for customer IT training.
- Microsoft will get 250,000 new users online through its Britain Works initiative and will run a Pass IT on campaign through its 32,000 partners to drive volunteering and host events. The 700+ Microsoft Academies will also run Pass IT on campaigns targeting the digitally excluded.
- Moneysupermarket.com has helped members of its local community in Flintshire, North Wales, to get online. Its first Pass IT on training session took several members of the Wales and West Housing Association back to basics. It has also donated computers for use by the staff and residents.
- Sky aims to encourage up to 100,000 customers online for the first time by integrating the Pass IT on initiative into its customer communications. Alongside continuing to offer free broadband, it will also ask its employees to run campaigns aimed at educating friends, families and local communities about the benefits of broadband.
- Skype will get thousands of digitally excluded people online by encouraging its customers to Pass IT on to offline family and friends, and by working with UK online centres to provide training for staff and the equipment to bring people closer together via Skype.
- TalkTalk's ambition is to get 100,000 new users online via community training at customer contact centres, asking its four million customers to Pass IT on, and creating a scheme whereby existing customers can sign up offline parents and grandparents to a discounted broadband package.

The internet is having an impact on everyone, whether they want to be online or not. People working in shops have to understand internet retailing and how their firm operates across its joined-up sales channels. Many multi-channel retailers are now incorporating into their change programmes staff training in how to use the internet and shop online, so all staff understand the customer journey.

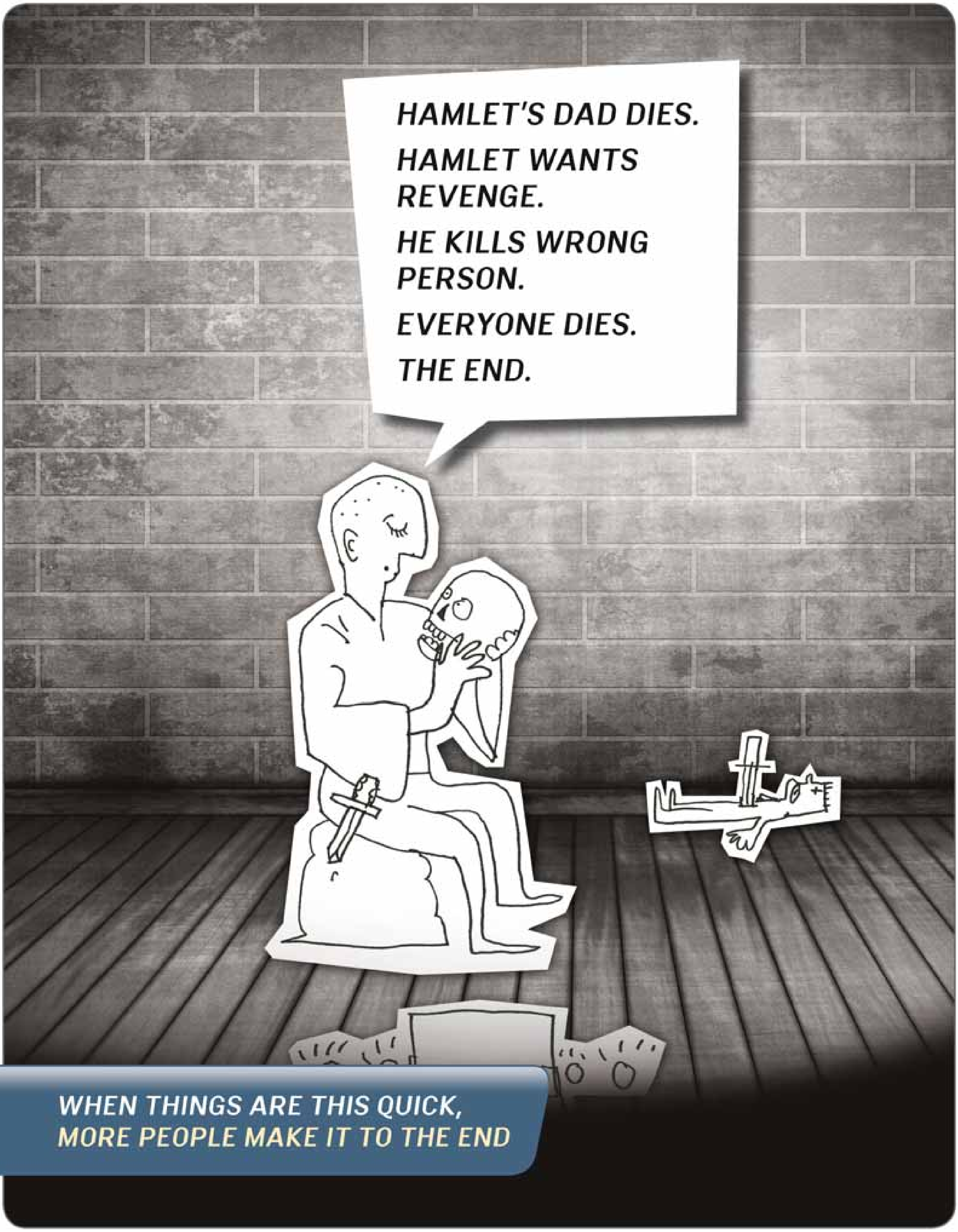
As Andrea O'Donnell, Commercial Director of John Lewis, told me last year, the retailer felt it should help its partners from a moral and social perspective as well as to fulfil a business need. She said: "If partners don't understand the internet and haven't experienced shopping online, offering the best service in the UK will be a challenge."

TRENDS FOR 2011

While not specifically pledged to Race Online 2012, programmes such as those implemented by John Lewis and other retailers including New Look are helping to bring more of the offline population online. Regardless of whether people take their first steps online through their work, a community training opportunity or being introduced to it by friends and family, there is no denying the impact it will have on their lives. In the future, internet access will become an even greater necessity as people risk being left behind as online behaviour evolves ever more rapidly.

"It's always difficult to predict [how behaviour will evolve] as things can catch you by surprise. Who could have predicted Twitter?" comments Lane Fox. "When Brent [Hoberman] and I launched lastminute.com there was no Google." She explains that Hoberman was ahead of the mainstream, being a great believer in location-based services, and she feels that the mobile internet is only just starting to open up all kinds of opportunities for retailers.

She thinks that there are two aspects of the internet which will drive change over the next few



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FASTER BROADBAND VS 9M UNCONNECTED

The planned introduction of superfast broadband would provide an undoubted boost to business in the UK, but it requires a big investment and some question whether it should be a priority with so many people in this country still not online.

"It has to happen on both fronts," recommends Lane Fox. "Superfast broadband is very exciting, but a good quality 2Mbps service is a necessity for many people." Then there is the huge number of people who could access a good-quality service but have chosen not to. Lane Fox is confident that Race Online 2012 can do something about getting this section of the population online.

But the challenges and frustrations of not having a fast and reliable service should not be underestimated. While the UK ranks sixth for internet penetration (with 20 million unique IP addresses according to Akamai's State of the Internet Report), only 17% of its internet connections are above 5Mbps. This falls way below Romania's fastest European average connection speed of 6.8Mbps.

A further complication is the delay in the deadline to deliver superfast broadband, with Culture Secretary Jeremy Hunt announcing that it is pushing it back from the 2012 target set by the former Government to 2015. The coalition's current target is for everyone to be able to access broadband with speeds of at least 2Mbps in five years' time.

A poll conducted by broadband comparison site Broadband Expert has revealed that only 5% of Britons believe the UK will have the best superfast broadband network in Europe, as pledged by the current government. Some 42% said they didn't believe Britain would have the infrastructure in place to support superfast broadband by 2015, with 26% considering the pledge mere political spin.

years: it is a tool that enables like-minded people to find each other, and it is a technology that allows more direct communication between retailers and customers, helping customers feel more special.

"People trust people like themselves more than they do brands," she says. It is this peer-to-peer nature of the internet which retailers must tap into via their brand advocates. Most online retailers don't know who their advocates are, but the first step to finding them is via their best customers: the top 10% with the highest spend, she says.

It will be two to three years before social commerce really takes off but the beginnings of it can already be seen. She cites group buying such as the Groupon service as a great example of how people like clubbing together and how retailers could tap into that behaviour with their best customers.

Extrapolating that group mind further are disruptive models such as made.com, a service where customers can buy furniture before it is manufactured, and NakedWines [as mentioned in the November issue of Internet Retailing]. While not new models for retailing, these sites are changing online purchasing behaviour.

"As retailers, we haven't got to the start of

> "IN THE INTERNET AGE, WE NEED TO MAKE SURE THAT PEOPLE AREN'T BEING LEFT BEHIND AS MORE AND MORE SERVICES AND BUSINESS MOVE ONLINE. BUT THIS ISSUE ISN'T JUST ABOUT FAIRNESS – AS MARTHA'S WORK SHOWS, PROMOTING DIGITAL INCLUSION IS ESSENTIAL FOR A DYNAMIC MODERN ECONOMY AND CAN HELP TO MAKE GOVERNMENT MORE EFFICIENT AND EFFECTIVE."
>
> **David Cameron, Prime Minister**

putting customers at the heart of the businesses," says Lane Fox. She explains that the ability to tap into where people are – with their permission – and to send them vouchers when they are at the checkout, incentivising them to spend more or visit other departments, is a great application of real world and online thinking. If you could combine the services of SMS vouchers by Eagle Eye Solutions with daily deals from Groupon and Foursquare's location-based check-in service, you'd get a different way of thinking and interacting for retailers and for customers.

She says that as far as the retail sector in 2011 is concerned, the VAT hike is going to have a real effect. This view is echoed by analysts, with the Centre for Retail Research (CRR) expecting consumer spending to drop by £354m (0.5%) in the first quarter, causing retail sales to plummet by up to £2.2bn (3.1%) compared with the same quarter of 2010. This drop is made up of:

	Total decline in retail sales (millions)
Inflation @ 1.2%	£850
Cost to retailers to emplement chage	£959
0.5% cut in consumer spending	£354
Total:	**£2,163**

The CRR's Kelkoo-commissioned report, 'Raising VAT to 20%: Effects on Consumers, Prices and the Retail Industry', says that fewer than one in five retailers plans to pass the full VAT increase onto consumers by the end of January, but 95% expect to do so within three months. The increase is forecast to cost each household in the UK almost £520 in 2011 – or £212 for every man, woman and child – while raising £13bn for the Treasury. As a result, consumers are expected to reduce their annual spending by £324 per person, with 50% claiming they will spend less throughout 2011.

But according to Helen Dickinson of KPMG, retail spending will "continue along its current trajectory for some time to come. Low growth, but growth none the less, is here to stay – this is the new norm." Rather than retail sales falling off a cliff, KPMG/Synovate Retail Think Tank says it expects a modest growth curve, "albeit with pain over the medium term for some".

This year will be a tough one for consumers and retailers alike, as other price rises such as the increase in utilities bills, put further pressure on household budgets. Asda's Income Tracker, produced by the Centre for Economics and Business Research (CEBR), reported that October 2010 marked the tenth month in a row in which

family spending power had fallen relative to the previous year. Charles Davis, Managing Economist at CEBR, explains that household earnings growth has not kept pace with the rising cost of essential goods and services, and he says he agrees with the Bank of England's expectation that inflation will remain above target throughout 2011.

"In this environment UK businesses are acutely aware of their responsibilities to keep a lid on costs to enable them to ease the burden on customers," comments Andy Clarke, Asda's President and CEO.

But consumers will have more ways to buy in 2011, according to Lane Fox, because there will be more deals with retail becoming more customer-driven.

Which brings us back to the mission close to her heart, Race Online 2012, and one of the main reasons why people who aren't online should be. "No-one can afford not to take it seriously," she says.

But she's realistic about what can be achieved in such as short time, and feels that online access should be made available in public spaces such as libraries and post offices because "people shouldn't have an overly optimistic vision that everyone will have a computer in their own home".

Overall though, she believes it's an interesting time to be in retail and technology. There are opportunities for retailers to engage and interact with their customers, involving them in aspects of their operation such as product development. And the winners will be those retailers that take this seriously and have the foresight to put it into action and take the lead for others to follow. ■

M&S REVIEW

Internet Retailing asked 4 retail experts to take a look at marksandspencer.com and give readers insight into the company's retail strategy, site performance, usability and customer experience.

RETAIL STRATEGY

Emma Robertson, Senior Multi-channel Consultant, Transform

Since launching the redesigned site in late 2009, Marks & Spencer has delivered against a programme of continuous improvement. The most significant developments have centred on the multichannel proposition "Shop Your Way", with an enhanced online experience, the roll out of in-store collection and the launch of both M&S TV and an m-commerce site.

