INTERNET RETAILING

SELLING IN THE DIGITAL AGE
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THE KEY TO RETAIL 2020

Predictions from the Y2K game changers

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EDITOR'S COMMENT

As I read through the stack of annual reports arriving at IR Towers from retailers, thoughts turn to distant shores. Some retailers are opening new shops in emerging markets or expanding their international reach through online stores or international delivery while others are growing their brand's reach into other product areas.

Internet Retailing is expanding as well with a new site to cover eretailing in Germany. Its Editor, Michael Matzer, will be sending a free, fortnightly newsletter which you can sign up for at internetretailing.de. Michael is mixing analysis on the German market in English with German-language coverage of Germany and global developments of interest to the German market.

We've also launched m-retailing.net, a sub-site of internetretailing.net, and a fortnightly email newsletter - focussed on mobile commerce. Edited by Paul Skeldon, the service will keep you ahead of the curve on how mobile is impacting off- and online retail environments. Paul will be contributing to the new M-Retailing section in the magazine which starts on page 40.

Before ending my comment, I must offer an apology to DPD from me and Marcus Austin for an error in the last issue of Internet Retailing. His feature on page 40 should have said that DPD was the first parcel carrier to provide a one-hour delivery window to home shoppers.

Emma Herrod
Editor

FEATURES

REGULARS

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FINANCIAL ROUND UP

Argos notched up multichannel sales of £1.9bn in its latest financial year, accounting for 43% of total sales, parent company Home Retail Group has announced. Some 32% of Argos' sales were over the internet, in the year to 27 February. Two-thirds of these, or 22% of total sales, were through the Check & Reserve for store collection service.

Amazon.com has reported net sales up 46% to $7.13bn in the three months to 31 March, with the Kindle remaining top of the bestselling list on Amazon.com. Its international division, which includes the UK, saw sales up by 45% (37% after currency changes) to $3.35bn (£2.18bn). Net income rose to $299 million (£194.6m), from $177m (£115.2m) at the same time last year.

Tesco's online grocery business delivered more than a billion items in its latest financial year, the supermarket has revealed. Tesco said profits at its online business rose by 26% to £136m in the year to 27 February. The online business, which includes dotcom grocery and the non-food Tesco Direct arm, now employs 20,000 people.

Marks & Spencer's quarterly results show Direct sales up 48% with overall group sales up 4.8%. While the results are somewhat flattered by the inclusion of the Christmas sale in this quarter (giving a 2% lift to Direct, for example), they're still a great result for the brand.

While we were interested in the excellent Direct channel growth it's the extension of the "Shop your way" (or collect in store) option to 300 stores that caught our eye. M&S don't disclose the amount of incremental sales that this initiative has generated, but expect it to be a significant amount. Furthermore, it shows M&S to be maturing as a multichannel retailer, using its estate to boost sales, online and off.

IMRG-HITWISE HOT SHOPS LIST

Rank	Website	
1	Amazon UK	www.amazon.co.uk
2.	Argos	www.argos.co.uk
3.	Play.com	www.play.com
4.	Apple Computer	www.apple.com
5.	Amazon.com	www.amazon.com
6.	Tesco.com	www.tesco.com
7.	Marks & Spencer	www.marksandspencer.com
8.	John Lewis	www.johnlewis.com
9	Next	www.next.co.uk
10	easyJet	www.easyjet.co.uk
11.	Thomson Holidays	www.thomson.co.uk
12.	www.expedia.co.uk	www.expedia.co.uk
13.	Tesco Direct	direct.tesco.com
14.	ASOS	www.asos.com
15.	Thomas Cook	www.thomascook.com

FURTHER IMPROVEMENTS FOR DEBENHAMS

`Debenhams is to make further improvements to its new-look website as it looks to build on growing multichannel sales. The retailer is to introduce predictive text for its search box and search engine optimization technology, both from ecommerce technology company Fredhopper.

Joris Beckers, Chief Executive of Fredhopper comments: "Too many retailers spend time and money driving consumers to their online shops but forget about the basics. Allowing customers to successfully search for products, navigate intuitively around each department only viewing the categories they choose and relevant products - these are vital functions to help people put the products they want into their baskets quickly and complete their purchases."

Brett Bennett, Senior Web Manager at Debenhams, said: "We needed to work with a company whose technology could not only dramatically improve the usability of our website but could also be easily used by our marketing and merchandising teams."

Since the re-launch of its website in November 2009, Debenhams has seen a double-digit increase in conversions. The department store chain, which has more than 150 shops in the UK and Ireland reported half-year figures showing multichannel sales up by 85.9%. Its collect-from-store service, which was introduced in March, accounted for 22% of multichannel orders in the first month of operation.

REVIEWS GAIN NEW PROMINENCE ON GOOGLE

Shoppers using Google to look for products will now find star ratings and reviews in their search results to help them decide whether to buy. The development comes courtesy of a new partnership between social media technology company Bazaarvoice and Google.

It means reviews that previously appeared on companies' websites, through the Bazaarvoice service will now also be visible when consumers search on Google for products or manufacturers sold through Bazaarvoice clients' websites.

Retailers will also now be able to insert product star ratings into their Google advertising. Ads will display the number of users to review a product as well as the average star-rating they gave under a five-star system.

Sameer Samat, Director of Product Management at Google said: "Consumer reviews have become a driving force for online purchasing. If we look back five years ago, it was editorial reviews by experts. Now the internet has allowed ordinary people to have a voice, and that voice is very influential. With this program, we are reaching out to retailers and manufacturers and to use more of this content."

Jon Rudoe, Head of Retail at Ocado, a Bazaarvoice Ratings and Reviews client, welcomed the move. "Google's decision to integrate such review content is a smart one and highly welcome," he said. "For us it should mean more people viewing online food shopping with an even greater amount of confidence."

ASOS TO LAUNCH ONLINE MARKETPLACE

Asos customers will be able to trade their own clothes through a virtual online marketplace to be launched on its website later this year. The online retailer is in the "advanced stages" of preparing to launch the marketplace, which will offer customers a channel to sell their own clothes and buy from others.

The marketplace, seen as tapping into a desire by customers to have a more environmentally-friendly approach to shopping and to buy more vintage clothing, would also be open to independent fashion retailers and designers. In addition, it will give larger companies another way to sell their own goods or to market surplus stock.

Asos' chief executive Nick Robertson said: "This is an exciting extension to Asos' existing customer offer which makes perfect sense in today's market. This is a sellers' platform. We will start simply and continually improve the platform over time. Our sellers will shape its future.

"With this initiative we are able to offer both individual and corporate customers an additional channel to sell their fashion merchandise in an environment, and in front of a customer, that is all about fashion."

SOCIAL MEDIA KEY TO ASDA GROWTH STRATEGY

Supermarket Asda says a "world-class customer engagement programme" will underpin a growth strategy that includes wider multichannel buying choices. The plans are aimed at making it the UK market leader in general merchandise and number two in the food market.

Asda President and Chief Executive Andy Bond said: "Our aim is to become Britain's favourite retailer across even more channels. That means extending our reach and helping customers order online, pick up in store or let us deliver to their door." He added: "All of our businesses are supported by a world-class customer engagement program that is taking advantage of the rise in social media to enable us to get even closer to our customers."

Growth will come as the number of Asda smaller food stores increases to 100 and Asda Living, non-food stores to 150 (from the current 25). The company also revealed that Asda.com's home shopping service now serves 97% of the country. A second dedicated home shopping picking centre is to open in Enfield in July. The first is in Leeds, West Yorkshire.

The supermarket has unveiled its 'Vision of the future' which includes the extension of its Take Home Today service across the Asda network. The service was being trialled at the company's Bradford store and allowed customers to order goods normally stocked only in supercentres from any store. Meanwhile Asda Direct, launched at the end of 2008, now allows customers to buy more than a million non-food items such as electricals and furniture online or over the phone.

MORE THAN 50% SHOP ONLINE

The first British Population Survey / IMRG Online Access and Shopping Report has found that more than 51% of the British population aged 15 and above, had shopped online in the first three months of 2010.

The growth came as the proportion of the population with access to the internet grew to 75.99% in March, from 73.92% in December 2009. In the last two years alone, 3.7m UK adults became online shoppers. The report also found that more people who search for product information are now likely to shop online. Eighteen out of every 20 searchers would make a purchase over the internet in March 2010, up from 17 out of every 20 searchers in March 2008.

The number of internet users who have access via a mobile device now stands at 13%.

Mike Hare, Research Director of the British Population Survey, said: "Recent technology developments, particularly in the area of roaming access via both laptops and handheld devices are clearly playing a part in the availability and convenience of online shopping services. This has been particularly evidenced by an increase in laptop ownership from 34.15% of households in March 2008 to 53.03% in March 2010."

It's good to see the growing confidence among shoppers that means they're now more likely to shop online. More than 50% now do so, that must make this a mainstream activity. But as yet still only 6.9% of UK purchases are made online, according to recent figures from the Office for National Statistics – that's a figure we can expect to grow fast as new online shoppers gain confidence. And of course that means online retailers will be doing all they can to help shoppers gain that confidence – from strong payment security to efficient delivery and returns.

FITS.ME – VIRTUAL FITTING ROOMS, POWERED BY ESTONIAN ROBOTS!

In the first of an occasional, new series, Ian Jindal considers one of the more interesting, weird ideas to pass through the IR inbox in an interview with Heikki Haldre, founding CEO, of Estonian startup Fits.me.

Pictured (L to R): Heikki Haldre, CEO and Maarja Kruusmaa PhD, Professor of Biorobotics

AT IR TOWERS we receive a lot of email. PRs and marketing folk vie to catch our attention with hyperbole and claims of their brilliance, while we tend to focus on larger companies, looking behind success stories and analysing them.

Then, a syszygy: we were pondering innovation and how ideas are generated (based on our work on the Inspiration Index findings) and that same day an email about robot mannequins from Estonia tickled my funny bone. Telephone calls with the company and several coffees later a new section of the magazine is born: Alpha. In this slot we'll look at ideas, initiatives and experiments that – while as yet unproven – have a 'certain something' about them that in our opinion deserves more of an airing.

ROBOTS

The presenting problem is well known to apparel retailers – how to illustrate the fit of clothing. An answer is to photograph a standard size (say a medium) in every colour and then either describe the fit (long, or 34" sleeve) and wait for the returns.