The online experience continues to benefit from the underlying Amazon platform, delivering a feature rich shopping experience with expandable navigation, recommendations and rich content. In addition, M&S has supplemented the underlying platform with best-of-breed software providers, partnering with Bazaarvoice to deliver reviews and social media, and with Transversaal to support the "help" area of the website.

The in-store collection initiative has moved from trial to roll out with some amazing results – as of mid 2010 in-store collection accounted for 13% of online orders and generated £2.5m a week – numbers which will have no doubt significantly increased by now. Logistically, the proposition is supported by the Home Delivery capability within the business, treating stores as alternate customer addresses and allowing for geographical expansion of the proposition without re-engineering systems or processes. Significantly, the M&S collection model requires customers to pay in-full before the product is delivered to store, reducing the likelihood of non-collection and enabling the banking of funds before moving product. However, unlike some other multichannel retailers, M&S are not efficient at stock allocation across channels and will currently deliver a single item to store via a carrier, even if the same item is in stock within the target store.

Unquestionably, M&S has grown rapidly in terms of multichannel and reach. The challenge facing them now is how to maintain and grow this capability through a period of significant structural and logistical change. M&S has just increased its "Project 2020" efficiency target to £300m of savings in IT and logistics - partially through the creation of a newly combined National Distribution Centre and ecommerce DC in the East Midlands. Perhaps more significantly, M&S online is going to develop its own in-house platform, moving away from Amazon when the contract ends in 2013. As the starting point and underlying foundation for the "Shop Your Way" proposition this change may represent the biggest challenge of all.

USABILITY

Mark Westwater, Senior Usability Consultant, User Vision

Marks & Spencer have provided a comprehensive cross-platform shopping experience. Pointing at the site with an iPhone, the user is given the option to add a desktop link. An automatic redirect to a dedicated mobile site is then provided.

Signing up on the mobile site is straightforward. However, there is no clearly visible 'Register' link. Clear error reporting is provided and the user is directed to the appropriate field to rectify. Completion of the registration process means the user is automatically signed in.

On the homepage, a furniture event promotion impacts the mobile site length. The site navigation is well segmented with large touchpoints and clear labels. The active option is differentiated by colour and the architecture is not overly deep. It is possible to 'sort' the options by a variety of categories.

Adding a product to a basket means the user can view the product on another platform.

The 'desktop' site is a little messy. The 'Sale' links underneath the primary navigation visually appear as secondary navigation options and the 'recycle' and 'email' options as a tertiary navigation. However, clear calls to action are provided and all the information required is there. Multiple product views are provided, as is a video.

There are options provided for both 'Home Delivery' and 'Store Collection'. A helpful address finder and store selection are provided. The security graphic at the foot of the page is comforting.

Overall, considering the cross-platform experience and the additional value-add features provided, M&S make the experience straightforward and engaging with a seamless integration of both the mobile and desktop web.

EYE TRACKING ANALYSIS

Guy Redwood, Managing Director, SimpleUsability

We ran a range of tasks relevant to the M&S Christmas cross-channel campaign, either browsing for a last minute present or choosing an outfit for the festive season.

Christmas 2010 was unusual due to wintry conditions disrupting deliveries – so online customers were forced to the high street. Far from stopping online activity, users turned to the web for information, inspiration, availability and reservation.

On the general website, gift shoppers looked for a gift section from the homepage, with 'Christmas shop' not always being obvious.

The 'Christmas helper' section had a limited selection of gifts available. Users were forced to look elsewhere on the site to find a gift section that they could browse. Within the 'Christmas helper' links to 'see more' returned the user to the 'Christmas helper' homepage.

It was hard for users to filter by offer and make purchase decisions. We observed users looking at the '3 for 2' call outs while browsing. This was particularly the case on the mobile website where there were limited sorting options.

Last minute shoppers were left with few options from 'Shop Your Way' as the first collect date for stores was often 4 or 6 January. On the mobile website, one user wanted to see if their item was available in stock at their local store.

When looking for an outfit included in the TV advertising, users found it difficult to get started. We observed users looking for a section for the outfits featured on TV within the general navigation. Users were initially missing products that were appearing on the right hand side of the TV advert playing. The scroll icons were unfamiliar and awkward to use. Users became frustrated with items being out of stock or not being able to easily find a product that one of the celebrities was wearing.

The 'all outfits' product linked to content that could be filtered easily, showing that the content was available but not easily accessible from elsewhere.

From the mobile website users had to rely on browsing through the product categories with users missing the 'narrowing' options available at the bottom of the pages.

SITE PERFORMANCE

David Flower, Vice President, EMEA, Gomez

During December Gomez measured the performance of M&S's homepage as well as its Christmas landing page. Both were viewed from both UK tier one data centres and Gomez's Last Mile peer community for the period 5 through 25 December.

M&S's homepage has been a strong performer throughout Gomez's benchmark tests and in the run-up to Christmas it didn't let customers down. Data from the internet backbone showed it was 4th fastest behind Comet, Tesco and Sainsbury's and on the Last Mile it finished in the top half of the table.

Eye tracking gaze plot for www.marksandspencer.com Source: SimpleUsability

As expected, M&S's Christmas landing page delivered a relatively consistent performance throughout the test, delivering an average response time of just below 1.2 seconds from the internet backbone. There was a slight rise in response times on 10 and 11 December when many of the backbone piers detected issues with specific style sheet objects. This suggests that changes were being made to the website over this period. In itself this was not an issue. It was more that the impact of these changes – slower response times – were clearly detected at 10am on Saturday 11 December when customer traffic would have been reaching its peak.

From a middle-of-the-road Last Mile response time of just under 5 seconds at the beginning of December, the performance of the Christmas landing page continued to improve throughout the test, achieving an average response time of 3.3 seconds. Looking at the page weight averages for the same period, there is a strong correlation of improved performance with decreased page weights; these decreased from around 700kbytes on 7 December to around 300kbytes on 19 December. This is a significant decrease and suggests that M&S was actively managing its website during this critically busy trading period. ■

GOMEZ SCORES MARKSANDSPENCER.COM 4 STARS OUT OF 5 MADE UP OF THE FOLLOWING:

Availability on Last Mile Score: 19.5 out of 25
Response Time on Last Mile: 19.00 out of 25
Consistency on Backbone: 11.4 out of 15
Competitiveness on Backbone: 13.2 out of 15
Browser Support: 16.8 out of 20
Total 79.9 out of 100

INTERNET RETAILING EXPO

Internet Retailing Expo promises to bring together the suppliers, channels, interests and disciplines within our growing and dynamic industry. Emma Herrod discovers the ins and out of the new industry event.

INTERNET RETAILING Expo (IRX) is taking place on 23 and 24 March at Birmingham's NEC. The new event combines a large exhibition area with JumpStart procurement events, hands-on workshops and 2 conferences.

The focus is on actionable insights; a place for growing online and multichannel retailers to take the learnings from leading and innovative retailers and suppliers in a format that helps you apply them to sell more effectively – be that through talking to the suppliers, hearing supplier pitches in the JumpStart events or listening to retailers sharing experiences in the conference sessions.

IRX BRINGS THE EXPO FORMAT TO LIFE

Beyond a static 'wander and chat' format, we've added:

- 120 leading suppliers to the ecommerce sector, with specific attention to the needs of multichannel retailers, growth-sector businesses, SMEs and the emerging eBay PowerSelling companies;
- A keynote theatre and expert presentations, geared on practical advice and learning - how to implement winning strategies and learn from the best in our sector;
- InternetRetailing.tv - a live programme of interviews, screenings and unique content;
- Rolling JumpStart in-show events. More than a static collection of exhibitors, we will be pitting leading players against the clock, with 20 minutes to persuade delegates of their character, capabilities and approach. These sessions bring the 'on-paper comparisons' to life and give you a real flavour of the differences between suppliers;
- A hands-on workshop programme running in parallel: why read about products or listen to presentations when you can experience capabilities hands-on in these valuable sessions?
- Special guided 'trails' - regular guided "paths" through IRX for special interest groups, sectors or industries. These Paths will be lead by our subject matter experts and will ensure that you get to meet the best range of suppliers to give you relevant insight and stimulus in the shortest time;
- Advance booking of meetings slots with key suppliers. Schedule meetings with key suppliers during your visit and make the most of your time while getting beyond collecting brochures and generic information.

Explaining why such an intense learning opportunity and variety of formats has been chosen for the event, Ian Jindal, IR's Editor-in-Chief comments: "For the last four years the London-based Internet Retailing conference has sold out of exhibitor spaces months before the conference. In parallel, our readers ask for more structured opportunities to review the state of the art in suppliers and to learn practically from leading ecommerce practitioners. Over the last year our JumpStart 'rapid procurement' format has brought readers and suppliers together for topical, intense and succinct 20 minute presentations around a given theme or areas. In addition, our Roundtable and Supplement programmes have shown the benefit of detailed discussion between suppliers and industry peers about the practical "how to" aspects of implementing best practice."

IRX is not an event just for those in the sector with the biggest budgets. Whether you're a business leader, procurement professional, senior line manger or kitchen table start-up, IRX aims to help you take your business to the next level.

Two separate, free-to-attend conferences will bring together retailers, industry leaders and trendsetters to share experiences and insight into implementation of best practice solutions, operational workings and areas on the development radar of Enterprise and SME retailers.

Julie Meyer, Co-Founder of First Tuesday, BBC Online Dragon and CEO of Ariadne Capital and John Butler, former Head of Communications and Media at dunnhumby, the company behind the successful Tesco Clubcard, will keynote the conferences at IRX.

InternetRetailing
Selling in the digital age
expo 23rd - 24th March 2011 NEC, Birmingham
Sponsored by: PayPal

John Butler, former Head of Communications and Media, dunnhumby

Julie Meyer, CEO, Ariadne Capital and BBC Online Dragon

Both conferences run for the full day on 23 March and until lunchtime on 24 March with key retailers presenting including Tesco.com, Debenhams, BrandAlley, Kiddicare, Charles Tyrwhitt, Mobile Fun, Comic Domain and TrueShopping.

IR CONFERENCES

The Internet Retailing Insights conference will focus on best practice and retailers' learnings enabling smaller businesses and those currently at an early stage of multichannel operations to get up to speed with systems and strategies to take their business forward. Conference attendees will:

- Gain an understanding about platforms and system choices and managing multiple sites and hear from retailers at different stages of growth;
- Benefit from Amazon's insight into delivering consistent, excellent customer experience across multiple channels;
- Learn from Nick Wheeler, founder of Charles Tyrwhitt, about how you build or lose a business exactly the same way - one customer at a time;
- Hear lessons learnt and tactics used by Mobile Fun to achieve success trading internationally.

Internet Retailing Evolution meanwhile, focuses on best practice and retailers' learnings to get to the heart of issues being grappled with by enterprise-scale retailers. Presentations will look at fresh experiences and recent insights, showing where leading thinkers are finding inspiration, looking for new commercial angles or finding challenges while innovating at scale. Leading commentators will share their thoughts on:

- How online marketers are planning to improve consumer experiences in 2011?
- How technology can help build a customer-centric business;
- Why Tesco makes website availability top priority to deliver improved sales;
- Useful techniques to gather insight and customer behaviour and how it has driven Debenhams' multichannel journey;
- What you need to develop a mobile strategy that is future proof and which protects your existing investments.

Attendees to the JumpStart events will gain an overview of the subject, key trends, specific case studies and relevant supporting research, along with ideas that are ready to implement immediately to take advantage of topical best practice. Topics being covered include: International and cross border retailing; The need for speed; Multichannel.

Workshops are also being run at the event. Visitors to Internet Retailing's London conference will be familiar with these in-depth sessions. Hybris, Who's On, Brightcove and 10CMS will run workshops with topics including live chat, real-time website visitor analytics and video ecommerce.

Registering for free tickets to Internet Retailing Expo is quick and straightforward. Visit the show website www.internetretailingexpo.com where you can also make appointments with exhibitors and find out more about the exhibitors, speakers, conferences, JumpStarts and workshops.

All at IR Towers look forward to seeing you there. ■

Book your free tickets at www.internetretailingexpo.com

AN IMPRESSIVE END TO 2010

Shoppers in the UK spent a total of £6.8bn online during December, 25% more than December 2009, according to the latest figures from the IMRG Capgemini e-Retail Sales Index.

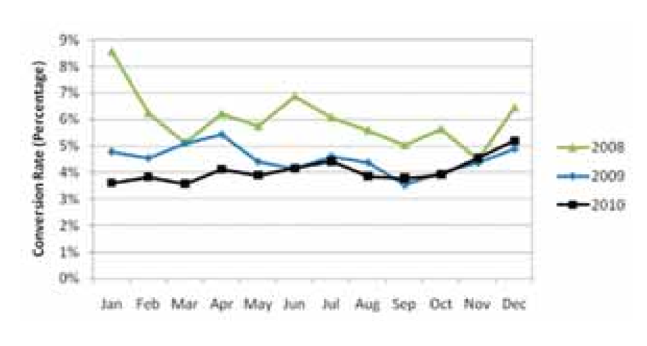
ONLINE SALES in December were up 7% on November's figures with an average of £111 being spent by every shopper. The £6.8bn spent overall rounds off what has been an impressive year for online retail.

A total of £58.8bn was spent online in 2010, which resulted in the IMRG Capgemini e-Retail Sales Index increasing by 18%, far outstripping the original prediction of 13%. For 2011, IMRG and Capgemini have predicted the Index will see a further 18% growth, with total e-retail sales estimated to be worth £69bn.

The December figures showed that despite the dire predictions during the run up to the festive season, online retailers had a very successful Christmas, resulting in an above average year-on-year growth in nearly all sectors. This impressive growth can be attributed to two major factors, the impending increase in VAT and of course the coldest recorded December in the UK for 100 years.

It seems that as the snow fell, shoppers across the country opted to buy online, instead of battling the elements to the high street. This trend had a positive impact for all online traders, including those with a multichannel proposition; House of Fraser reported 120% growth in online sales compared to the same period the year before. Similarly, John Lewis and Marks & Spencer reported exceptionally strong results.

Monthly sample average conversion rates



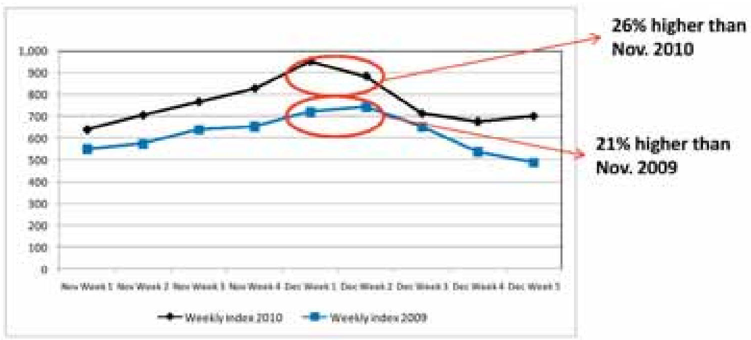
In terms of specific sectors, the harsh conditions had an inevitable impact on sales for clothing, footwear and accessories. As the country looked to wrap itself up in winter coats and chunky scarves, the sector saw a year-on-year increase of 40%: the strongest growth for this sector for 19 months. Clothing retailers also experienced a massive 50% leap in conversion rate, suggesting consumers are not just surfing the internet to window shop, but researching the best price and placing an order.

Another noteworthy sector is alcohol, which, in keeping with the festive and party season, saw the largest growth, boasting a massive month-on-month leap of 32%. What's a little less expected is the year-on-year growth as the sector saw a significant 36% increase from December 2009.

Chris Webster, Head of Retail Consulting and Technology at Capgemini says: "Online sales in December have grown again off the back of a very impressive November. This is down to two main reasons. Firstly, the spike in sales can be attributed to the season; not only is it traditionally the strongest month for retail but coupled with the heavy snow fall clearly led to many consumers staying at home to do their Christmas shopping. Secondly, the ongoing trend of consumers putting down the car keys and turning on their computers is only set to continue particularly as consumers use the power of the web to make their money go further as the economy recovery remains fragile."

James Roper, Chief Executive at IMRG, comments: "December saw an incredible jump in online sales as a result of the weather conditions and it's reassuring to see that despite the coverage of delivery problems, consumer

Christmas shopping activity week by week



confidence was not affected. Growing confidence and reliance on e-retail during times of adversity, whether that's harsh weather conditions or belt-tightening as a result of the economy, has been reflected in the impressive growth throughout 2010."

Amongst the retailers reporting strong December trading is John Lewis and the company has no doubt that its website played a vital part in its success over the Christmas and Clearance period. "The hard work our team put in over the year to develop the website really paid off, especially when snow affected trade at many of our branches. The increase in online sales, especially during the adverse weather in early December, demonstrated just how important the website has become to our customers," says Jonathon Brown, Head of Online Selling, John Lewis.

John Lewis' online sales for the five weeks to 1 January 2011 were 42% up on last year and several trading records were achieved. "We have also now passed the £500m mark for online sales for the year," says Brown.

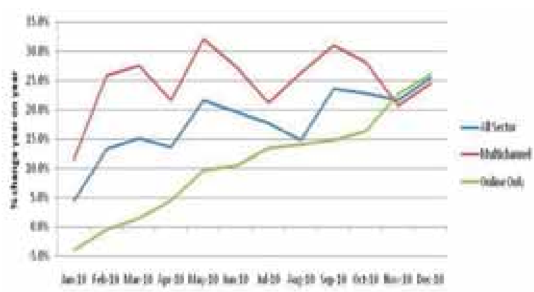
Meanwhile, technology, fashion and home improvements were key drivers making 2010 a bumper year for Shopping.com, which saw overall growth in December at an average 24% year-on-year.

Bjorn Kvarby, European Managing Director, Shopping.com, comments: "Despite the recession leading to conservative forecasts for 2010, consumers proved that although they may be watching the pennies, they are becoming cannier that ever, attracted to the money and time savings they find when shopping online. Innovative product launches like the iPad have re-ignited consumer interest in the latest technology gadgets, with eBooks and Tablet PCs accelerating growth of our computer category at 50% year-on-year. Secondly, fashion leaped forward with average growth of 45% in December, year-on-year. Finally, with the uncertain property market, consumers turned to updating their homes themselves, with building supplies and home furnishing achieving average growth of 43% year-on-year. The momentum behind online shopping means we're remaining quietly confident for 2011." ■

Sector Splits December 2010

	% Change Nov 10 – Dec 10	% Change Dec 09 – Dec 10
Beers, Wines and Spirits	32%	36%
Clothing, Footwear and Accessories	8%	40%
- Accessories	22%	59%
- Footwear	12%	44%
Electricals	13%	8%
Gifts	20%	22%
Health and Beauty	14%	19%
Lingerie	7%	43%
Travel	-11%	16%
Home & Garden	-16%	-5%

Year on Year growth in the IMRG Capgemini e-Retail Sales Index



CAPACITY FOR CHANGE

With all the cross-channel developments of recent years, Emma Herrod looks at whether retailers can spend 2011 concentrating on retailing rather than innovating.

THE GOVERNMENT is busy setting out its path to sustainable growth with Vince Cable and the Department for Business Innovation & Skills saying that it is taking steps "to ensure a long-term commitment to the country in building confidence and leading to economic growth and jobs". It's also supporting entrepreneurs at what it says is "the start of the most enterprising decade in the UK".

With the Government looking to the private sector to boost the economy and put Britain firmly on the road to recovery, Ernst & Young reports that economic growth over the next two years will be driven by innovation and enterprise among the UK's midcaps (companies with at least 250 employees and a turnover of £20m-plus).

MIDCAPS DRIVING GROWTH

Based on YouGov research, the Ernst & Young report, Growing Britain into Recovery: Putting Midcaps on the Map, reveals that UK-based midcaps are set to invest an estimated £109bn in innovation by 2012, generating the dynamism needed to drive their growth. As a result, 81% expect to see their profits increase in the next two years, with one in 10 expecting growth of between 21% and 50%.

In turn, this activity will boost the broader economy, as two fifths of midcaps expect their largely overlooked sector to drive UK growth by 2012, with a third saying that they will play a major role in job creation.

Commenting on the findings, Bob Forsyth, Ernst & Young's Head of Strategic Growth Markets, UK & Ireland, says: "It is clear that UK mid-sized businesses are a hotbed of innovation and enterprise, and a driving force for economic growth. These are not lumbering giants of industry or precarious fledglings feeling their way, but employment-creating, dynamic and ambitious organisations with their sights firmly set on growth."

With greater resources than SMEs, midcaps' investment in innovation is significant; consequently, the majority of midcap managers view their company as innovative – 21% highly so. And the relatively large size of these firms is no barrier to their being able to act with speed and flexibility – traits ascribed almost exclusively to SMEs. These companies can adapt their business model to stay ahead in challenging economic conditions, maintain a clear vision for the future of the business and act quickly to overcome challenges or obstacles. Such nimbleness, claims the report, has helped midcaps negotiate the recent downturn, and it has also put them in a position to maximise opportunities during the recovery: underlining the ambition of this stratum of the economy.

With the expected growth of the midcaps – whose ranks include fashion and sportswear discount retailer M&M Direct, greetings card company Moonpig, white label retailer DRL and fashion multi-channeller Republic – the Government's support for entrepreneurs and the recent move into cross-channel retailing, can the UK's Tier 1 retailers afford to rest on their innovative laurels in 2011 to concentrate purely on retailing? Or must they continue to push forward to keep up with:

- customers, who are expecting innovation – as long as it works and is joined-up;
- technology and its changing pricing models;
- product and the changing markets, which retailers have to move with as well as customer demand to avoid being left behind?

"Innovation has to lead to better selling," says Steve Thomas, CTO, BT Expedite. "Innovation isn't a new trend in retail." An early example of inspiration in retail is Henry Gordon Selfridge's introduction, in the late 1880s, of the then-new electrical lighting to the windows of the Chicago store he worked in so people passing at night could see what they could come back and buy the next day.

Thomas sees no trends in terms of whether midcaps are innovating more or less than Tier 1 retailers. "It's where they are in terms of success in their marketplace," he says. And success in 2011 is going to be hard won.

Consumers won't start cutting back their spending until the second week of the sales, believes Tim Clifford, Partner, Consumer Goods and Retail, at KPMG. That is when retailers will start to feel the impact of the VAT increase, the large number of people losing or fearing they will lose their job, and inflation.

"KPMG is being relatively hawkish about the impact on retailers in 2011," Clifford says. "There will be winners and losers." Some retailers, such as the online and multi-channel "leviathans" with a strong proposition, will report strong trading results, while others in a poor position or exposed to pressures on big-ticket purchases and the housing market will falter. This situation, he says, will be "exacerbated as more oxygen is sucked out of the economy."

Neil Saunders of Verdict Research agrees: "The sector's most adversely impacted lines will be big-ticket ones related to the housing market. Furniture and flooring, for example, will shrink in real terms over the next year before returning to modest levels of growth. Likewise, DIY will be in for a rough ride with retail growth in negative territory for the next couple of years."

GROWTH & INNOVATION IN 2011

Online will still experience growth, but this next year's will not be as strong as 2009/10's, although it will still exceed store retailing's. Clifford thinks the "three bright spots" will be grocery, strong brands in the fashion arena – a sector that's has grown fast over the past two years – and those retailers which are following a "clever and innovative use of online to de-risk expansion". As an example of this last segment, he cites retailers that are expanding internationally via their online channel rather than moving into Europe with physical stores.

Clifford adopts a Darwinian view of the market, saying that "the good ones who evolve and change are the ones who [will] survive". Retailers will continue to innovate such as grocery retailers moving into financial services, retailers offering services over smartphones or fashion retailers buying other brands. Next's acquisition of Lipsy, for example, allows it to access a customer base that its own brand couldn't reach – and it will then be able to open Lipsy stores.

The multi-category pureplayers can use their buying power, technology and supply chains to expand into new product categories and countries, but smaller online retailers need to remain focused on what differentiates them: their brand and their proposition. Clifford explains that if they add more products they become less differentiated, so they have to concentrate on customer acquisition. However, as these companies become bigger, it becomes harder for them to drive enough people to their sites through free or cheap means, so their continued growth is dependent on the extent of their marketing muscle and expenditure.

CHANNEL DYNAMICS

One prediction for 2011 is that there will be more focus on understanding how much money is made by each channel with more thought given not only to what is best for the customer, but what is best for the company's economics. "We'll start seeing retailers being smarter about how to price product or services by channel," says Clifford. Shoppers know how much a parcel costs to deliver now and are used to paying extra for special services or faster delivery, but will they accept different pricing for the product if it's ordered by phone, in store or online? Would shoppers accept a 15% discount if they ordered by the retailer's preferred channel? "How about a lower price for digital products downloaded at 2am when bandwidth is cheaper?" he suggests.