How much better it would be if the mannequin could be the same dimension as the customer…

Enter Heikki Haldre, an urbane Estonian entrepreneur with a certain something for robots – or, I should say, "bio-robotics". Based on research from German and Estonian universities, these robots can change dimensions and accurately mimic human body shapes and forms.

The idea is that the customer enters their dimensions and then visualises a given size on a robot mannequin adjusted to their size.

Our initial questions ranged from the costs of photography (eg from one standard packshot there'd now be one for each body size, increasing costs), to exploding clothes online (eg putting an XXXS on a giant's frame!) to the visualisation.

Haldre took these in good humour and calmly pointed to their results of a trial with Quelle in Germany. The result with this distance seller gave a 310% sales increase with a 28% reduction in returns rate – this certainly caught our attention.

PRESENTATION

The presentation approach has also become very slick in the time we've been talking to Haldre. From the original 'Robocop-meets-weightlifter' vibe, improved interfaces are now available – more like an illustration or avatar, showing subtly the customer's wrist point on a given shirt, for example. Equally, product algorithms understand likely and reasonable combinations, so no live clothes-exploding!

Furthermore, we consulted with Lee Friend, CEO of Packshot and FashShot, one of the most experienced voices in the industry for product imaging and a continuous experimenter. His view was that with a little work it would be straightforward to put robot mannequins into a production workflow, and cited recent moves to multi-image, spin, video and 360-degrees imaging.

Haldre, who has a background in logistics, has optimised their approach so that on average only four items per brand or fit are now required, considerably reducing setup time and cost.

ADOPTION

Since we spoke, the Fits.me solution has been adopted by Hawes and Curtis, the shirt maker on their online store, hot on the heels of winning the European Technology Award at Plugg.eu.

We'll be watching the onward march of robot mannequins with interest and checking whether the twin dream of increased conversion and reduced returns continues. We wish Haldre and his team every success, and we'll be scanning our inbox for other new product, process or business ideas that tickle our fancy, might be of interest to etailers, but are not as yet mainstream.

THE KEY TO RETAIL 2020

On 10 March 2010 it will be 10 years since the dotcom bubble burst. For some, it marked the end of an ecommerce dream; for others it was the point when retail common sense was re-established. Emma Herrod asks some of the key players of the time what the industry has learnt over the past decade and where retail will be in 2020.

ON 15 MARCH 1985, Symbolics registered its .com domain and the US computer company took its place in history as the first dotcom registered on what had yet to be labelled the 'world wide web'.

It took more than a decade for the domain, and the consumer internet, to take off, but by 1997 one million dotcom domain names had been registered. The era that followed was a boom time for the industry; founders of internet startups lived the dotcom dream, relying on venture capital with no or little income from their business. Internet businesses were being valued on their potential, how many people they employed and the prestigiousness of their office addresses rather than their true worth. Even adding an 'e' prefix or a '.com' suffix to a trading name would spark a rise in the stock price of traditional offline companies.

But on 10 March 2000 the beginning of the end came for the overvalued dotcom stock and the concomitant boom. On that date the NASDAQ Composite Index peaked and then slipped 9% in just six days, declining to half its value over the next year.

The internet as a retailing platform has come a long way since then. But how have the UK's retail and digital economies fared over the past decade? How is ecommerce seen today and what effect did the bubble bursting have on the dreams and aspirations of those early dotcom entrepreneurs and e-high street retailers?

Back then some retailers, such as Amazon, were already gaining traction. Others, such as lastminute.com and boo.com, were being feted, their founders' images plastered across the press with journalists clamouring to interview the new kids on the block: the young, up-and-coming entrepreneurs who were living the dream and transforming an industry.

There was a real feeling of dotcom euphoria. "It was an exciting time to set up a business. There were no rules and no business models to follow; everything had to be thought up from first principles," says Michael Ross, founder of Figleaves.com and now Director of eCommera. As well as coming up with a compelling customer proposition, range and service, the dotcoms had to "crack technology problems – systems, processes and operations in a pre-Google world".

Steve Robinson, CEO of MandMDirect.com (and former CEO of Tesco Direct and Finance Director of Argos), believes that the bursting of the dotcom bubble has shaped the last 10 years of online retailing. He was with Argos when it happened and says that at the time the multi-channel retailer had a transactional website but was only doing a very small amount of business online.

Christmas 2000 at Argos

According to Robinson, 10 years ago, retail businesses online could be split into three categories:

- A host of small startups, some of whom have proved to be very successful;
- Etailers, such as Amazon and eBay, that had raised funds and reached critical mass and which have continued their meteoric growth;
- The bigger players, such as the high street brands, that came late to online.

In the first group, Robinson cites Net-a-Porter and Asos, which both launched in late 2000 and have followed a path of gradual and sustained growth over the past decade. There were others, such as boo.com – a company now synonymous with the crash and which spent $135m in just 18 months – which wanted to be market leaders and deliver everything all at once.

"At the time they thought they had the money," says Robinson. "In trying to do it all at once many people caught a cold and saw their money taken away. By growing gradually [in comparison], with excellent execution, breadth of range, late cut-off times and delivery, Asos has ended up where boo.com wanted to be but 10 years later."

That's not to say that there isn't a place for innovation, new ideas and companies that push boundaries and don't yet turn a profit. According to Robinson, Ocado, which plans a stock market flotation this summer, "is just wiping its face. No one has yet replicated its business, for example. Ocado found good partners and investors who are in it for the long term."

THE INVESTOR'S STORY

First Tuesday is another name synonymous with the dotcom boom of the late 1990s. The networking group first got together on the first Tuesday of October 1998 following a meeting between Julie Meyer, founder and CEO of Ariadne Capital, and lastminute.com founder Brent Hoberman. "I came to the UK on 24 July 1998 and Brent was the second person I met," says Meyer.

While Hoberman was "focused on bringing entrepreneurs together," Meyer says her proposition was for the group to include investors so both sides of the startup community could be brought together.

"It was a case of right time, right place," she adds. London in 1998 was awash with the spirit of enterprise and innovation, something that she says still holds true today. There was also a certain smugness exhibited by many of those setting up businesses who thought they would be millionaires overnight.

Meyer set up Ariadne Capital in December 2000. The specialist technology investment and advisory company pioneered a new model for financing business startups – entrepreneurs backing entrepreneurs.

"Markets have their ups and downs but technology continues. If you're not out there investing in the downturn you don't make money in the upturn," she explains. You just build in a lean fashion. The downturn gave me an opportunity to keep building and keep moving."

THE IPO

What of Hoberman, Martha Lane Fox and lasminute.com? The company floated on 14 March 2000, going public just as the bubble burst. The company still exists and was purchased by Travelocity, part of the Sabre family of travel companies, in May 2005. Today, it is fast approaching 2.5 million visitors a week.

Hoberman, known of late for setting up mydeco.com, says that some of the business models, such as group buying, which didn't work 10 years ago, are making a comeback.

He adds that investors still have an appetite for great business ideas with tremendous traction. Spotify, for example, has great execution but has not turned a profit, while Facebook didn't turn cash positive until late in 2009. Hoberman says: "Everyone was valued as a winner [before the bubble burst], but 99% of startups go bust so the odds on a gamble were not good. Investors are now more aggressive in terms of the workings of the management team and the business's differentiation to the rest of the market."

THE E-ENTREPRENEUR

Ross and Figleaves.com – or easyshop.co.uk as it was called in 2000 – managed to weather the storm. "Our world would have looked different if the bubble hadn't burst," he says. "Figleaves would have loved to have gathered more funding and gone for an IPO, but that door closed in March 2000. We were lucky as we had funding. Many companies didn't and they aren't in business today."

However, the firm wasn't awash with money, which forced it to be disciplined from an early stage, a focus a lot of venture capital-backed ecommerce businesses didn't have at the time. "We couldn't suspend business logic," says Ross. But Figleaves.com had one big advantage: it had no real competitors online. When it was set up lingerie


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> BILL GATES

was sold mainly by department stores and "the high street didn't take online seriously".

"The rebranding of easyshop.co.uk to Figleaves.com was a turning point for the business, allowing it to move from a generically-branded site to something we could build a brand around," explains Ross. He adds that Figleaves.com was a US company that "had lived the dotcom dream and run out of money". In mid-2000, easyshop.co.uk bought the Figleaves name – and 3,000 branded baseball caps!

"The vision from then on was global domination," he comments. Lingerie has a high value to weight ratio so is cheap to ship. That, coupled with the fact that the company "had the market almost to ourselves for two to three years", meant it could go for growth, although Ross adds that "competition is good to focus the mind".

"Timing is enormously important and for every opportunity there's a time window," says Ross. "There was a land grab in the late 1990s as everyone rushed to get into business, but I feel it's better to be second with a sustainable business rather than first and run out of money."

He adds that in the long term it makes no difference as he forecasts we will live in a multi-channel world in which three groups of retailers will dominate:

- Global superstores such as Amazon and Tesco;
- Brand owners selling direct and using the internet to shape distribution;
- Small niche retailers with in-depth expertise.

"The opportunity to build an Asos or Net-a-Porter has gone. It's too late" he says. The losers will be the mid-market sellers of other people's brands and small retailers which haven't carved out their niche.

BOO.COM

The story behind boo.com, the company which epitomises the dotcom dream gone sour, is a cautionary one of too much, too early. The website, launched in the autumn of 1999 by Ernst Malmsten and Kajsa Leander – two Swedish entrepreneurs who had already launched and sold online bookstore bokus.com – and Patrik Hedelin. The trio were successful in getting buy-in from fashion designers and sports brands to sell their products online in a number of countries, with separate localised sites handling different currencies and languages. It was an operational and logistical nightmare that, even 10 years on, most companies would think twice about.

"The business model was great but it was too early," says Malmsten. "People were not used to buying online, and flash made the site too slow. In hindsight, the technology was a big problem and we underestimated accessibility and usability issues, but if we hadn't aimed for such a large-scale launch we wouldn't have got the suppliers on board."

Boo.com tried to use 3D imagery, changing room models and a Miss Boo avatar for online help and customer service.

The elaborate plans meant the company expanded from three to 500 employees in just one year. However, it was being funded by investors not by profit, although it was turning over $1million a month – and growing – when the balloon went up in March 2000. Malmsten says that it suddenly went from "having people queuing up to give us money to money being unavailable". In hindsight, he admits, "we shouldn't have had a business model based solely on needing funding".

Technology that cost £10m back in 2000 is now cheap if not free and open source. Retailing in the next 10 to 20 years will look different as people will have grown up with the internet and be interconnected via mobile devices.