Susan Aubrey-Cound, Director Multi Channel Development at Marks & Spencer, also warns that cross-channel retailing may not be the 'be all' that some might imagine. It's very easy if you make more money from every customer in every channel, but can the business afford to offer every service in all channels? She believes that retailers have to understand the dynamics of the channels and work out which customers are most profitable in which channel and the trade off between service and sale.

Consumers are used to airlines charging different prices, so it looks as if 2011 will be as much about retailers trying to change customer behaviour as customers requiring retailers to innovate.

“ IF YOU WAIT TO DO EVERYTHING UNTIL YOU’RE SURE IT’S RIGHT, YOU’LL PROBABLY NEVER DO MUCH OF ANYTHING ”

Former US State Senator, Win Borden

PRESSURE ON MULTI-CHANNEL

Things will not be easy for Multi-channel Directors in 2011, either, as they come under more pressure to deliver double-digit growth in the online channel to buoy up a high street trying hard to match like-for-like sales.

At least for many, the continued growth in online sales – albeit at a lower level than previously – means that businesses will continue to invest in the channel and cross-channel functionality, especially since it is the retailers that operate in multiple channels that are receiving the most visitors to their online stores. Experian Hitwise reports that across all ecommerce sites, 55% of visits are to multi-channel retailers. Robin Goad, the firm’s Director of Research, says: “It was only two or three years ago that this figure was reversed, and now [it] is at equilibrium.”

When it comes to innovating, though, Dave Hughes, Marks & Spencer’s Director with responsibility for the direct selling channels, says retailers have to “decide which trends are really going to matter and which don’t”. Once you’ve looked at the trends – that is, connected consumers, P2P, short-time consumption – you have to take a punt on what has longevity, which has legs and which matters in terms of innovation. He says that regardless of the technology, innovation has to have consumer insight sitting at the heart of it.

Hughes is in the enviable position of having a pot of money each year dedicated to innovation and trying things out. This, he explains, gets around the issue of needing to prove ROI on something before it’s implemented. You have to ask what the customer need is when looking at technology but sometimes, as far as innovation is concerned, you simply have to take a leap of faith. For M&S this resulted in the launch of M&S TV. Another leap of faith was the mobile commerce site which it launched on the strength of a customer insight that consumers want to access M&S from wherever they are. As part of his presentation at the Internet Retailing 2010 conference, Hughes said that he was amazed at the amount of time people spend reinventing the wheel. He said: “You have to have people looking outwards.” M&S didn’t invent multi-channel retailing; ultimately its success in this arena has been down to execution rather than innovation. The important thing, said Hughes, is “our customers think it’s innovative”.

For retailers of all sizes and stages of growth, being seen to innovate is just as important as really innovating. The 'steal' element of Hughes’ four methods is a strong reinforcer of the need to have someone in an organisation heading the innovation push, with the ability to take other's ideas and make them work for their company. That push may come from the founder of an SME, Manager of a midcap or Innovation Director or Multi-channel Director with entrepreneurial spirit added to their ever growing skill set. ■

HOW M&S DOES INNOVATION

- Start with consumer insight
- Have a sandpit and fund it
- Set (loose) targets for innovation
- Make sure you use all four methods: Don’t, Leap, Test & Learn, ‘Steal’
- Have people looking outwards and beyond industry boundaries
- Recognise attempts as well as successes

Dave Hughes, M&S at the IR2010 conference

zmags
Read On.

DRIVING OFFLINE SALES WITH ONLINE ENGAGEMENT; MOBILE MAGAZINES INCREASE STORE TRAFFIC FOR FASHION BRAND

Mobile marketing is the fastest-growing segment of e-commerce. By 2015, consumers are expected to spend £75.5 billion through their mobile phones (ABI Research). Marketers need to consider the different user experiences of these devices and how it will impact the way they serve up content to their target audiences.

IN 2010, the mobile commerce market, or m-commerce, was estimated to be worth approximately £1.56 billion. According to estimates, that number is expected to double every year for the next few years. Tablets, with their ability to present more dramatic visuals and offer a more pleasing content consumption experience overall, lend themselves to showcasing products and services in a compelling way. Smartphones provide quick, valuable bits of information that can inform a shopper's decision while they are at the point of purchase in a store.

A recent study by Adobe showed that consumers looking for content apart from entertainment preferred a browser to an app in every situation. Retailers should note that the strongest preference for browsers were preferred over 70% of the time in product reviews, research and price comparisons. In addition, consumers preferred browsers 63% of the time for purchasing a product with their mobile device. It's clear that browsers are the preferred way to increase revenue streams.

In order to bridge the online, mobile and in-store shopping experience, your company needs a format that displays content across all mobile devices.

Companies can easily use Zmags to create online catalogs that display information from virtually any digital source. Plain text and static pdf documents can be transformed into enhanced digital editions loaded with links, video, interactive slideshows and more. Flash content on desktop PCs and automatically converts it to HTML5 on mobile devices, so your customers see the same content the way you want it to appear.

If you would like to learn more about creating an enriched, online digital edition of your product without all the unnecessary costs , please contact us at +44 208 334 8158 or get started today by signing up for a free trial at www.zmags.com/trial

Fashion brand, ONLY, uses enriched magazines to support the shopping experience for visitors who buy goods through mobile devices.

Problem:
Customers visiting the ONLY website and online store were using mobile devices was increasing week by week. They needed a solution that would meet the needs of consumers using their Smartphones to compare prices, use coupons, or check similar products, while they are in the store. The solution also had to integrate with current strategies including SMS texting and an iPhone app.

Solution:
Using Zmags, ONLY is creating and distributing enriched digital magazines and catalogues. They now benefit from creating one magazine that opens in Flash on a desktop computer, yet will transform to HTML5 when read on a mobile device - automatically.

Results:
With a market and shop specific online marketing plan, ONLY successfully integrated their Zmags online magazine which resulted in more time spent with the ONLY brand on their site. They also recognized an increased number of clicks which produced more on and offline sales. In a single online blast, 5000 (3%) of their members produced an action. Overall, by using online magazines optimized for smartphones and tablets, ONLY has implemented a simple – but highly efficient way – to support the increasing share of mobile customers placing more items in the shopping basket.

DIGITAL MARKETING STRATEGIES FOR 2011

In this view of marketing in 2011 Alison Clements asks where the ROI in online marketing spend lies and whether social media is a real challenger to the search and affiliates budget.

TV IS STILL THE DADDY when it comes to total ad spend in the UK, but only just. Online advertising now swallows up 24% of marketers' budgets, compared to 26% going on the box, according to the Internet Advertising Bureau, with year-on-year online spend up 10% in the first half of 2010, to a hefty £1.9bn. We can surmise that web advertising was worth close to £4bn for the full year 2010.

Most etailers will be investing less than 20% on online advertising today say the experts, but things are changing fast. It's fascinating that John Lewis now channels a third of its advertising budget online, reportedly upping its web spend by 30% during 2010. And big players such as Dixons Retail and Argos are known to be switching more funds into digital as they endeavour to attract and retain online shoppers. But being so new, online marketing presents a world of uncertainty. The big questions for 2011 seem to be how to get the most from the biggest area of web marketing investment - search campaigns - and how seriously to take the new kids on the block, namely social and mobile?

"I don't believe retailers will be taking spend away from search or affiliates during 2011, as they are getting good results – highly visible and trackable," says Nicky Iapiano, Commercial Director at R.O.Eye, the web marketing specialist. "With pay-per-click campaigns, etailers appreciate being able to see exactly what ROI they're getting and with the help of good agencies, they're learning what works best and fine-tuning search terms and seasonal campaigns. As long as it's not costing you more than you're prepared to spend for a customer, why would you jeopardise sales by cutting down?"

Google has little to worry about, with search currently accounting for 60% of digital media revenues but there are questions in the market about how best to use search to build business, and deliver those all-important conversions. The IAB's Search Marketing Barometer 2010 gathered sentiment from the UK's biggest advertisers and found that 44% felt the cost of search was a cause for concern, and over a third (35%) said they wanted to see higher conversion rates. A massive 99% believed search marketing wasn't fully understood in marketing departments, and could be better linked to offline brand communications. This echoes eCommera's recent survey finding that ecommerce directors' first priority for 2011 was 'improving online marketing effectiveness', while 'engaging customers through social media channels' came last on the list of priorities.

Anna Corp, SEO, Affiliate and Search Manager for Sainsbury's says the grocer operates a twofold approach of using search as direct response to drive online sales, and to support brand-building activities. "There's clearly a need for all marketing teams within brands, not just digital, to understand the opportunity search offers to support all marketing activity, and we hope that the search industry will continue to support us in this," she says.

With this need for more education in mind, the IAB partnered with search and social conversion agency Tamar earlier this year to produce a step-by-step guide to putting the search discipline at the heart of online strategies [download from www.iabuk.net/search]. Jack Wallington, Head of Industry programmes at the IAB says: "Advertisers have a wealth of digital disciplines to get their head around and a limited amount of time to do it in. With the help of the search engines, agencies and advertisers themselves, the IAB's Search Council has been producing educational material for years."

AFFILIATES STILL DELIVER

Iapiano at R.O.Eye says web marketers should take advantage of the new generation of affiliates coming through, which are highly social and will help bridge the gap between communities and commerce. "Affiliates are at the frontline and are

testing out the theory of social networks and making good headway," she says. "I believe reaching communities through affiliate sites is a less risky way of going about embracing social."

Etailers are learning that targeted email campaigns, based on richer customer registration data and sales analytics, can generate twice the revenue of an untargeted campaign, and half the unsubscribe rates. So email output probably won't wane in 2011, despite worries around 'email blindness'. "Email continues to be a vital means of reaching out to the customer database and engaging individuals," says Laura Fallace, Head of Direct Marketing at JML Group. "It's a very cost effective method of reaching our customers. However, if the content is not perceived to be relevant by the consumers it can have a neutral or negative effect. We aim to grow our email marketing campaigns over the next 12 months with a view to tighter targeting of specified customer segments to increase relevancy and ROI."

Another challenge for 2011 will be how to market successfully to overseas customers. Craig Smith, Brand Communications Director at Ted Baker says the fashion brand's international online marketing plan is controlled by the UK ecommerce team, in liaison with the US retail team, but follows its own seasonal and promotional calendar. "We are seeing very good results from our email marketing activities in the States with above-average opening and click-through rates," confirms Smith.

A growing area of interest for web marketers will be video advertising, and we'll see greater use of personalised 'digital shelves' as a marketing tool, says Joris Becker, CEO of Fredhopper, the search & merchandising software specialist. "What will catch an online customer's eye most is the product they're interested in," he says. "The sooner you can show them the kind of dresses or coffee tables they've been searching for recently, the more likely you'll be to attract them to click through to your site again. Brand-building online is not a particularly fruitful exercise, but showing the product is."

Meanwhile there are high expectations in the industry for social and mobile marketing in the year ahead. Christine Bardwell, Senior Technology Analyst at Ovum says: "Social commerce will really take off in 2011. It definitely should not be disregarded as a fad." Experian Hitwise confirms that retailers are relying more on traffic from social sites, based on its finding that one in ten visits to a website in September came immediately after a visit to Facebook. While Facebook, YouTube and Twitter are the three dominant players driving 75% of such traffic, the research group found that fast-moving sites such as Vimeo, Badoo and tumblr have all at least doubled their online traffic in the 12 months to November 2010. Music, video and games are currently receiving the most traffic from social networks.

TOP ONLINE RETAIL CATEGORIES RECEIVING TRAFFIC FROM SOCIAL MEDIA WEBSITES, SEPTEMBER 2010

Rank	Online Retail Category	Upstream visits from social media
1	Music	11.3%
2.	Video and Games	11.1%
3.	Apparel and Accessories	9.3%
4.	Ticketing	8.7%
5.	Computers	8.4%
6.	Books	7.3%
7.	Department Stores	7.1%
8.	Health and Beauty	7.0%
9	Toys and Hobbies	6.4%
10	Flowers	5.8%
11.	Wholesale and Relationship Sales	5.6%
12.	Appliances and Electronics	5.3%
13.	Grocey and Alcohol	4.7%
14.	House and Garden	3.9%

Source: Experian Hitwise

"While it is too early for a radical re-distribution of the online marketing budget, we do believe that mobile and social commerce should be approached as part of an integrated digital marketing strategy," says Fallace at JML. "These campaigns need to work in synergy with our existing search advertising and affiliate marketing in order to be most effective."

Phil Gault, Client Services Director at Sponge, the mobile marketing agency, agrees that it's time for etailers to be allocating "a percentage in the low teens" on new digital marketing disciplines. "Mobile and social are growing so quickly that you have to get active now," he says. "What's important about mobile search is that people are online, and in the real world simultaneously. Whereas search strings on a PC can last a week between a search and a purchase, mobile searches are often fulfilled locally in a matter of hours, which strengthens the marketing opportunities. You need to use your customer data to make targeted SMS messages really relevant, timely and valuable." Gault says that not catering for the current 2% to 3% of customers already coming from mobile browsers is a small loss, "but in two years time mobile could be driving 8% to 10% of web traffic, as the use of smart phones grows exponentially, and no-one can afford to ignore that many customers".

But 2011 must be a year for ROI coming through on these new marketing disciplines. Coremetrics' survey in November 2010, found that 85% of respondents were already using social media in online marketing, but that only 7% were 'really satisfied' with their ROI on that activity, while 33% were 'not satisfied'. Social commerce still has a lot to prove.

PLOTTING THE CURRENTS OF CONSUMER TRENDS

As we all stagger through the lists of 2011 trends: mobile, content, service, group buying and more social, Trendwatching.com takes a more provocative approach to characterising the world that's being shaped in front of our eyes.

TRENDS don't start on 1 January and end at the close of the year. They are constantly evolving and all of the 'trends' below are one way or another already happening.

Major consumer trends are more like currents than one-time killer waves, says the company. Trend watching is about application and innovation - and about making money. So forget 'Nice to Know' or 'Pie in the Sky', use the four ways to apply these consumer trends and make some money from the innovations they spawn. Just ask yourself if they have the potential (and if so, how) to:

1. Influence or shape your company's vision.
2. Inspire you to come up with a new business concept, an entirely new venture, a new brand.
3. Add a new product, service or experience for a certain customer segment.
4. Speak the language of those consumers already 'living' a trend.

So, onto the trends:

1) RANDOM ACTS OF KINDNESS

In 2011, expect companies to monitor consumers' public moods and act upon them. When it comes to the mega trend of 'Generation G' (that's G for Generosity, not Greed), there's no better way for a brand in 2011 to put its money where its mouth (or heart) is than engaging in Random Acts of Kindness (R.A.K.). Consumers' cravings for realness, for the human touch, ensure that everything from brands randomly picking up the tab to sending a surprise gift will be one of the most effective ways to connect with (potential) customers in 2011

For brands, a serious (and sincere) R.A.K. strategy may mean no longer being seen as inflexible and unwieldy, but as more compassionate and charismatic instead.

A fun example to copy or improve on in 2011 is flower delivery service Interflora which launched a social media campaign designed to brighten up the lives of Twitter users by sending them flowers. As part of the campaign, Interflora monitors Twitter looking for users that it believes might need cheering up. Once found, the users are contacted by tweet and sent a bouquet of flowers as a surprise.

2) URBANOMICS

Are brands ready for hundreds of millions of more daring, more experienced, urban consumers?

Urbanization remains one of the absolute mega trends for the coming decade. Here's just one telling stat: "Today, half the world's population – 3 billion people – lives in urban areas. Close to 180,000 people move into cities daily, adding roughly 60 million new urban dwellers each year." (Source: Intuit, October 2010)

How will this change the consumer arena in 2011 and beyond? Firstly, urban consumers tend to be more daring, more liberal, more tolerant, more experienced, more prone to trying out new products and services.

Secondly, keep a close eye out for 'Urban Islands': just 100 cities currently account for 30% of the world's economy, and almost all of its innovation.

In 2011, go for products, services, experiences or campaigns that tailor to the very specific (and often more refined, more experienced) needs of urbanites worldwide, if not city by city.

3) PRICING PANDEMONIUM

Flash sales, group buying, GPS-driven deals: in 2011 pricing will never be the same. Brands will continue to respond with a host of innovative new business models and pricing strategies in the next

12 months, building on:

- Group buying as brought about by Groupon on Living Social.
- Member sales such as vente-privee.com and newer models expanding into specific sectors such as Jetsetter for travel and One Kings Lane for home furnishings.
- Flash sales. Time limited sales for groups and member communities enabling stock to be shifted quickly. With so many daily deals, there are now sites like Yipit and MyNines that aggregate all the deals.
- Local discounts.
- Dynamic pricing. Traditionally practiced by the airline industry, improvements in real-time information are now allowing other sectors to experiment with innovative dynamic pricing models.

4) MADE FOR CHINA (IF NOT BRIC)

In 2011, expect an increasing number of 'Western' brands to launch new products or even new brands dedicated (if not paying proper respect) to consumers in emerging markets. After all, it's where the money is right now, and Western brands are still favoured over local ones, so the combination of perceived quality with a bit of local tailoring, love or exclusivity makes total sense.

5) ONLINE STATUS SYMBOLS

Brands can't go wrong supplying their customers with any kind of symbol, virtual or 'real world' that helps them display to peers their online contributions, creations or popularity. What started with showing off the number of visitors to one's Flickr pages or blog now also encompasses the number of one's Facebook friends (or any other social network), Twitter followers, Foursquare check-ins and a host of other metrics that indicate one's 'wiredness'.

In 2011, you can't go wrong supplying your (online-loving) customers with any kind of symbol - virtual or 'real world' - that helps them display to peers their online contributions, interestingness, creations or popularity. Some fun (yet telling) examples include the tweets and pictures to

published journal site Twournal, Foursquare's badges and CrowdedInk's app for mugs showing your Facebook friends.

6) WELLTHY

As good health is now as important to some consumers as having the biggest, newest or shiniest status symbols, growing numbers of consumers will expect health products and services in 2011 to prevent misery if not improve their quality of life, rather than merely treating illnesses and ailments. The 'consumerization' of health means that more consumers will choose products with embedded health benefits that are actually well designed, desirable, accessible, fun, tasty, interesting or storied – such as the X-Box Kinect and Playstation Move to heighten the gaming experience but also, much like the Nintendo Wii, to add a physical and healthy dimension to it.

7) SOCIAL-LITES

Watch as consumers become curators: broadcasting, compiling, commenting, sharing and recommending content, products, purchases, and experiences to both their friends and wider audiences.

Consumers will talk more about brands in 2011 than ever before, and opportunities for brands that create engaging content that consumers want to share, or that have personalities that actually engage consumers will also be bigger than ever. Making it easy for them to retweet or 'like' this content is of course requirement number one.

However, this trend does come with a warning. Brands need to tread carefully, treating consumers with respect, and be completely transparent. Get it wrong and you'll find 2011's Social-Lites can be bitchy as hell.

8) EMERGING GENEROSITY

In 2011, Generation G(enerosity) will continue to give. Consider Emerging Generosity, which is about brands and wealthy individuals from emerging markets (especially China) who will increasingly be expected to give, donate, care and sympathize versus just sell and take. And not just in their home countries, but on a global scale. It's a profound cultural change and a consumer demand that their counterparts in mature markets have had a few years to get used to.

9) PLANNED SPONTANEITY

For connected, real-time loving, urban consumers who have little experience of making (or sticking to) rigid plans, 2011 will see full-on 'Planned Spontaneity'. Expect to see consumers in 2011 rushing to sign up to services (the 'Planned' part) that allow for endless and almost effortless 'Mass Mingling' - another Trendwatching trend - with friends, family, colleagues or strangers-who-may-become-friends-or-dates (the 'Spontaneity' part).

For consumers, knowing where they are and what's/who's around them is the key to Planned Spontaneity. That's about to get a whole lot easier, as geo-location becomes a key feature of social networks and web apps (from existing providers adding location information, such as Facebook's Places, Twitter's locator, and Google's Hotpot, to dedicated services like Foursquare, Gowalla and Brightkite).

10) ECO-SUPERIOR

The number one challenge for governments, consumers and businesses (recession or no recession) in 2011 remains the quest for more environmentally sustainable societies and economies. When it comes to 'green consumption', expect a rise in 'Eco-Superior' products: products that are not only eco-friendly, but superior to polluting incumbents in every possible way. Think a combination of eco-friendly yet superior functionality, superior design, and/or superior savings.

This moves on from a 2010 trend of 'Eco-Easy'. One example of which that caught Trendwatching's eye is the announcement by Italy's Cinque Terre national park that the use of plastic water bottles by tourists and visitors was forbidden in an attempt to preserve the coastline from pollution and litter. Instead, visitors will be able to purchase reusable metal flasks which they will be able to fill up with still or sparkling water from public fountains.

11) OWNER-LESS

Trendwatching has reported previously the re-emergence of fractional ownership and lifestyle leasing business models with brands like Rent the Runway (fashion) and Avelle (handbags - formerly Bag, Borrow or Steal) and P1 (luxury cars) having shown that for many consumers, access is better than ownership. Indeed, over the past few years, there have been few industries that haven't got the 'Netflix treatment', from textbooks to jewellery to educational video games to calculators.

2011 could be the year when sharing and renting really tips into mainstream consumer consciousness as big brands and governments put their weight behind this cultural shift with transport-sharing schemes.

There is also a whole host of P2P sharing sites that are springing up to facilitate renting and sharing between consumers, with everything from homes to fashion, to cars (and car parking spaces) available. ■

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YOU CANNOT MANAGE WHAT YOU CAN'T MEASURE

Do you measure as much as 101 other Ecommerce Directors? eCommera discovers the recency and frequency of ecommerce metrics.

BILL HEWLETT, the co-founder of Hewlett-Packard, is reputed to have coined the phrase: "You cannot manage what you cannot measure." In online retail, this is especially true. As eCommera MD Michael Ross discussed (in IR's July issue), underlying the three economic fundamentals of a profitable online business is the need for rigorous measurement of profitability – understanding what happens to profit when you pull different levers; and understanding customer, marketing and product profitability in order to allocate spend to maximise returns.

The industry is too immature to yet know what best practice measurement should look like. However, it is clear that while higher performing online retailers are more sophisticated and focused in their measurement of profitability others are missing out on learning what works in their internet retailing business.

eCommera therefore conducted a survey to try to understand how retailers are currently measuring their profitability online - from their website to specific products, customers and marketing activities. The results found that online retailers were "very inconsistent" when it came to measuring success in sales – and didn't understand "what good looks like".

The research found that almost half of the 101 UK Ecommerce Directors who took part in the research reported growth of less than 20%. However, more than a fifth reported year-on-year growth rates for their last quarter at over 40%.

Only 18% measured website profitability daily or once a week, Some 42% evaluated it each month, 22% quarterly and 12% once a year. Six per cent never measure it at all.

Most retailers recognise the value of measuring the true end-to-end profitability of the ecommerce channel but the challenge is measuring it at the optimal frequency. This should be driven by category and scale, and aligned with how often you need to take action and respond to what's happening.

Good practice would be to measure on a daily or weekly basis in order to ensure that the business is aware quickly of any positive and negative trends. Monthly measurement is acceptable for early stage and small businesses, or slow-moving categories but leaving it as long as quarterly, annually or not measuring at all is a high-risk strategy. "This would leave retailers running the risk of making 'local' decisions related to pricing, marketing or promotions that sub-optimise profit," warns Barry Wyse, Retail Practice Leader at eCommera.

When it comes to measuring profitability against specific KPIs there was still less consistency between respondents.

Only 37% measure the profitability by individual customer, and just 32% look at profit by recency-frequency-monetary (RFM) segments. And. in measuring the profitability of marketing channels, 25% analyse the return on their advertising spend, 40% review the cost per customer acquisition and 19% measure the cost per order. But 8% never analyse return on marketing investment at all.

Most online retailers will generate 80% of profits from 20% of customers and for many profit is even more concentrated. Understanding the characteristics of both the high-profit segments (to ensure you retain them) and the low-profit segments (to increase their profit) is critical.

"There is no right answer to segmentation, but it should be actionable, manageable and aligned to profitability," says Wyse.

"Typically, a good segmentation will be based on

HOW REGULARLY IS PROFIT FROM YOUR WEBSITE MEASURED (TAKING INTO ACCOUNT MARGIN, MARKETING AND DELIVERY COST/REVENUE)?

		Turnover	
	Total %	£3m - £20m %	£21m + %
Annually	12	20	4
Quarterly	22	18	26
Monthly	43	33	52
Weekly	13	16	10
Daily	5	4	6
Not at all	6	10	2

deep insight into different customer motivations. Smart retailers think in terms of an 'optimal segmentation' which evolves with scale."