And, according to Malmsten, the most important legacy of the dotcom era is the change in attitudes it effected, because it became accepted that young people could be entrepreneurs and run companies.

MULTI-CHANNEL EXPERIENCES

"It's difficult to have an idea now that can't be replicated with enough money," comments MandMDirect.com's Robinson, citing Argos and its click-to-collect innovation as an example. "Now every man and his dog is trying to replicate it."

The end of the dotcom boom effectively stalled multi-channel retailing. "Before the bubble burst everything was preceded by 'e'," says Robinson, mentioning eKingfisher, of which he was a part. "Afterwards the 'e' was dropped rapidly and the industry stepped back and played a watching game before really getting going again."

British Retail Consortium Director General Stephen Robertson was also part of eKingfisher and the launch of B&Q's first transactional site. From his point of view, the hardest part of setting up the website was the fulfilment operation and deciding whether to fulfil orders for home delivery from B&Q stores or externally.

B&Q in 2001

Consideration had to be given to how to set up a cost-effective pick-and-pack facility and where to locate it in stores. This then raised the issue of whether systems such as stock management were sufficiently robust. B&Q decided to outsource the fulfilment part of the operation.

Launching online also raised questions about ranging as well as the size of the online opportunity. High street retailers such as B&Q also had to ask themselves whether the real opportunity was in developing a transactional site or one which delivered information on how to buy products and provided customer engagement.

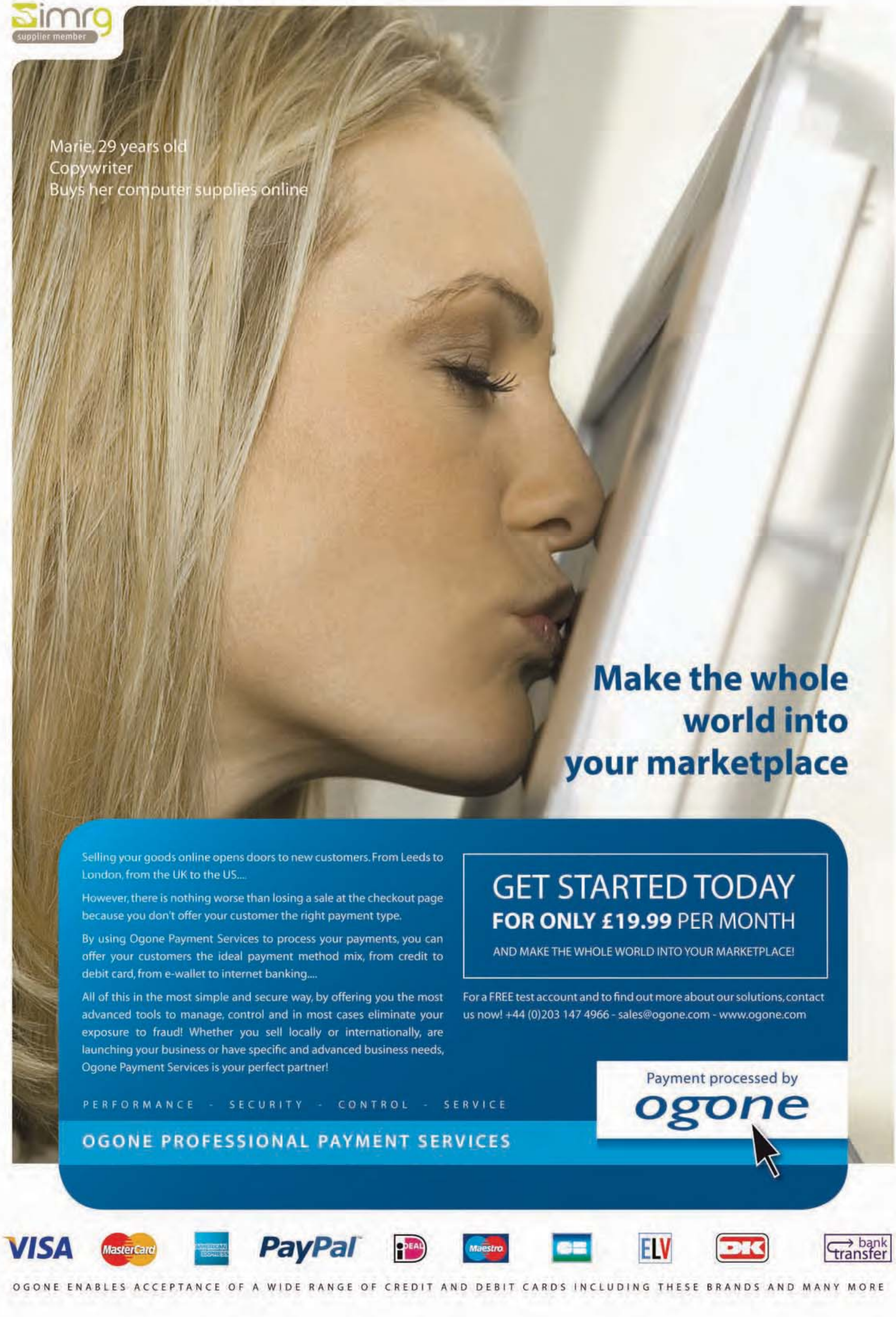
"It was a question of content versus commerce," says Robertson. He adds that there were lots of uncertainties about online among high street retailers back then, especially since mobile and TV were gaining traction, so it would have been easy to have diverted to selling via those channels.

At the time of the dotcom crash, B&Q had been making good progress with its online business. "It

ECOMMERCE IN 2020

Visions of the future of retailing and ecommerce include:

- We won't see retailers that don't have transactional websites in 10 years time.
- Social groups, such as those on Facebook, will continue to bring about big changes for retailing.
- Mobile and location-based services such as rewarding someone for being in the right place at the right time will have a major impact.
- "Commerce will be everywhere, the lines between channels will be blurred and it's all happening faster than I would predict," says Steve Robinson. 'Omni-commerce' enabled by mobile devices is going to change the landscape completely.
- Michael Ross predicts: there will be different types of intermediaries, such as technology companies and more third parties as the industry matures and becomes commoditised; data is increasingly real-time and the levers are increasingly real-time so the question therefore is when will it be worth retailers working in real time?
- Mark Newton-Jones, Chief Executive, Shop Direct Group comments: online retailing is putting real pressure on provincial shopping centres and they will change beyond recognition; personalisation will become increasingly important whether in personalised emails or consumers able to see specific clothing just in their size; convergence of TV, internet and social media.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wasn't meteoric progress," says Robertson, so he does confess to a feeling of relief when the bubble burst. "It was good to see that basic retail common sense worked online."

LESSONS LEARNT 10 YEARS ON

Ten years on, the retail landscape looks very different. Most consumers access the internet using broadband rather than dial-up, which has opened up ecommerce to different imaging and innovations that enhance the online offer.

Technology has moved on and lower costs, open source architecture and the componentisation of systems such as CRM, SEO and analytics has made online even more cost effective.

The audience has changed as well, since consumers are now much more comfortable with buying online. "Seeing their favourite retailer's name on a website is a mark of trust," comments Robertson.

Hoberman says that although consumer empowerment and new technologies have transformed the online landscape in recent times, the next big trend will be mobile- and location-based services, such as rewarding someone for being in the right place at the right time.

He says: "Personalisation has been a disappointment over the past 10 years, apart from the oft-quoted Amazon, of course. Scale and technology will enable more people to do this better." And it's not just prompts to buy such as 'people like you also bought' but 'your friends looked at, liked or bought x' that are now being flagged up. Social groups such as those on Facebook will continue to be engines of change for retailing. Social groups succeeding in recommending and getting consumers to buy something, says Hoberman, "is the ultimate CRM".

He predicts that there won't be any retailers without transactional websites in 10 years time. "Technology improvements will bring about the long tail of manufacturing," he says and customisation will no longer be confined to just t-shirts.

Hoberman founded mydeco.com in 2007, and invested in and helped launch made.com in the UK in March 2010. Made.com is a new designer furniture company that cuts out the middle man, using the internet to connect buyers directly with manufacturers. He says: "From an investment trend perspective we see an exciting transition from retailing to 'metailing' where consumers are in control, influencing which designs make it into production and with a more direct connection to the factory."

Robinson says that while multi-channel has changed the landscape of retailing, a new type of commerce that's just emerging will become widespread over the next 10 years. He calls it 'omni-commerce' and it's being enabled by a multitude of mobile devices. He explains: "Commerce will be everywhere, the lines between channels will be blurred and it's all happening faster than I would predict. It's going to change the landscape completely."

> “ONE OF THE BIG LESSONS WE TOOK AWAY FROM THE EARLY YEARS OF MULTI-CHANNEL RETAILING IS THAT IT'S A CONSTANT PROCESS OF EXPERIMENTATION. IT NEVER STANDS STILL. WHAT WE DID BEFORE DOESN'T WORK NOW AND WHAT WE DO NOW WON'T NECESSARILY WORK IN THREE OR FOUR YEARS TIME”
> IAN CHESHIRE,
> CEO OF KINGFISHER

TRENDS

For Ariadne Capital's Meyer the success of a business is a question of time and timing. She says: "Companies can take off in such a short space of time. Never for a moment do entrepreneurs think that they control time. They are generally worried that the next big thing will supersede them."

The way large companies, such as traditional high street retailers, approach time and business change is very different. "They believe that they can control the pace of change but they can't," says Meyer. Smaller, faster-to-market companies such as startups are changing the landscape that those large companies sell into, so they could find that things have changed in their target market in six months or even six weeks.

And Meyer warns the retail industry: "You can't be slow to embrace change anymore. The overall clock speed of business is changing." ■

JOHN LEWIS
TOPS THE INSPIRATION INDEX

After close voting over the six dimensions of our Inspiration Index, John Lewis is a resounding winner in one of our highest voting levels. Ian Jindal assesses the results.

JUST OVER A YEAR ago, from our conversations with retailers, it was clear to us that etailers found inspiration in many places. Clearly the overall market leaders had to do much that is "right", but were they inspiring in every dimension? Or were our readers more eclectic in sourcing their inspiration?

To find out we created the Internet Retailing Inspiration Index (IRII) and asked etailers to pick up to five companies that inspired them in the 'dimensions' of Strategy, Marketing, Merchandising, Operations, Customer Experience and a catch-all "moments of brilliance and delight". We asked that you vote for activity that excited envy, admiration and a desire to copy or appropriate!