He does warn of some pitfalls however. While, RFM is a good starting point it often leads to blunt action as customers can be loyal but infrequent – so, for example, a regular Christmas gift shopper may be treated the same as a lapsed customer. Segments which will not benefit from homogenous communication should be avoided, as should too many segments as this can be expensive and difficult to manage.

CUSTOMER SATISFACTION

Customer satisfaction is another area with room for improvement if the survey respondents are typical of the industry. Some 16% don't grade it at all, whereas 20% ask for feedback after every interaction and 16% run regular aftersales surveys. A good proportion (48%) run regular online surveys to measure visitor experiences.

"Relentlessly tracking customer satisfaction is critical to online retailers," says Wyse. It allows a full understanding of a customer's end-to-end transaction, where placing the order is only the start of the experience. The more successful companies gather customer feedback at all stages of the process, for every transaction with good practice being to run regular on-site and post-purchase surveys. Too many retailers focus their customer satisfaction ratings on the on-site visitor experience only. "This deep understanding of customer satisfaction is also a key driver of profitable investments," he adds.

MARKETING EFFECIVENESS

While most retailers are measuring marketing channel profitability, almost no-one is using fully allocated profit as the measure, reveals the survey.

Most retailers recognise that they need to understand the performance of their marketing channels, the challenge is how best to do it. Average order value, gross margin, promotional spend and marketing cost typically vary significantly by marketing channel. "Only by understanding fully allocated profit do the characteristics of the channel become clear," says Wyse.

The more typical measures being used may be easier to report as they drop out of the marketing system, but they are often misleading indicators of profit. For example, cost per order/acquisition (CPO/CPA) will systematically sub-optimise, either overinvesting in unprofitable orders/customers, or underinvesting in profitable ones - they may be okay performance indicators but do not necessarily correlate with profitability. Return on advertising spend (ROAS) accounts for average order value but

HOW DO YOU MEASURE CUSTOMER PROFITABILITY?

	Total %	Turnover £3m - £20m %	Turnover £21m + %
By individual customer	37	37	36
By recency-frequency-monetary (RFM) segment	32	28	36
Non recency-frequency-monetary (RFM) segment	13	8	18
Not at all	15	28	2
Other	4	0	8

not margin, delivery or promotions.

When it come to marketing performance, the survey found that a remarkable number of retailers are not measuring marketing performance at all. "Those that do measure it should be looking at multiple attribution windows much more than they are," says Wyse.

Most retailers are focusing their measurement of marketing performance on single attribution windows. "This is a flawed measure, as a typical order will touch multiple marketing channels," he adds. Using any single attribution window - whether same session, 30 day last click, fractional or other - potentially excludes marketing events that are highly influential either earlier or later in the customer's journey.

When it comes to product profitability in the online arena, this is driven by stock efficiency and marketing efficiency. Only 16% of those surveyed fully allocated profit per product, which as eCommera comments is a "greatly underused measure of online product profitability. Some 46% measure gross margin return on inventory (GMROI). ECommera advocates measuring both GMROI, to track stock efficiency, as well as fully allocated profit per product to track marketing/merchandising efficiency.

Overall, the large majority of online retailers are focused on attracting and retaining customers, and improving their marketing effectiveness. They are still grappling with getting the right growth trajectory. It is interesting to note that the larger, fast-growing retailers are the ones now more focused on ecommerce analytics and optimisation.

In conclusion, Michael Ross commented that profitability needs to be measured rigorously in order to understand what happens to a business when different levers are pulled, and how to allocate spending on areas such as marketing, customer acquisition and products. "It is clear from our research that many organisations are thinking of online as just another store. They must harness the mass of ecommerce data available to them and understand the need for a different profit model online." ■

DELIVERING THE GOODS IN 2011

Patrick Wall, CEO of MetaPack, shares his insight on the hot topics in the delivery arena for 2011: which carriers are innovating in what areas and how retailers can make sure they provide the most competitive delivery offering - whether focusing on economy or premium, tracked or non-tracked, UK or international.

DELIVERY is now recognized as an essential part of online retailing, not just part of the messy, dirty backend process. It's a critical part of the retailer proposition, shaping the customer relationship along with the look and feel of the website and quality and price of the product itself.

In 2011, expect to see a continued shift to "premium", where premium means more tracked next day and increasing use of time slots. Expect to see fuller and better integration of systems, from the web front-end through the warehouse and carriers and finishing with customer care. Typically this will be achieved with multi-carrier management systems. This end-to-end joined up approach applies to pureplays and multichannel retailers as well as extended supplier networks that are shipping direct to the final customer. Finally, there will be continued growth in international delivery and improvements in the services surrounding returns.

Internet retailing is becoming security conscious and quality led. There has been quite a dramatic shift in the use of premium services over the last three years to the extent that the use of non-tracked and other economy services now make up the minority of despatches according to a survey of MetaPack's etracker 100. There are still many retailers providing free delivery, especially to encourage or reward larger shopping basket sizes, but the stronger, contrary trend is to use tracked next day services. This is part supply: competing with established next day services such as Parcelforce, UPS, FedEx, CityLink and TNT. Yodel (the new name for HDN and Parcelpoint in the UK) now offers a competitive, tracked next-day service and Royal Mail has just added their own next-day tracked product; part push as retailers reduce levels of fraud through parcel tracking and POD (proof of delivery) and it is also demand as shopping basket values continue to increase and customers want security of delivery.

PUSHING THE MARKET FORWARD

Part of the increase in premium services has been due to DPD's new Predict service. This has been the most successful new product launch in 2010 and is likely to gain more traction in 2011. The service predicts the hour of delivery for a next day service while providing the recipient the opportunity, if necessary, to change the delivery day. Yodel has recently introduced a competing service. Both companies are pushing the market forward by adding additional features to existing services i.e. not increasing their prices but providing the additional benefits. In 2011 we would also expect to see more take up of same day delivery, e.g. using CitySprint and recently to the market, Shutl, which provides 90 minute time window delivery from stores.

With all these changes taking place in the market it can be a challenge to manage existing and new carriers in the warehouse and back end. Traditionally retailers integrated to the carriers themselves. The first integration can be bearable, subsequent ones rarely are, so most retailers will use a multi-carrier system to manage carrier availability, selection, labels, integration and customer care. This provides high levels of flexibility to stay in touch with market innovation.

Competition is also intense in the smaller weight and size segment of the market, where again new features are being added within existing prices. Hermes are the market leader for smaller parcels e.g. 1 to 4kg and have enhanced their service by adding tracking; Yodel are competing here up to 2kg with their new Lite product and UK Mail's Packet Plus is an interesting hybrid, which tracks parcels into the Royal Mail network. This market is also supported by InterLink, CityLink and UK Mail who provide sized pouches for managing the delivery of smaller products. Royal Mail have unparalleled strength for letter box delivery and has a strong share in packets under 750gms.

The UK market is quite particular in two respects: relatively more deliveries are made to unoccupied homes than any other large market, and the market is very competitive. This has created two alternative delivery solutions to the home and both will come of age in 2011. Collect+ already offers a strong returns network through its 1000s of PayPoint enabled shops and increasingly this is being taken up as a delivery and collection network. ByBox offers lock boxes, widely distributed amongst shopping centres and increasingly in 2011 available at or near train stations.

During the last 12 months, international sales have really blossomed with some pureplay customers now selling over 30% of their goods overseas. The UK is regarded as a leader in ecommerce, with greater online shopping per person than anywhere in the world. With a strong retail and design heritage, the UK is attracting significant sales, not only from Europe, but anywhere from the US to Australia, so more retailers will be looking for increased international growth in 2011. For Europe, it is just a question of applying the right label. DPD, Parcelforce, DHL and Royal Mail are popular choices. For international outside of the EU, retailers need to gather more information: country of origin; an internationally recognized harmonization code; content at an item level and value.

By now, anyone planning for 2011 may be getting overwhelmed by choice. That is one of the extraordinary benefits of working in the UK market. The trick is to make it simple for the customer. The challenge is not all services are available to all postcodes and where they are, they may not meet the same service standard, e.g. in some parts of the country a next day service may be two day and a same day may not be available at all. In other cases a large product might need a specialist two man carrier like Nightfreight and the service needs to be booked.

Traditionally retailers have offered all services to their customers regardless of product size (and weight) and regardless of where the delivery is to be made i.e. static delivery options. Increasingly this is an unsatisfactory approach, as these "exceptional" cases are actually large in number, increasing in volume and driving much of the customer support cost. The alternative is to offer dynamic delivery options where a real time call is made to a database (perhaps from the multi-carrier system provider). The call itemises the delivery address and particular parcel attributes e.g. delicate, high value or large and the response only describes delivery services that can be made in these set of circumstances. This ensures that customers' expectations are appropriately managed, first time delivery success is far more likely and satisfied customers come back for more.

So, 2011 looks like being a busy year and that's not even mentioning the structural changes that carriers and IT are bringing about: higher quality multichannel offerings; more supplier home delivery and improved returns systems. All of this will lead to greater empowerment for the shopper, whether it be choosing a suitable service; tracking online; changing a delivery before it is made or picking up parcels on the way home. That's why delivery is increasingly recognized as a central part of the retail proposition. ■

Insight from arou

SARAH TAYLOR, SENIOR INDUSTRY DIRECTOR, ORACLE RETAIL

The Turkish market has offered plenty of opportunity over the last decade for those organisations willing to invest in the region. International grocery retailers Metro, Carrefour and Tesco have been present for some time, whilst more recently the entrance of DSGi, Kesa and Best Buy have signified the growing importance of the market to consumer electronics retailers.

Ecommerce in the region has been growing rapidly and has seen positive and consistent value growth through the recent economic challenges. Although it is not fully established, it does offer good opportunity.

Whilst most mid-to-large retail organisations have their own websites, these are still mainly used for promotional activities rather than as an alternative sales channel. Commercial transactions online tend to be restricted to high-value items and services such as flights or electrical goods, which seems at odds with the rise of internet banking.

One reason for this may be the traditionally low penetration rate of internet access in Turkey. However, this is picking up with the number of internet users in Turkey now over 26 million out of a population of just under 75 million, according to the Anatolia News Agency's Daily News & Economic Review. With this in mind, there is a great opportunity for those ready to take advantage. Discounting is the latest major retail trend in Turkey and if retailers can also bring the benefits of discounting online, there is tremendous opportunity.

One retailer already ahead of this curve is Migros Türk and its online shopping service, Kangurum, which currently hosts 25,000 products online. In fact, through its various channels in a number of countries, Migros Türk serves an estimated 160 million customers – statistics that can't have passed unnoticed by the large international retailers seizing the opportunities to grow in the Turkish market.

Turkey is a fertile ground for retail with a growing young population. It can only be a matter of time before we see the increase in consumer spending moving online.

SAM ZHUANG, FOUNDER, SMART-PATH.NET

November 11th is 'Single Person Day' in China, as the date consists of four '1's; the number one signifies single. Though not an official public holiday, Single Person Day has been very popular among young people and provides a good opportunity for online promotions.

In 2010, Taobao launched a 'Single Person Day 50% off Promotion' on its Taobao Mall, a platform mostly for FMCG companies. Within a single day, Taobao Mall reached RMB936m ($140m) in sales. Among the many stores on Taobao Mall, two reached RMB20m, including the famous sports products company Lining. Eleven reached RMB10m and 160+ reached RMB1m in sales.

Let's put RMB936m in context. It is eight times higher than the record daily turnover of the biggest department store in China (~RMB120m) and is bigger than the daily total retail sale of shopping paradise Hong Kong (~RMB850m).

The impact was obvious. Media jumped at the numbers and made it national news. Store owners, usually ecommerce departments of FMCG companies, were thrilled by the shopping spree. Many of them had exceeded annual targets because of Single Person Day. Consumers spread the news quickly. Those who found great deals boasted among friends, and those who missed the promotion decided to check out forthcoming ones.

There was always a flip side though. The logistics infrastructure, it turned out, simply couldn't handle the sudden explosion of orders, and lots of orders were delayed in delivery.

At Smart-path.net, we see two trends which will emerge from this in 2011. Firstly, most FMCG companies will put increased resources into ecommerce, as its business value had been solidly proved by this sales miracle. Secondly, for more and more consumers, online shopping will start to become routine rather than novelty-driven behaviour, thanks to the influence of media and word-of-mouth.

MATHIAS DUDA, HEAD OF UK OPERATIONS, FACT-FINDER

Even though Poland represents the lowest turnover in the European online retail sector, its ecommerce market is the

nd the *world*

fastest growing, posting a 36% growth in 2010 against 2009.

In general, the ecommerce market in Eastern and Northern Europe is lagging a fair way behind the rest of Europe, yet there is a real sense of change and opportunity within the industry. The words that best describe the Polish market would have to be: developing; evolving; and exploding.

Education is currently the main focus within the industry, and people within the retail sector are eager to listen and learn. Indeed, the most common questions asked during the Internet Standard Conference, which took place in Warsaw, in October 2010, were: "How do we make retailers aware of the opportunities and possibilities that the web opens up to them?"; "How can we attract people to our online stores?"; and "What are the best usability tips you can give?". These also reflect the key areas we believe the market will be focusing on in 2011.

Ecommerce is still very much in an early stage of its development in Poland and the market has been dominated for many years by a small number of large internet players such as Neo24, Kolporter and Empik. However, things are now starting to change and the market is gradually opening up with a number of other smaller, home grown, online stores appearing on the market. Our belief is that it won't be long before users get used to buying online from smaller shops and the market really takes off.

Again, the Internet Standard Conference is a good barometer for the growth in interest in this sector, with 160 visitors expected over the two days of the event and 260 turning up on the first day alone. The organisers have been overwhelmed by the response and the feeling is that the industry is awakening and, although it may be a late(r) start, it has enormous potential for the future.

MICHAEL MATZER, EDITOR, INTERNET RETAILING GERMANY

In 2010, German retail market sales reached a new high of 77 billion Euros, about 2.5 to 2.7% more than in 2009 (inflation-rate-corrected), according to the retailers association Einzelhandelsverband HDE. Only bad weather with lots of snow prevented a new record in December. Inflation diminished earnings by up to 1.5%.

The Mail Order Retail Association Bundesverband des Deutschen Versandhandels (bvh) predicted that direct sales would surpass the 30 billion Euros mark. In fact, sales reached 30.3 billion Euros in 2010. Online retail accounted for 60.4% (2009: 53.3%), with sales of 18.3 billion Euros (2009: 15.5 billion Euros).

Internet pure players such as Amazon.de reported a YOY increase of 15.2%, with sales growing from 5.19 billion to 6.2 billion Euros. Not surprisingly, Amazon.de reported excellent business over the Christmas period having received 2.1 million orders on the busiest day, December 13. In 2009 the busiest day saw "only" 1.7 million orders.

German ecommerce sales for Christmas are expected to have reached 3.6 billion Euros.

Using ecommerce sites has become a commodity to many Germans. According to the IT and telecom industry association BITKOM approximately 22 million Germans shopped online during the holiday season. That's 57% more than in 2009 and amounts to almost every third German citizen older than 13 years.

The reasons for this almost explosive growth are manifold. The German export business has grown tremendously this year and production did not stand still over the holidays – worldwide demand is simply too high. Many companies paid their employees bonuses. For once, the export business contributed to a positive mental outlook among most consumers so that private spending contributed significantly to growing online sales.

The rate of unemployment is at a historic all-time low and expected to sink below the mark of 3 million during 2011. In rich federal states like Baden-Württemberg (where I live) and Bavaria you can find full employment in the industry – only two years after the worst recession after the war. No wonder the level of positive climate for consumption has reached the level of 2007. Germans have found new confidence in e-payment methods, making them use online retailers more.

Whether private investments into long-lasting goods such as cars and washing machines will pick up remains to be seen. But BITKOM has registered a new record sales mark for PC sales in Germany. In 2011, experts in banks and economic research institutes expect a growth of at least 2.5%, a much higher rate than initially expected in the spring of 2010.

2011: THE YEAR OF MOBILE… NO, REALLY

Stop me if you've heard this before: 2011 is the year of mobile. No really, says M-retailing's Editor Paul Skeldon, it is going to be the year that smartphones and their ilk come to play a hugely significant role in retailing – perhaps even laying the ground work for mobile's eventual take over of ecommerce.

THE REASON for my optimism is that during 2010 mobile in retail has gone from nought to business-critical in nine months. Back in March, when Internet Retailing magazine started its own dedicated m-retailing coverage online, most retailers had an inkling that mobile was important, but didn't really have much in the way of strategic vision for it.

By April that had changed: retailers knew that they all needed something mobile – probably an app – just to show willing. Spring 2010 brought the beginnings of the app verses m-web debate: with everyone asking themselves 'If you're going to mobilise your brand should you just optimise your website or should you build an app?' June, July and August all saw a raft of launches of apps, mobile optimised websites and so forth from many a brand, while the Autumn saw this process move from a trickle to a torrent until, by Christmas, we found ourselves literally and metaphorically snowed under – with both snow and mobile offerings.

And this is what gives me hope for 2011 being the year of m-commerce. Christmas 2010 saw a sudden spike in consumer interest in using mobile as a shopping channel. A Tesco survey in November predicted that 10% of Christmas spending would be done on mobile. Tamar Research said it would be closer to 20%. Halfords predicted 13%. In the US, IDC suggested that 23% of ecommerce spend over Christmas would be from mobile.

With these figures flashing about, retailers fell over themselves to get apps, m-web or, often, both to market before the Christmas rush – all suddenly on board with the idea that consumers want mobile commerce and they have to deliver.

Driven by this sudden realisation that consumers want more m-retailing than retailers had been prepared to give them, 2011 marks a very rapid maturation – certainly for tier one and two retailers – of mobile commerce strategy, often with some dramatic consequences.

FULL INTEGRATION

For instance, ecommerce platform integrator PortalTech has seen a huge upswing in the number of RFPs coming its way at the tail-end of 2010 for whole new ecommerce platforms that feature mobile either at their centre or as an integral part. "Often we are seeing retailers coming along and actually wanting to junk their existing ecommerce platform – even though many aren't that old – and replace it with a newer, multi-channel platform, because they no longer see mobile as an add-on, but rather part of the whole commerce process," says Mark Adams, Sales and Marketing Director at the company.

"We are also seeing retailers discovering that not only do they have to integrate their e and m-commerce channels, but they also have to integrate both with their customer service and marketing systems too – so they can offer a holistic approach and build relationships with consumers," he says.

This move towards full integration shows that, for some at least, the fact that mobile is more than just an extension of their ecommerce platform is being realised. While for consumers mobile offers everything and more that ecommerce has to offer but in the palm of their hand, part of mobile's charm for retailers is that this consumer love affair with mobile is also something that a retailer can exploit through customer service, marketing and logistics – using the device to holistically build a relationship with the consumer.

Which brings us neatly to the second facet of mobile retail's rise in 2011: the fact that almost as soon as it is begun, the apps verses m-web debate is dead. You need both.

Mobile consumers have rapidly become very discerning and rather sophisticated in their approach to retailers through the mobile channel. Where it took five to ten years to get ecommerce to a critical mass, mobile looks like achieving the same in around two years – by the end of 2011 in fact.

"There are two very different ways consumers will approach your brand on mobile," says Dan Lowden, Vice President of Marketing at Digby. "Many will find you by browsing on mobile, typing your name into Google on their phone, or simply, if they know it, typing in your URL. For these people you have to have a mobile optimised website.

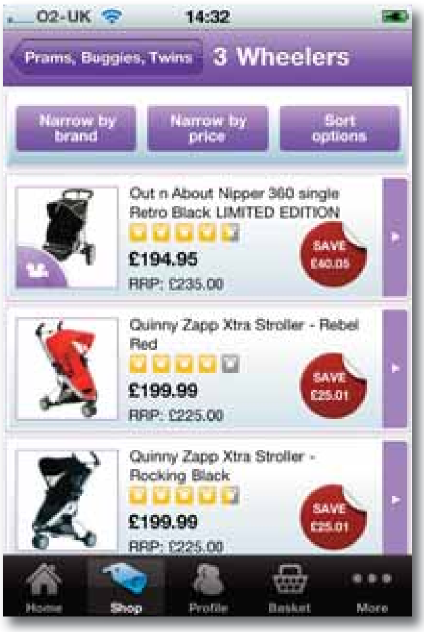
"Other, more brand loyal, customers will go looking for you through apps stores or you can market to them directly through email or even SMS – and these people demand a much richer user experience. For these people you need an app," Lowden says.

This is echoed by Business Development Manager for New Technologies at M&S Direct, Sienne Veit. "Apps are good for bespoke offerings, but the web is great for real-time purchasing. It is the way I see people using software verses browser. At some point, the web will be able to do all that apps can, but until HTML5 is up to speed apps are good for remembering, caching and a lot of the engaging editorial content that builds a relationship." Watch this space for M&S to start offering apps in 2011.

Children's retailer Kiddicare, meanwhile, has effectively set this process in motion with the simultaneous launch of both an app and a mobile optimized website just before Christmas. The retailer fully recognises that there is a very different way that each is used and that both are essential to maximising ROI on mobile and developing mobile relationships with customers.

The Kiddicare mobile website is basically the company's transactional ecommerce site optimised for mobile, so that customers can use it much as they would the online version to search, browse and buy. The fully transactional app, meanwhile, allows consumers to do all this, but also to scan barcodes in any store and compare prices with Kiddicare and order for next day delivery if they so choose.

Debenhams has taken a similar approach, opting for an all encompassing app rather than m-web (though this is coming soon) to build on the brand loyalty it sees it has with its customers,



Kiddicare launched an app and mobile optimized website in December 2010

offering them, instead, a much richer experience through an app that keeps them coming back to the mobile, but more importantly also helps drive them back into the store.

SHOP FLOOR EXPERIENCE

And this is emerging as perhaps the biggest trend in mobile retailing for 2011 – the use of mobile to get people back into stores and, once there, to embellish the in-store experience so that it brings together the best of both the real and virtual worlds.

"It's the web-enabled store," says PortalTech's Adams. "You can look for stock updates by scanning barcodes, find out more about the goods you are looking at and even order them if they aren't in stock there and then. It is simple to do and creates a whole new experience."

"In store is where retailers really see an opportunity to create unique experiences through mobile," agrees Digby's Lowden, who thinks that beyond simple stock checking, lies a

> **"YOU CAN'T JUST CUT AND PASTE YOUR ECOMMERCE OFFERING INTO MOBILE ANYMORE: IT WILL FALL WAY BELOW THE INCREASINGLY HIGH CUSTOMER EXPECTATIONS OF THE M-COMMERCE EXPERIENCE AND YOU WILL LOSE THEM"**
>
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> **"A YEAR AGO I NEVER THOUGHT I WOULD SEE SUCH A RAPID GENERATION OF BIG MONEY DECISIONS WITH RETAILERS LOOKING TO TOTALLY RE-PLATFORM BECAUSE OF MOBILE"**
>
> **Mark Adams, Sales and Marketing Director, PortalTech**

whole world of mobile-based loyalty. "The real power [of mobile in store] lies in the app letting you 'check in' to a store and get loyalty points, special deals and so on. The use of barcode scanning for app users helps build loyalty around the app – if you have the app you are getting a better in-store experience, better deals and more info. You are rewarded."

There are already several notification based trials and services in place that are being used to drive people into stores on mobile but developing the actual in store process is still just on the drawing board.

While there is much to be said for using mobile to get customers through the door, the potential at point of sale (PoS) for mobile is also huge and already we are starting to see it being put into practice, with much wider use predicted this coming year.

The use of mobile as an in-store PoS looks set to be one of the technology's real triumphs in 2011. The latter half of 2010 saw a number of iPhone based solutions for queue-busting and mobilised PoS launch in the US and the UK market is set to get its own versions early this year. All typically revolve around an app downloaded to the phone and a sleeve that the phone sits in that allows for card reading. Payment can be taken securely and quickly with the device on the shop floor.

But, there is much more to it than that. While these mobile card payment solutions that turn an iPhone into a card terminal are going to be a boon for market traders and plumbers, what mobile PoS offerings really bring to bear within retail stores is the ability to not only let customers pay on the shop floor, but also to allow shop assistants to stock check, order out of stock items, link into the CRM and marketing servers to offer deals and personalised experience and hopefully then offer up and cross-sells as well – all dressed up as part of a better customer experience.

Leading the charge in the US is PayMa$ter for App Masters. The system uses a barcode scanner, card reader and software solution built into a clip-on iPhone or iPod touch case to offer retailers who have sales force on the shop floor the ability to not only offer stock and price checks but also to allow for full check out from wireless devices, cutting queues and offering an unprecedented level of personal service.

According to the company, transactions take only moments, allowing sales associates the opportunity to up-sell. They can also accept any combination of cash, credit, gift cards, and store-branded cards. The system can rapidly scan all universal barcodes using an integrated laser scanner and retailers can apply discounts, product warranties or recycling fees.