Throughout the stages we've seen a strong "top 5" - Amazon, mydeco, Asos, John Lewis and Apple – with Amazon and mydeco 'duking it out' for the top two places each time.

The cumulative standings going into this final round were as below:

THE 'TOP 15' OVERALL STANDINGS

Etailer	Cumulative Rank
mydeco	1
Amazon UK	2
Asos	3
John Lewis	4
Apple Computer	5
LOVEFiLM	6
Boden	7
Ocado	8
Net-a-Porter	9
Tesco.com	10
Argos	11
House of Fraser	12
Zappos	13
Ikea	14
British Airways	15

British Airways is an interesting addition to our list, with voters mentioning not only the ease of their ticket sales but importantly the polish of their online seat booking and management and customer contact with flight details and change information.

The Ocado placing deserves a special mention since they were not part of our suggestions in the first round and so scored no votes: they have managed 8th position from four rounds of votes only – quite an achievement.

Finally, mydeco and Zappos are also of interest:

mydeco in that they emerged so quickly as a source of inspiration while not being a traditional retailer (their presentation and merchandising skills initially brought them to our attention) and Zappos, influencing UK etailers despite being US only – and earning their keynote at IR2009 as a result of this interest.

FINAL ROUND VOTING

In rounds to date we'd allowed voters to choose up to five companies, but for the final round we reduced selection to just one. This brought about a surprise result – a resounding vote for John Lewis (with nearly half of all votes cast singling them out). It seems that – when we have to pick just one retailer – we plump for John Lewis.

There's no doubt that John Lewis' achievements are significant in terms of their multichannel activity but it's pleasing to see that their peers see them as inspiring too.

Comments with the voting were uniformly effusive. Voters mentioned the staff commitment, training and knowledge; the penetration of the web in stores and efforts to reward store staff by allocating web sales to stores (something mentioned by Robin Terrell, then MD of John Lewis Direct, in his keynote at IR2009 to great interest). Some commentators noted the introduction of branded fashion into their offering late in 2009, appreciating the attempt to attract younger, brand-aware audiences while not alienating their traditional customer base.

Jonathon Brown, Head of Online, John Lewis

The following comment sums up the voting: "Well presented merchandise delivered by a thoroughly professional sales organisation which concentrates hard on delivering excellent customer satisfaction. They have become the 'gold standard' against which the quality of other retail operations are judged".

When we told Jonathon Brown, Head of Online at John Lewis, of the result, and shared the feedback with him, he said: "We are really pleased to have come out on top in the IR Inspiration Index and such positive feedback from our peers means a lot to me and all the team."

We asked Jonathon about their approach to innovation and developing their service and he noted that "we have invested a lot of effort, energy and passion into johnlewis.com and driving it forward to inspire and delight our customers, which from what we are seeing in customer feedback, sales and this result is certainly working".

Speaking directly to the comments about range and customer development Jonathon said "our focus on extending our online fashion range I believe has really boosted our position as the preferred online retailer for a broader set of customers". Asked about the future focus Jonathon noted it is "to continue to drive the online and multichannel business forward and I am excited by what we will be bringing to our customers over the next few months and years so hopefully we can remain in front of such an impressive and competitive pack".

CLOSE SECOND

A front-runner in that 'competitive pack' was mydeco.com. Although John Lewis took the crown they were a close and worthy second place. Voters found inspiration in the design, the tools, the impressive feat of taming the streams of data feeds from retail partners, the social commerce skills and the fact that they had created a space in the customer's mind for inspiration and ideas. At Internet Retailing we've been pleased to see mydeco's development from the first time we featured them in the magazine (March 2009 – see the digital version here: http://bit.ly/ir-march2009).

After such a strong showing throughout the IRII there was a level of sadness not to have seized the crown, but also recognition that if they were to come second then it's no shame to do so to John Lewis!

Nicole Vanderbilt, CEO, mydeco.com

Asked about their achievement, Nicole Vanderbilt, CEO of mydeco, considered the key component to be "making shopping social" for 'space-based products' – improvement visualisation in rooms, contexts and usage. She noted the use of social media, eg Facebook, allowing customers to share their thoughts and ideas with other customers, and indeed being helpful to other customers. The design tools also make being on-site a more visual experience. Nicole noted that so many sites focus on being transactional, but that it's equally important to have an experience where customers can enjoy discovery and simply 'hang out'.

David Kelly, co-founder of mydeco, ex-CEO and now on the Board, reflected on the impact www.netelixir.com/FIFA.html

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of the IRII on mydeco as a company. He noted that "The survey really provided a stimulus and motivation to the team to continue improving the customer experience. Being ranked alongside the big brands with huge marketing budgets was an inspiration to improve and compete". Looking more broadly David reflected that:

"The Internet Retailing Inspiration Index was a continual reminder to brands that doing the basics well is the hygiene factor, but that customers expect and deserve more. They expect a channel (web, mobile, catalogue, store) to work seamlessly, they expect the items to be delivered on time, they expect quality as promised and they expect value. But customers are beginning to demand that a brand engage them at a deeper level. It is not about online and offline, it is about a holistic view of the customer conversation".

REFLECTION

Throughout the IRII we have been pleasantly surprised at the passion shown by leading retailers to glean and interpret the best ideas from a wide range of sources and to apply these for their customers. The picture we've formed is of an industry that's not focused upon tools, technology and 'newness', but rather upon customer-focus, brave approaches and upon difficult tasks done well.

While we have focused upon inspiration – what our readers feel about their observations – we've also seen the word "innovation" mentioned a great deal. Innovation – to 'make changes in something established' (rather than 'invention', to create something new) – is important since it's a key part of progress, of building upon existing foundations yet ever renewing and improving. This is an area of interest to readers since many are now renewing and re-energising their legacy ecommerce approaches to tackle multichannel and mobile, and so are balancing 'new' initiatives with updating approaches that were themselves new only a few years ago.

FUTURE

Taking the concepts of 'inspiration' and 'innovation' together, for the second iteration of the Inspiration Index we're going to use the newly-formed Internet Retailing 'Academy' of etail expert practitioners to look behind each of the dimensions and unpick the key trends, the determinants of success and the marks of greatness and cover these in each issue from the Autumn. Rather than vote each issue we'll dedicate the time to uncovering a 'framework' for inspiration that's open to debate, but based upon considered expertise. At the end of the next cycle we'll ask the Academy to derive a long-list based on this framework and finally vote in 2011 to determine whether John Lewis retains their crown.

Congratulations once more to the team at John Lewis. Thanks too to all who've voted over the last year, and also to our team of site reviewers who've considered the winners of each dimension. We now look forward to the next cycle.

Closing thoughts, however, are with David Kelly who reminds us that "change and innovation in retail has only just begun. Historical research clearly demonstrates that those organisations that continually innovate will be the ones that achieve long term success". Innovation and Inspiration as drivers of success will be the theme of the Inspiration Index 2011. ■

BODEN REVIEW

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

RETAIL STRATEGY

Emma Speight, Senior Multi-channel Consultant, CVL

The Boden shopping experience is, like the brand, charming. Their brand values permeate everything they do with nice touches on each page of the website like Boden fabric prints as the backdrop wallpaper and the use of a Boden bag for the basket icon.

The web experience is difficult to fault. It combines a mix of standard category navigation with alternate ways of shopping including 'by style' and 'by story'. Boden help customers contextualise products and drive up basket size by putting the products in carefully selected ranges, compiling recommended looks and through excellent web functions including a great outfit finder tool.

However, the best thing from my perspective is the amount of information provided on every product page, overcoming the tangibility barrier for online clothes shopping in an instant. The site provides multiple images for all colour and fabric combinations for every product. This is supported by a comprehensive sizing chart and finished with granular customer reviews which comment on things like quality and fit; all of which combines to give customers confidence in their purchase decision. And, after all, purchasing is what it is all about!

In terms of the catalogue, it maintained the brand standards but I found it a less effective experience than online. I placed a request for a catalogue the same day I purchased a dress (for research purposes!). Whereas the dress arrived the following day, the catalogue was slower arriving a week later. In addition, some of the products fared less well in paper format. It proved difficult to display extravagant fabric pattern options alongside each other in a way that would let the customer make an informed choice. That said, as a stimulant to create interest in products and drive customers online, the catalogue undoubtedly does its job.

Through all touch points Boden is extremely effective at creating aspiration and desirability for their range, delivered through imagery of happy, beautiful people in Boden-world. The only drawback to this approach is that there is less accommodation for casual shoppers who are not already in love with the Boden brand.

USABILITY

Clare Barnett, Usability Consultant, User Vision

Boden is a UK-based mail-order clothing company which advertises its clothes as 'Classic, carefree and simply stunning'.

Their selling point is that they produce well constructed clothes. I was surprised that the pictures used on the homepage are grainy and poor quality, and my immediate worry would be about the quality of the products. First impressions are vital when there is so much competition and Boden really need to sort this out.

Boden have recently added a few new features to their website. When I access a particular piece of clothing, I have further options to 'watch a video', or use the 'outfit maker' tool.

The video allows customers to watch catwalk videos of a selected item. There is a further enhancement that could be incorporated to create a better customer experience here. Rather than being limited to one model, I would prefer to have a choice of models of different sizes and shapes so I can choose one that roughly matches me.

The outfit maker, a tool I haven't seen before, is a really good concept. You can select other items to see how an outfit would potentially look together. Each item is also shown in different colours, styles and prices on the left hand side, making it an easy way to find matching items. It is also a great way of upselling because it encourages users to purchase a complete outfit rather than individual pieces.

Boden also have a review section which allows real customers to judge their items. Reviewers choose what shape their body is, as well as what height and size they are. This is particularly useful information for the more average shaped person.

Overall, the features on Boden's website are great upsellers for clothing. They just need to ensure the message about the quality of their clothes comes over on the homepage which currently it does not due to the pictures used.

EYE TRACKING ANALYSIS

Guy Redwood, Managing Director, SimpleUsability

Users were asked to buy a new summer outfit for themselves and one of their teenage children or a younger relative. Users were quickly drawn to the main graphic on the homepage. The women looked around the homepage to get started rather than use the primary navigation because it looked to them that the 'Women' tab was already selected.

Users reacted positively to the photography used on the website, and each section or category had a large banner. Users often looked longer and tried to hover the mouse over these products, but could not find out which products were being featured in the photography. Within the 'Occasionwear shop' users became confused because the main graphic looked like it contained navigation items e.g. 'Summer wedding'. The users looked to the left hand navigation, but the titles were not available and the user had to scroll to find this section.

We observed that the women's drop down menu was slightly harder for users to scan due to some of the titles wrapping over onto two lines.

When accessing product information, users saw the 'Outfit maker' icon when their eyes moved downwards from the title to the size selection. This was a help to users who would normally struggle to put an outfit together, and their eyes were drawn to immediately choose a category. Users were really looking for suggested products against the one item that they had chosen at this point, so they often clicked on the 'Outfit ideas' category which didn't give them what they expected. Some users became frustrated when paging through the products within the 'Outfit maker' from the bottom of the page. They had to be careful to select 'Next' because clicking on the arrow icon made all the products disappear.

When looking for items for a teenager, users were unaware that the 'Johnnie B' primary navigation section was relevant to them. It was only when the user hovered over that tab and saw the 'Teen boys' and 'Teen girls' titles that they knew where to go. The navigation item of 'Johnnie B' disappeared if users were within the 'Outfit maker'.

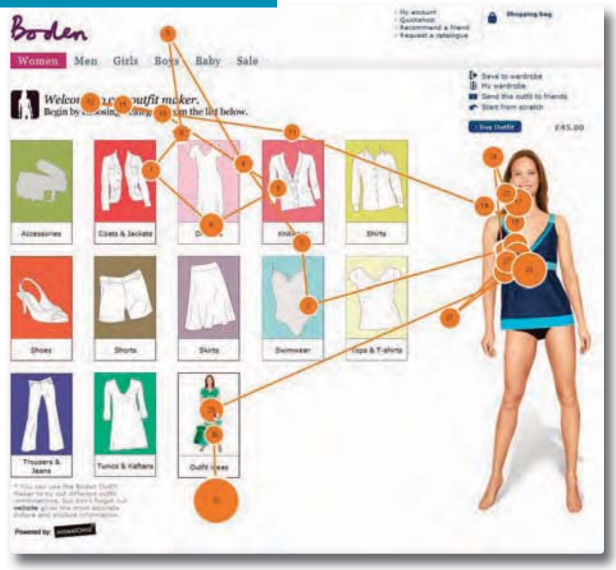
When users had decided on which product they wished to buy they clicked on a size and the green tick appeared. Users then looked up to the shopping bag in the right hand corner of the screen and didn't always realise that they had to click on 'Add to bag' to move forward with their purchase.

SITE PERFORMANCE

David Flower, Vice President, EMEA, Gomez

Commonly referred to as Middle England's mail order catalogue of choice and with well-known personas such as David Cameron among its fans, Boden appears to be weathering well in the current economic storm. With a recent website re-launch complete, Gomez reviewed the performance of Boden.co.uk from 25 March through 12 April inclusive.

Despite its lively new look and some great features, the performance of the website during our test period was disappointing. From Gomez's Last Mile community of over 100,000 desktops worldwide, we analysed the performance of Boden.co.uk from real users' computers. The average homepage download time fell just short of 28 seconds. This is really poor. Especially since two seconds is the amount of time an average online shopper expects for a web page to load.



Eye tracking gaze plot for Boden.co.uk Source: SimpleUsability

The poor average page download time was made even worse by an availability rating of just 45.41%. This meant that more than half of Boden's customers who tried to access the website during this test were not able to download the entire homepage. When we drilled deeper into the problem we were able to determine that most of the critical issues causing the unavailability of the page related to page timeouts. In other words, the site was so slow to respond that the internet browser stopped bothering to try to load the rest of the page.

The tests run on the internet backbone revealed a middle-of-the-road performance compared to other retailers in the Gomez benchmark. Of the 30 companies included in the test, Boden.co.uk finished mid-table in terms of download speeds and availability – so decidedly average.

From a mobile browser performance, the performance of Boden's website could have been better. The site did not render properly across all mobile devices, most notably the Blackberry Storm. With the numbers of consumers using their mobile to browse and purchase goods increasing, this is an area that Boden should address.

GOMEZ SCORES THE BODEN SITE 2 STARS OUT OF 5, MADE UP OF THE FOLLOWING:

Availability on Last Mile Score: 4.36 out of 25
Response Time on Last Mile: 10.34 out of 25
Consistency on Backbone: 6.21 out of 15
Competitiveness on Backbone: 3.62 out of 15
Browser Support: 17.5 out of 20
Total 42 out of 100

BENCHMARKING ECOMMERCE

The resource and investment traditional brands put into customer contact continues to pay back as the latest study from eDigitalResearch finds the most successful brands deliver throughout the complete customer journey.

ESTABLISHED clicks and mortar brands are continuing to dominate the top 10 overall performers in the latest eRetail Benchmark study by providing a seamless and consistent customer experience at every brand touchpoint, according to eDigitalResearch.

Now in its 11th year, the benchmark study, which evaluates 58 leading UK retail websites for website usability, revealed that Marks & Spencer was the top overall performer on the strength of its clear and detailed product pages and market-leading telephone support service. Established high-street brands also scored highly including Boots, HMV and New Look, while pure-play provider Asos, which topped the rankings for its world-class product pages, search and browse, shopping basket and email service, fell short on its telephone contact service.

Michelle Fuller, Co-founder and Director of eDigitalResearch comments: “If we removed telephone contact from our benchmark study, Asos would have been a clear online winner. However, our benchmark study looks at the entire end-to-end customer journey both on and offline. Telephone contact is a key driver of overall satisfaction. This is where established bricks and mortar retailers have the upper-hand as their businesses have evolved from personal customer relations, while for pure ecommerce sites such as Asos their entire business concept is built on online self-service.”

Overall Score - end-to-end process

Top 20 eRetailers	Rank	Score
Marks & Spencer	1	87.42%
HMV	2	87.41%
Boots	3	87.16%
Amazon	4	86.98%
New Look	5	86.24%
JD Williams	6	86.14%
Pets at Home	7	85.91%
JohnLewis.com	8	85.79%
Sainsburys	9	85.30%
Argos	10	85.24%
House of Fraser	11	85.18%
B&Q	12	84.90%
Euroffice	13	84.89%
Woolworths	14	84.34%
Kays Lifestyle	15	84.08%
Rymans	16	84.07%
Next	17	84.03%
Figleaves	18	83.97%
Currys	19	83.93%
Homebase	20	83.70%

PRODUCT SEARCH

Pure play providers scored better than multiple channel retailers for product pages, search and browse and navigation and even scored highly for delivery. In general terms this latest study has found that delivery logistics continue to advance with many sites offering improved delivery options and later deadlines during the festive season.

Figleaves, which prides itself on its quality order fulfilment process, has consistently achieved the top position for delivery in the eRetail Benchmark study over a number of years.

With more than 1.2 million customers visiting its website each month to purchase from its extensive range of lingerie, loungewear, clothing and swimwear, ensuring that each order is fulfilled to a high standard is of vital importance.

Mark Patterson, Supply Chain Director at Figleaves, explains: “We are delighted to see that consumer confidence remains high in our delivery and fulfilment service. We pride ourselves on delivering to a high standard as we want to ensure that our customers have an easy and pleasant online experience from end-to-end and continue to come back. The online market is a lot more competitive now and as our business expands, it is important that we not only meet delivery expectations by offering a wide array of delivery options, but further delight our customers by ensuring that our products are well-presented and nicely packaged.”

Online retailers such as Figleaves have had to contend with Royal Mail strike action and adverse weather conditions over the busy Christmas period, but this didn’t delay deliveries as Figleaves was among twenty other retailers that achieved a 100% on-time delivery record according to the study. In fact, despite the bad weather and busy Christmas rush, 20 retailers achieved a 100% delivery record for on-time or early deliveries. Across the 58 retailers surveyed, 89% of deliveries were made on time or early.

Shopping Basket

Top 20 eRetailers	Rank	Score
Asos	1	93.14%
GAME	2	90.57%
Homebase	=3	90.43%
JohnLewis.com	=3	90.43%
HMV	5	90.11%
New Look	6	90.00%
Currys	7	89.71%
Asda Direct	8	89.14%
Marks & Spencer	9	88.94%
Play.com	10	88.51%
Sainsburys	11	88.00%
Argos	12	87.71%
JD Williams	13	87.57%
La Senza	14	87.54%
Amazon	15	87.43%
Carphone Warehouse	=16	87.14%
Nike	=16	87.14%
Woolworths	=16	87.14%
Boots	19	86.86%
House of Fraser	20	86.71%

Michelle Fuller says: "Given poor high-street retail sales and adverse weather conditions, online sales have continued to drive the retail sector. It is encouraging to see that delivery has continued to improve across the board and that retailers have managed to navigate the challenges to meet customer expectations."

Established in 2000, the eRetail Benchmark study uses eDigitalResearch's unique eMysteryShopper tool to evaluate website usability of 58 top performing UK retail websites.

Retailers are benchmarked by an internet panel of surveyors across 200 qualitative and quantitative measures from home page first impressions to order fulfilment. Questions include:

- Home Page/first impression of site
- Search for products and services
- Finding products (product presentation)
- Shopping basket
- Order Confirmation (online purchase with eMysteryShopper's own credit card)
- Delivery and after sales
- Returns and refunds
- Customer service (telephone/email)
- Final assessment

To download a presentation containing the full leagues for the last study then please visit: http://bit.ly/b5d5cX ■

Purchase

Top 20 eRetailers	Rank	Score
HMV	1	93.52%
New Look	2	92.00%
Currys	3	91.43%
GAME	4	91.14%
Amazon	5	90.29%
Ocado	6	90.00%
Asos	7	89.71%
Ann Summers	8	89.43%
Play.com	9	89.09%
Burton	10	88.86%
Marks & Spencer	11	88.79%
House of Fraser	=12	88.29%
Littlewoods	=12	88.29%
PC World	=12	88.29%
Harrods	15	88.13%
Very.co.uk	16	88.00%
Dixons	17	87.71%
Wilkinson Plus	18	87.14%
Argos	=19	86.86%
Pets at Home	=19	86.86%

Delivery

Top 20 eRetailers	Rank	Score
Figleaves	1	97.20%
Harrods	2	95.07%
Kays Lifestyle	3	94.40%
Waitrose	4	94.00%
Marks & Spencer	5	93.85%
Boots	6	93.60%
New Look	7	92.80%
Debenhams	8	92.40%
JD Williams	9	92.00%
Pets at Home	10	91.60%
JohnLewis.com	=11	91.20%
Nike	=11	91.20%
Ocado	=11	91.20%
JD Sports	14	90.83%
Republic	15	90.80%
Ann Summers	16	90.60%
Next	17	90.55%
B&Q	=18	90.40%
Littlewoods	=18	90.40%
GAME	20	90.00%

MULTI-CHANNEL MARKET EXPANSION

Alison Clements examines strategies for market entry as retailers look to other countries for expansion both on and offline.