Currently the service is being trialled by some leading retailers in the US, including Skechers. "Skechers was looking for a state-of-the-art Mobile PoS solution that would heighten customer service, satisfaction and retention by utilizing the latest technologies and products available," says Walter Tondu VP of IT, Sketchers USA. "We partnered with App Masters because they had an established application and deployment map and they understood Skechers goals. Our Mobile PoS solution is a modified version of their PayMa$ter solution, which is customized to our exact specifications.

"It is revolutionary and helps our stores to eliminate lines, accelerate checkout and increase customer satisfaction. The people at App Masters and the PayMa$ter technology are great, and I highly recommend them to retailers of any size," Tondu says.

So this, along with all the other things mobile looks set to offer does make it look like 2011 is going to be the year of mobile… hopefully now you believe me. Oh, but wait, there is one small fly in the ointment: the mobile network operators. As mobile – well smartphone – use accelerates and m-retailing does take off, especially in store, network operators face a problem: overloaded networks. Already the data networks around large shopping malls are not up to the job on a Saturday afternoon. Add in a whole load more data use and you have a mall fall of disappointed punters. The answer would appear to be to wifi and WiMax enable shops and shopping centres, but this is costly and disjointed if each store undertakes it itself. So, while I am convinced that retailers will embrace mobile in 2011, we have to hope that operators also embrace retailers.

SOME OTHER KEY MOBILE TRENDS TO WATCH OUT FOR IN 2011

Mobile Social Location (MoSoLo) commerce.
Location, location, location was the watch word of the 2000s' property boom, but it takes on new resonance now with mobile retailing. The use of the phone's location is starting to come into its own now, with a brace of solutions for marketing and targeting all coming to fruition on mobile. The latest buzz is around combining social networking and geolocation – so called Mobile Social Location (MoSoLo, or sometimes just the more pithy SoLo), which brings together the customer's social media and phone location to offer ideas, discounts and messaging as they move between shops.

UK mobile operator O2 has pioneered this with its O2More service which uses PlaceCast's 'geo-fences' technology to surround various retailers – most notably Starbucks – with a virtual fence. When a user who has signed up to O2More and has selected coffee as one of their preferences walks through one of these 'fences', they get an offer sent to their phone for a coffee. The offering is person and location targeted, but Starbucks is also changing the offer depending on the time of day. It is also sending messages that seem a bit more personal.

Augmented Reality (AR)
Augmented reality (AR), the overlaying of digital information onto images of the real world through the phone's camera has taken great strides since its 'invention' back in 2007. And now it is being seen as one of the key tools to bring the online experience into the store and get customers to use their mobiles in store. From barcode scanning to get more data on a product, to full blown over-the-air delivery of vast amounts of information about the store and act as a contact channel between the retailer and their customer.

Yellow Pages have trialled such as service to add information to street views, but no one has done it in store. Yet. eBay, meanwhile, thinks that AR has huge potential. "We will see a lot more AR adding to the shopping experience in 2011," says Roeland Loof, Senior Manager for Mobile at eBay Europe. "We are not seeing much of it today, but we will soon see apps that overlay data onto the real world very soon. We are trialling a simple AR service that lets the user 'try on' sunglasses virtually, but we will soon see a lot more."

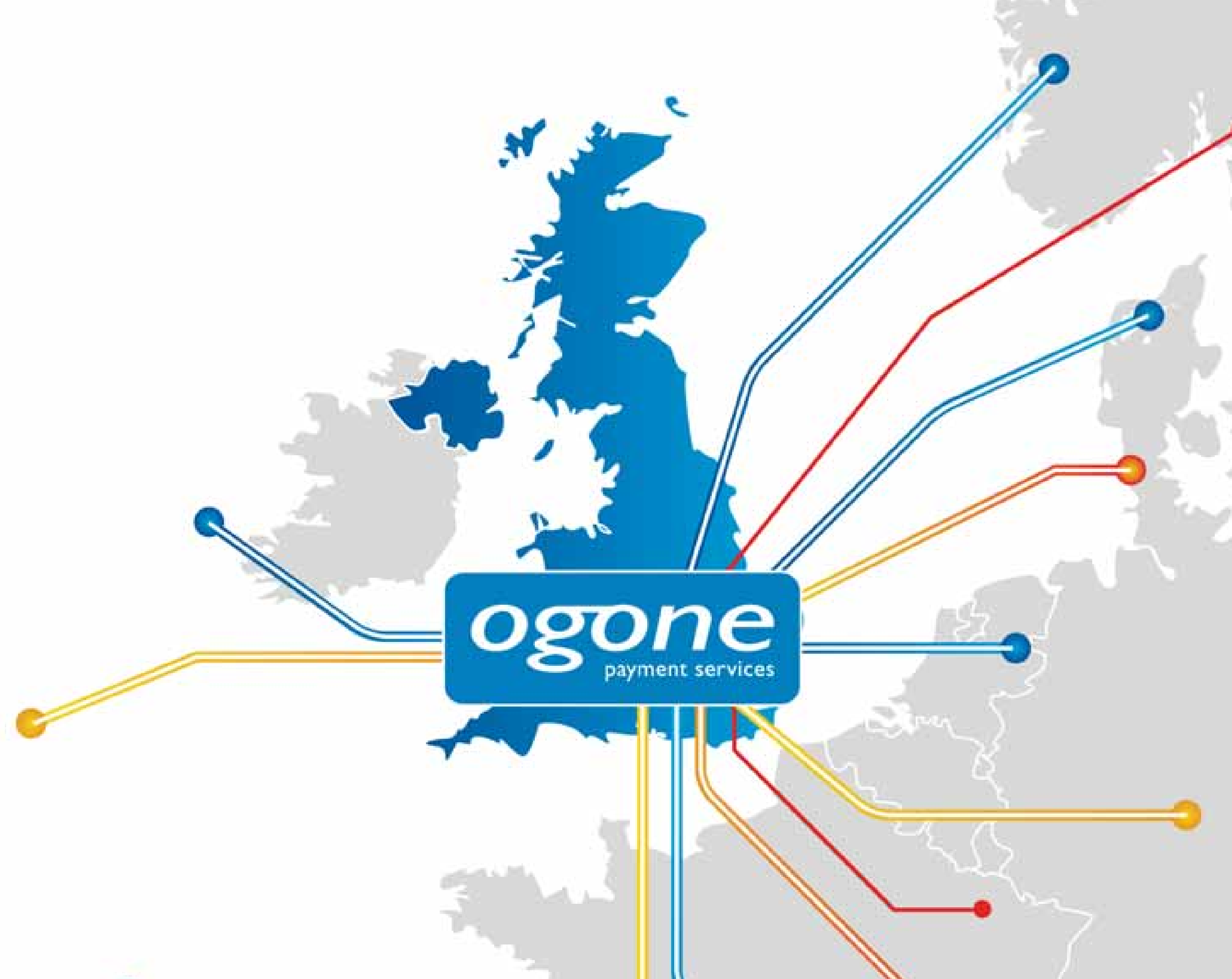
Payments
Paying for things is obviously one of the key issues with m-commerce and mobile retail. While much of what is happening with mobile optimised websites mimics the web and so we are seeing a proliferation of the use of pre-registered credit and debit cards and PayPal, there are still high hopes that payment chips will very soon by built into phones – allowing for payment from the phone while online, as well as using the phone as a wallet/payment card.

Nokia has, with limited uptake, already built RFID-enabled payment chips into some handsets. Apple has a patent out to include an NFC-enabled chip and PIN chip into iPhone 5 (although that's not expected until April 2012 – April 2011 will be hogged by the roll out of iPad 2). But it is expected that more and more native phone-based payments will start to arrive through 2011.

The other area where mobile payments will come into their own is the rise of the use of alternative payment tools, such as operator billing, WAP billing and other forms of payment that use the phone's existing connection.

The other key thing we will see in mobile this year is the entrance of mobile network operators (MNOs) into the payments fray. MNOs have the phone's bill and credit rating on their systems for post-paid phones; they have the money in the bank for pre-paid – using this to put payment for goods and services through the mobile phone bill will be key in 2011. What has stymied it so far is that, to date, operators tend to want to take about 30% of the transaction as a fee. Compared with the 0.5 to 3% charged by cards, this is clearly unworkable. However, now that the networks are making flat profits from content sales they are eyeing retail – but the only way they will stand a chance of competing with cards and PayPal is to slash charges. One to watch.

Paul Coxhill, Director at Ukash, believes that the next big development in mobile payments in 2011 will be the use of location to inform the user of the most appropriate – and cost effective – way to pay in any given location. Coxhill also suggests that 2011 is going to see a surge in the use of mobile airtime as a means of paying for or being paid for content and services.



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CHRISTMAS AND OTHER M-RETAILING DEVELOPMENTS

Paul Skeldon takes a tour around the latest happenings in the mobile retailing space.

A merry mobile Christmas

The run up to Christmas 2010 saw retailers falling over themselves to get apps, m-web – and often both – out there into the market to try and mop up some of the huge interest in m-retailing shown by consumers. The bad weather in the UK proved a boon to online retail and mobile snapped up its fair share of those who were possibly snowed in.

Leading the pack was Kiddicare, which rolled out both m-web and an app, with the view that they serve very different purposes: something we are going to see a lot more of in 2011. The mobile web site was aimed at browsers looking, usually via Google, for children's things. The app, meanwhile, was designed with a barcode scanner so that consumers could use it while out and about to compare prices.

Supermarket chain Morrisons also rolled out both m-web and an iOS app. Although not transactional, the company says it is doing both to build on the browser traffic and to offer more loyal customers a richer experience. Expect an announcement from Asda in early 2011.

JD Sports rolled out a mobile optimised website in early December, saying that m-web was the way to go, since JD's strategy is to be a multi-channel retailer, and that mobile web is the best way to achieve this – not least because it future proofs it against new operating systems and devices expected on the market in the coming 12 months.

eBay meanwhile combined its two apps – one for buyers and one for sellers – into a single v2 app, now featuring Red Laser's barcode scanner so that you can use barcodes to search or to create sales profiles "while walking round your house looking at things you want to sell," says Roeland Loof, eBay's head of mobile in Europe.

As sister company Argos got slammed for a misleading advert, Homebase entered the mobile fray with an app, based very tightly on Argos's offering, that allows shoppers to price check and click and reserve from their handset. However, things have moved on in m-retail since Argos launched its app in the summer: these days consumers expect a lot more from m-retailing, not least the ability to actually buy and get stuff delivered. The Homebase app feels a little passé. We look forward to version 2.0.

Rising to this challenge, Halfords has been very quick to add transactional capabilities to its m-web site, just four months after rolling out non-transactional v1.0. The company says it was part of the plan, but having seen such huge increases in mobile traffic over the autumn – and tapping into customer feedback – the company seems to have moved very fast to add this. Hats off to them.

Who do you love?

Mobile is playing an increasing role in driving consumer choice as to which brands they buy when they go shopping, with 59% of UK shoppers having not decided on the brand they will purchase before researching new products or heading out to the shops, suggests a study commissioned by RichRelevance and Bazaarvoice, and conducted by Forrester Consulting. According to the study, nearly half of UK shoppers (42%) have used their mobile phone while shopping, 16% of which used it to compare prices with other stores. The study – the first of its kind to measure mobile shopping habits – also indicated that most UK shoppers (82%) will visit more than one website before purchasing a product; 17% will visit as many as four.
The study also revealed that shoppers rely on three types of content when making buying decisions: product details, user reviews and personalised recommendations. 86% indicated that they used user ratings and reviews for online purchases, while the majority of those surveyed (84%) had researched or purchased products online using recommendations, and 42% of UK shoppers made a purchase that was recommended by an online retailer.

It's a mystery

The vast majority of retailers' mobile websites are at best "well kept secrets" and at worst impossible to find behind counterintuitive URLs, prone to inexplicable crashes, unable to complete transactions or simply too complicated to navigate, says e-tailing group's first annual mobile commerce mystery shopping study. On average, of the 150 parameters on 50 m-commerce sites tested, the sites scored just 4.5 out of 10, showing considerable room for improvement.

On a positive note, most sites deliver a mobile experience that is consistent with the brand and enables an adequate shopping experience, even if it isn't ideal. However, with some exceptions, the necessary ingredients for a successful mobile experience – such meaningful retail locators, inventory-sensitive store product locators, relevant search functionality, snafu-free checkouts, and ease of contacting customer service – are lacking or being inconsistently executed, potentially leaving a negative customer impression of the "4th" channel.


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