THE MINUTE green shoots of economic recovery appear big retailers' minds turn to expansion. Increasingly multi-channel retailers are looking to their ecommerce divisions for a low-risk, low-cost means of reaching new international customers. Top Shop, Marks & Spencer and Next have all recently announced extensions of their online delivery services abroad, with M&S now delivering to 80 countries and claiming to ship an overseas order every two minutes. Meanwhile Next's Chief Executive Simon Wolfson has said that although a city in South America or Europe won't have sufficient Next customers to justify opening a store, there are enough Next fans in a whole country to merit the investment required to trade online.

Multi-channel has certainly provided retailers with more imaginative and scalable ways to expand internationally, says Bryan Roberts, Planet Retail's Global Research Director. "Traditionally the main strategies for international market entry have been organic growth, acquisition, joint venture, franchise, concessions or wholesaling, and those are all continuing to happen where they suit the product in question, the legal requirements of the country and customer demand. But today extending the online offer can be a useful means of tapping into an overseas market without ploughing in huge investment, particularly where the brand is already known and trusted on a global scale, or where large ex-pat communities are being targeted."

Lingerie etailer Figleaves.com – which has just opened its first UK concession - has seen international interest soar in recent years, and today 20% of sales come from customers abroad, says CEO Julia Reynolds. "Our fastest growing market is coming out of Central Europe today, and often this is Polish people who have worked for a few years in the UK and returned home, but still want access to our ranges," says Reynolds.

She says Figleaves now ships to people who have experienced the brand and ex-pats in over 150 countries and has adapted its website to enable transactions in both sterling and US dollars. "Rather than localize for every country, we include a currency converter on the site so shoppers around the world can work out what rate of exchange they are getting. We'd need to invest in a new technology platform if we were to introduce multi-currency, multi-language sites, and setting up an international distribution centre requires serious money."

English-speaking ex-pats constitute a ready-made market, but expanding with the strategic aim of "capturing the locals" requires planning and execution on a far grander scale, whether you're aiming for stores, web or both. As Jason Shorrock, Programme Director for Multi-channel Retail at BT Fresca and BT Expedite comments: "If you're building a new, local customer base abroad it can be a useful strategy to go in with stores first.

"For instance, well-established retail brands like Thomas Pink and Habitat benefit from customer awareness and trust, and the physical presence of stores helped lay those foundations." To maintain that trust it's important to offer an online service that meets expectations locally too. "New international websites will need to be in the local language, take account of the currency, tax system, payment and banking systems, and of course specific customer needs around range and returns capability.

"You might need different pricing structures for certain parts of the world, and remember that customer expectations differ across the globe too, so for instance Japanese and South Korean online shoppers expect a really rich customer experience with lots of video and interaction on shopping sites. You'd probably need to offer a mobile application rather than just the usual browser experience too."

PARTNERS

Retail goliaths Wal-Mart and Best Buy have grown internationally by partnering with local companies (in the UK, Asda and Carphone Warehouse respectively), first generating a store presence before following up with ecommerce. Roberts says we should all be interested in Wal-Mart's recent formation of Global.com – a division dedicated to international growth of its online presence.

"This demonstrates the strategic importance of the web in the eyes of the market leader, and suggests Wal-Mart might exploit online sales where there aren't yet stores," he says. The Global.com unit will create a single global ecommerce platform that could be used in every market, echoing the model used by Amazon.com. Wal-Mart already operates ecommerce sites in the US, UK, Canada, Mexico and Brazil and recently announced a plan to introduce ecommerce in China and Japan – complementing the existing network of Chinese and Japanese stores. Generating recognition for the brand on the ground, and using stores and distribution networks that are conveniently up-and-running has obviously proved a successful strategy so far for Wal-Mart.

Roberts at Planet Retail feels there is a "residual suspicion of ecommerce still" and thinks this is why a 'stores first' strategy suits new arrivals in foreign territories. "There's a credibility issue, and many consumers want to have seen stores in operation before spending online for clothes and household goods," he says. "On a practical level it makes sense for large retailers to have sorted out their supply chains, marketing, inventory and customer service provisions through a store portfolio, and then use that to leverage the web presence."

It's also worth remembering that web-only expansion requires a great deal of marketing spend around search engine optimization too – unless you are selling to ex-pats who will seek you out regardless.

To generate wide-scale customer awareness and meaningful scale in a new country, opening stores - or at least concessions – seems to still overshadow the web-only option, and that's why there's plenty of brick and mortar expansion still going on. Tesco now operates a mix of store formats in 13 markets outside the UK - in Europe, Asia and North America - and a cash & carry business is soon to launch in India. Foreign businesses can only operate in the Indian retail sector in partnership with a local company, and Tesco has had a partnership with Tata's retail arm Trent since 2008.

In non-food, franchising eases the process because partnering with a local specialist will give you instant market knowledge and greatly reduces the cost of launching since the franchise partners invest upfront. House of Fraser announced in March that it is partnering with Retail Arabia International to open franchised stores in the Middle East – potentially in Cairo, Riyadh, Jeddah, Dhahran, and Abu Dhabi. Waitrose set up a licensing partnership with local retailer Fine Fare Food Market LLC in United Arab Emirates in 2008 and is now looking to build on its two shops in Dubai and is opening in Abu Dhabi and Bahrain later this year and Oman next year.

Concessions have proved a popular strategy in the fashion sector. Aurora, which includes the Karen Millen, Coast, Warehouse and Oasis brands, has gained market entry in some countries with department store concessions. In places like Spain and Italy it can quickly gauge interest, effectively using concessions as a means of 'testing' a new country. For Russia, which is a famously difficult country to start trading in, a franchise partner was deemed the best strategy, while in mainland Europe – particularly Germany – Aurora stores tend to be company-owned.

Looking ahead, retailers with a mix of concessions, franchised and company-owned stores may face complications when extending the reach of their ecommerce services. "This is an issue but at the moment our clients are only experiencing low volumes of online sales that cross into the path of franchise operators," says Shorrock at BT Expedite. "A pragmatic approach needs to be taken, with franchisees accepting product that may have been bought online and is being returned, rather than contesting it with customers."

Any growth strategy needs to be carefully planned and budgeted, but what's clear is that multi-channel operators have a host of opportunities open to them when venturing abroad. "Those players who have a great concept, product and infrastructure in the first place, and are willing to research the local market and adapt their offer to local needs will do well," says Roberts. "The growth opportunities for retailers who get it right are huge." ■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PROFITING FROM HYPE

Social media enables brands to build up an online presence before launching new products or into new markets. Finlay Clark, Senior Retail Strategist at Bigmouthmedia, looks at how retailers are targeting brand advocates pre-launch.

WHEN Cadbury's relaunched their iconic Wispa bar in 2007, they ran an above the line advertising campaign which focused on three short sentences: 'You spoke. We listened. It's back'. Therein lay a great victory for the social media campaigners who had used the web to generate a swell of public support in honour of re-instating the 80's chocolate bar.

Whilst Cadbury's can be applauded for reacting to this public outpouring of nostalgia, Cadbury's are the exception, and the next time you try to launch a product or enter into a new territory chances are there won't be online petitions crying out for you to do it.

When planning your growth strategy, therefore, it's important that any attempt to use the promotional power of social media should begin with careful thought. As some major brands have already found out, failure to properly consider your approach can result in a backlash from the very people you wanted championing you in the first place.

The best place to start this process is to have a solid understanding of who your users are, and where they spend time online. Do they have a high propensity to be on Twitter, Flickr or indeed write their own blog?

BLOGGER OUTREACH

The size of your organisation should be no barrier for embracing social media in the right way. Very recently a relatively niche Californian clothing company which is heavily influenced by geek/gamer culture (jinx.com) contacted a colleague of mine via his blog to give him information about their impending European launch. The email was completely overt (it was from their PR agency), and extremely well crafted: they made mention of the fact that they knew my colleague's blog wasn't a fashion orientated site, but his blog was closely associated with the brand's core audience that they thought he'd be interested. He was, and they had attached a relevant press pack in case he wanted to blog about the launch as well as offering him free samples and competition prizes, making it very easy for him to promote the brand.

Good blogger outreach work like this takes time to do properly, but the rewards of a positive write-up from twenty or thirty of the best blogs for your market will be invaluable and can start that tipping point of getting the early adopters on-side with your brand. The Body Shop launched two new product ranges in 2009 and well planned outreach work resulted in one of Technorati's top 100 blogs picking up the story. With a readership of over 10,000 this is invaluable promotion.

While targeting bloggers should definitely comprise one part of your strategy, be aware that international barriers which exist in your trading plans don't exist online. A good example of this is that if you're staggering a product launch in Europe, you won't be able to generate buzz around a product launch in Germany one month and then expect to get the same level of anticipation the following month with key influencers in Austria. The thought-leading blogs, forums and discussion boards which are well read in Austria will have covered the launch when it happened in Germany.

Another core aspect of your growth strategy is to ensure you actively give consumers a reason to follow you or join your fan page. This is best summed up in the phrase; be interesting.

Best Buy have attracted almost 2,000 fans on their Facebook fan site, and are generating positive comments on their updates because they're using it for attention-grabbing content such as photos from the recent Gadget Show Live event. Although the company has yet to open a store in the UK, its social media efforts are clearly designed to show that its staff are experts in their field and passionate about the products they sell - all things that might influence your behaviour if you're going to buy a new LCD TV for the World Cup this summer. It's this influence that social media has over purchasing behaviour later down the line (either online or in-store) which is the real worth of this type of activity.

SEO

Furthermore, Woolworths worked hard at keeping their brand in the public consciousness prior to their relaunch by employing agencies to set up a blog and twitter presence whilst their new site was in development. This type of strategy is not only great for loyal brand advocates, but it's ideal for SEO too, because Google is a very simple and effective brand reputation tool.

If you are in the business of selling consumer electronics or mobile phones, you should definitely consider video content as a way to tap into new markets. Consumers regularly use the likes of YouTube for their product research on these purchases, with Hitwise showing YouTube was the 5th most popular site receiving traffic on the popular keyword "Samsung g600 review" in February last year. The retailers who had prepared content on this particular model had racked up video view counts into the hundreds of thousands.

Apple are the clear leaders of this, synchronising the content on their own website and social media sites to coincide with the exact point when Steve Jobs finishes his keynote at the MacWorld conference every January. There's something to be said for being humorous too – whilst the official 8 minute iPad demo on YouTube has racked up a respectable 780,000 views since January, Blendtec's popular "Will It Blend?" clip generated a staggering 5m views in one week by using one of their blenders to turn a brand new iPad into dust. A look on Google Insights at the time of writing shows that searches for Blendtec's products have surged through the roof, illustrating that there is clear synergy between your brand's social media efforts and subsequent site traffic and product awareness.

This makes it even more important to tie up your efforts so everything is aligned on the same timescales. Samsung launched a quirky robotic vacuum cleaner recently and despite the fact it had a significant "wow factor" making it ideal for social media, the video I watched ended up with a URL which took me to a website which was still under construction. Watching a great video is one thing, but actually enticing me to click through to find out more information (and potentially purchasing) is a step further down the path and failing at this stage is a cardinal sin. The importance of synergy with your social media efforts is therefore paramount to a successful campaign.

The good news is that it's a lot easier nowadays to track how successful (or otherwise) your campaign has been. The market is awash with brand monitoring tools (instantly commoditising them) and the best run social campaigns take into account metrics from all the different networks and applies sentiment analysis to them to calculate a Net Promoter Score (NPS). YouTube and Facebook provide interfaces where you can see how well your content is performing, and you can get very good data on click throughs from the likes of the Bit.ly URL shortener which is used abundantly on Twitter. By exporting the data from all these sources (including your own analytics) into an online dashboard you can see the combined effect of your social media efforts.

Social media is a steep learning curve for many brands, and many are finding out the hard way, getting their fingers burnt along the way. But the upside is that there are free platforms where a single, creative idea can catch on like wildfire overnight and generate a wealth of good publicity for your brand, which can majorly influence sales and profits. If you only do one thing when launching a new product or entering a new market, be sure to ask your existing loyal customers their views on the proposed move, as this will give you a pretty good feel for how it will be received by the wider audience.

Asos make a point of doing this regularly with even the smallest of website layout changes, and if the panel of their core audience vote it down then this scraps the idea at board level. It's counter-intuitive to make decisions like this for many companies, but if you're looking to determine demand for your latest growth initiative, social media is a ready-made stage for finding out the truth – no matter if it's not always what you wanted to hear. ■

Alison Guise, General Manager, Commission Junction Europe, explains why affiliate marketing may not be the best solution with which to test new markets.

TESTING INTERNATIONAL WATERS

EXPANSION into new markets comes with inherent risk so it is understandable that marketers could be tempted to use affiliate marketing to test international waters since part of the beauty of affiliate marketing is that it passes some of that risk on. However, as often in life, what looks easiest usually isn't.

If you think about it, it's relatively straightforward. How does affiliate marketing work? It's a pull channel meaning that affiliates choose which retailers that they want to work with and 'pull' the advertising onto their sites. Affiliates work extremely hard, day and night, and have to make constant, calculated financial risks as they are only rewarded with returns if their marketing yields actual, tangible results. So, when it comes down to it, are they more likely to promote a retailer that they have heard of and that their audience has heard of, or a retailer with no proven track record in that market? The answer is resoundingly for the former – yes, even if the commission for the latter is significantly higher.

IT'S ALL ABOUT THE BRAND

So, what this naturally leads us to is branding. We're all marketers, we understand what brand value means and the fact is that this doesn't diminish when you go online – in fact, quite the opposite. If you think like a consumer for a while it is natural for them to feel some trepidation when buying from an unknown retailer online.

All marketers in 2010 understand the importance of a multi-channel strategy. It is no longer enough to look at online channels in isolation. Innovations in the online marketing industry over the past few years have led to the provision of advanced reporting which details a user's online journey through to an eventual action – or Path to Conversion reporting. This reporting has shown marketers the co-dependence of channels, how there is a build up to the action and it has highlighted the importance of attributing value to channels towards the beginning of the path to conversion as opposed to only investing in those at the end, the channel which provides the industry standard 'last click'.

Affiliate marketing is by its very nature a 'last click' channel. Affiliates are the deal closers of the industry and they have to be as otherwise they would never get paid. Remember though it is all cause and effect – it is dangerous to make assumptions that a conversion would take place if any of the steps along the path to conversion were removed. Being reliant on affiliate marketing as a stand-alone channel is not sufficient.

We always advise that it is probably not advisable to use the affiliate channel to test the waters. If the brand is unknown in the test location then it is unlikely that the programme will get take-up from affiliates which means a lot of wasted energy and resource. If the brand is unknown we would suggest investing in and funding a proper brand awareness campaign using CPM banner advertising and PPC campaigns and then launch the affiliate programme as phase two of the launch. If the brand is known, the affiliate channel

BUY.COM

An example of where affiliate marketing has been used successfully as part of a multi-channel expansion strategy is Buy.com, the internet superstore, which in February 2010 announced that it was launching affiliate programmes in five European countries – the UK, France, Germany, Italy and Spain.

Buy.com is an extremely well-known brand in the US. Established in 1997, it is a leading retail marketplace with more than twelve million customers and is focused on providing the best deals on a broad selection of branded goods.

Objective - Buy.com's aim as it entered new markets across the UK and Europe was to replicate the success of its affiliate marketing programme in the US. It is the intention for the European affiliate programmes to make the same relative contribution as the US programme – that is a significant percentage of the sales attributable to online marketing.

Strategy: local strength - When Buy.com launched in 1997 the US affiliate marketing landscape was in its formative years and so Buy.com and affiliate marketing grew in tandem with one another. However, the current European launch is into markets where affiliate marketing is in a mature state and so a key focus of Buy.com has been understanding the many differences between the various markets and planning accordingly. No assumptions have been made; Buy.com's approach is unique to each market and a good deal of time has been spent in building up local knowledge and strength.

Branding - In addition to affiliates Buy.com has used several other channels including SEM, CSE's, SEO and network buys. A substantial international footprint is in itself a significant brand asset that many customers and affiliates alike find reassuring – consequently, educating the affiliate market to this point has been an important undertaking. Buy.com has also worked to leverage the strengths of some of its existing partners from the US who also have an international presence in these new markets. While this combination of factors has seen an accelerated adoption of the programme amongst affiliates, the emphasis of the company's efforts is still on building the performance of each individual affiliate on the Buy.com programme.

Success through service - Buy.com's overriding goal is on exceptional customer service: Buy.com views customer service to be its primary branding tool and that partner-centric view extends to the company's embrace of affiliate partners too. As the brand builds in Europe, Buy.com seeks to build and maintain trust amongst affiliates and customers with a view to a long and prosperous future.

Results - "Whilst it is still early days for the Buy.com brand in our new European markets we have seen the affiliate marketing channel play a significant part in growing our international brand and building our international customer base. We recognise each market is different and we need to adapt to publisher needs and requirements in these markets. We are continually expanding our product offering and overall, with the help of Commission Junction we would expect affiliate marketing to contribute at least 20% of our total sales revenue by the end of the year." Eoin Matthews, Managing Director, Buy.com Europe

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will be in a good position to support a new market entry however, as always, it's not advisable to just use the affiliate channel on its own. The more channels used, the stronger the launch campaign will be.

EFFECTIVE USE OF AFFILIATE MARKETING

So, there was the reality, affiliate marketing cannot be relied upon on its own for new market penetration but should you use affiliate marketing as part of your expansion strategy? Absolutely, if you use affiliate marketing in the right places, in the right order at the right time then it will be an extremely important channel in your expansion efforts. It needs to be PART of the master plan not THE master plan.

HOW TO GET IT RIGHT

So it can be done, but as the Buy.com case study alluded to, significant planning and research should go into it first. Here are some tips on how to get it right:

RESEARCH AND UNDERSTANDING:

- Each market is different – it is common sense really but sometimes we forget. France may only be a few hundred miles away but the cultures are extremely different and so are the markets. Different affiliate business models have a different prominence in different countries so achieving a healthy balance of affiliates which is representative of each local market is not a rule of thumb exercise. It requires in-depth knowledge which is liable to change quite quickly.

- Resourcing – this leads neatly to how you plan to resource your affiliate marketing. Our international clients each have a different set up bespoke to their specific needs but it is important to recognise the importance of having resource with the right regional expertise to run a successful programme.

- Language and currency – it is vital that you can offer a local-language site in the local currency with localised creative. It will significantly reduce traction with affiliates if you cannot do this.

LOGISTICS:

There are some key things which you need to get squared off before you can start. You need to have answers to all of these questions:

- Where are you shipping from? Will you have a depot in each market?
- If not what will happen to shipping costs and shipping dates? How will you track your returns and ensure that you are not paying out to affiliates for returned goods?

- Are you able to offer a local-language site in the local currency with localised creative? This is extremely important that you can and it will limit your affiliate programme from the get-go if you can't.

- How are you budgeting for your affiliate marketing programme? When you are trying to build affiliate relationships in new markets nothing will alienate affiliates more than budget caps which will, in effect, punish affiliates for their success. We would recommend allocating the budget as a cost of sale.

PATIENCE

Even in the best situation it takes time to build up and optimise an affiliate marketing programme. As well as letting fate take control it is important to identify the key affiliates for your product/brand and pursue them. It is worth spending time and even some budget to do this as these are the affiliates which will make the difference. You should also work with your network to recruit affiliates to your programme. This all takes place over a period of months and as a rule of thumb you should be starting to see your programme take shape in three months.

After this, constant tweaking will continue to grow your programme in each market. Remember to get regular feedback from your affiliates as they are the experts and will give you valuable advice on how to get the most from the channel.

These are, of course, just a few of the things you need to take into consideration. Affiliate marketing is not a one size fits all solution. Each brand is unique and so each solution will be unique. Essentially affiliate marketing is a market within a market – not only will you be challenged with appealing to your new prospective consumers but there is also work to be done to make your brand affiliate-friendly. As a new entrant being good is not good enough, you have to be excellent. Partnering with the right network with a local presence will be of massive help and they should be proactive in making strategic and tactical suggestions to help you get it right.

In essence, like all marketing, it is all about effective and detailed planning. As part of a multi-channel strategy affiliate marketing is an extremely successful and important route to building up both brand awareness and sales. ■


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DISTRIBUTORS, TERRITORIES & EU REGULATIONS

Jonathan Gowdy, of law firm Morrison & Foerster, examines the European Commission's revised competition rules and the impact on online sales activities.

THE EUROPEAN Commission recently adopted a new Block Exemption Regulation ("BER") and accompanying Guidelines that revises existing EU competition law rules for certain categories of supply and distribution agreements between manufacturers and distributors, including internet or online distribution arrangements. Internet retailers doing business in the EU should carefully review these new rules, as they may impact both new and existing arrangements.

The BER exempts certain distribution agreements from being considered anticompetitive if the parties satisfy a market share threshold, and the agreement does not contain any "hard core" restrictions.

1. New Market Share Threshold. The block exemption is only available if both the supplier's share of the market in which it sells and the buyer's share of the market in which it purchases does not exceed 30%. Under the old rules, only the supplier's market share was relevant.

2. Hard Core Restrictions of Online Sales. The BER does not make significant changes to the list of hard core restrictions that are generally presumed unlawful; however, there are several noteworthy changes on how the rules apply to online sales activities.

Restrictions on a distributor's ability to sell to certain territories and customers within the EU are often considered hard core restrictions, as these restraints conflict with the EU's goal to integrate the markets and economies of the Member States. Suppliers are generally only able to restrict "active" sales by distributors/retailers to a territory or customer group exclusively reserved to the supplier or another distributor/retailer. Absolute restrictions that prohibit "passive" or unsolicited sales, including online sales, have been considered virtually per se unlawful.

The permissibility of limited restrictions on online sales, however, has not always been clear. The new rules provide greater clarity on the types of arrangements that the Commission will usually consider unlawful, including:

- obliging distributors to automatically reroute customers located outside their territory to another website;
- terminating consumers' transactions over the internet if their credit card data reveal addresses that are not within the distributors' territory;
- limiting the number or proportion of units that may be sold online, or
- charging higher prices for units to be sold online (i.e., "dual pricing").

The new rules also provide more detailed guidance regarding what types of online sales restrictions will usually be permissible. For example:

- Suppliers can impose restrictions to protect their exclusive distributors from (i) the use of online advertisements to target specific customers (such as territory based banners on third party websites), and (ii) paying a search engine or online advertisement provider to have an advertisement displayed specifically to users in a particular territory.
- In a selective distribution system, suppliers may (i) impose quality standards on a retailer/distributor's website and online sales activities or (ii) limit the quantity of products sold to an individual end user to prevent sales to unauthorized dealers.
- Suppliers may also limit distribution to firms that maintain one or more "brick and mortar" stores, and impose a minimum amount of sales in these stores. Changes to existing arrangements may be problematic, however, if they are designed specifically to limit online sales.
- Suppliers may prohibit dealers from any passive or online sales for a short period (ie less than 2 years) in limited circumstances (eg to facilitate new entry and/or provide appropriate incentives for dealers to launch a new product or in a new territory).

3. Other Notable Changes.

- Resale Price Maintenance. Minimum or fixed resale price maintenance provisions are still considered hard core restrictions; however, the new BER indicates that that such an arrangement may be permissible in cases where there is convincing evidence of efficiencies and consumer benefits (e.g., prevent free riding or facilitate new entry).
- Upfront Payment and Category Management Agreements. Upfront access payments (e.g., fixed fees that suppliers pay to distributors/retailers to obtain distribution/retail services) and category management agreements will qualify for an exemption if the market share threshold is satisfied. When the threshold is exceeded, these arrangements must be individually assessed to determine whether they (a) result in anticompetitive foreclosure of other suppliers or distributors, or (b) facilitate collusion between distributors or between suppliers.

The new rules will come into force on 1 June 2010 and remain effective for 12 years until 31 May 2022. There will be a one-year transitional period during which existing agreements can continue to qualify for the block exemption available under the existing regulation.

INTERNATIONAL FULFILMENT

Alan Braithwaite and Martin Fletcher of LCP Consulting analyse distribution and fulfilment strategies for international retailing.

RETAILERS such as Asos and John Lewis are making public forecasts of future growth in their online revenues of more than 30% per year and setting targets of £1billion over the web in five years.

The attainment of reliable and cost effective fulfillment is a major factor in the drive for growth. The need for care in design and planning as well as operational execution for quality service are in powerful tension with the economic imperative for low cost. Reliability is crucially important since the worst stories of poor customer experience are a haunting reminder of the brand and financial damage that can be sustained when it goes wrong. But, cost efficiency is vital as online margins are under increasing pressure and multi-channel retailers are seeing store performance eroded.

Online retailing is often classified into pureplay and multi-channel and the two operational models introduce different opportunities and constraints in their fulfillment design and execution. Our analysis points to some key factors that determine fulfillment architectures for internet retail; in the balance of this article we will introduce our framework for e-fulfillment (both pureplay and multi-channel) and explain its implications with a particular emphasis on extending the international footprint of e-retailing.

The schematic shows LCP's framework for effective e-retailing; it requires the integrated definition of how a business addresses ten challenges over eight operational zones from suppliers to customers. We observe that inconsistent or incomplete definition of the operating model is a barrier to profitable growth. Of course, fulfillment is central to the whole operation, to include stores impact, where applicable, and returns. Fulfillment drives the majority of the cost base and determines the ultimate customer experience.

In this article, it is not possible to deal with all the challenges in detail; our key focus will therefore be on fulfillment for international expansion.

LCP'S FRAMEWORK FOR EFFECTIVE E-RETAILING

Addressing the fulfillment challenges should always start with the customer proposition and the brand relationship with the shopper. The 'offer' (both product portfolio and services) should be consistent with what the brand stands for and meet customers' expectations. The mantra must be consistency in range, pricing, delivery and support. For example, Harrods or John Lewis have very different customer positioning and service ethics to Boots or Amazon. This in no way impugns those brands, but serves to emphasise that the customer will approach them with different expectations. The positioning of the offer and fulfillment service should guide the customer within the context of their aspirations and brand expectations towards capabilities that protect margin for the retailer.

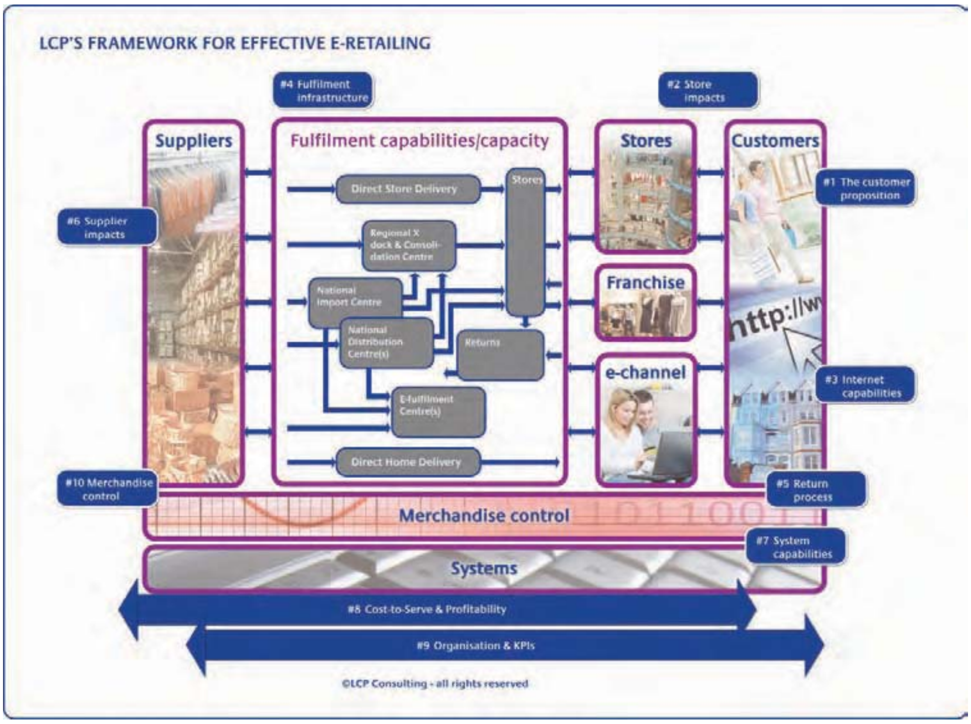
Retailers with a high street presence have more of an opportunity to add value to the relationship through interactions such as click (or reserve) and collect, kiosks to extend the range, and returns management. For pureplay retailers, the pressure of price competition is even more intense and the potential moments of truth in the customer experience are fewer, more remote and harder to put right when it goes wrong. It is this constraint on customer intimacy that is restricting the depth and value of pureplay relationships with customers and driving the market to price competition, notwithstanding that some have overcome that barrier.

STRETCHING THE BRAND

Marketers, tasked with sustaining meteoric growth plans, are focusing on 'stretching their brands' through the range offered (categories and products) and the geographical markets accessed. Our research points to some surprising conclusions on the effectiveness of these measures.

First, the online sales yield per sku (stock keeping unit) varies from less than £/€1,000 up to £/€50,000 or more. There is no empirical evidence that adding skus drives sales faster than it drives complexity and cost; rather the reverse is the case. Range growth presents risk. In the context of the generally accepted strategic wisdom that the web enables the offer to be extended, the cost and market penetration implications for any company hurrying to add to its online offer should be carefully weighed up. Less may be more, if it is focused.

Second, the stretching of geography is applicable to some but not all operators. Multi-channel retailers



with a strong country niche and limited store coverage can really benefit within a market. They can also stretch their brand to meet demand from other countries. But European markets have significant differences in consumer preferences and buying behaviours which only a few brands such as Zara and H&M have transcended. Pureplay operators looking to new countries face a big challenge to build volume and adapt their persona to the culture of different countries – a combination of our challenges #1 (Customer Propositon) and #3 (Internet Capabilities) as shown in Figure 1.

Our observations point to scale economies and/or a viral brand as being the keys to a successful online fulfillment model. Scale is not just about order volumes and operational productivity but also about the yield per sku, the stock efficiency and the systems investments required.

SERVICING GROWTH

Online retailers seeking to expand their geographical offer must therefore chart a 'climb' for servicing their growth operationally which may contain a number of transitions in terms of how capacity is put in place.

'Base camp' for most is a single point of fulfillment for Europe which helps to keep stock in one place and reduces the risk of obsolescence. This is entirely possible for low weight products; electrical goods and furniture are obvious exceptions as those products carry high international logistics costs.

The main initial investment at base camp is in the software for transactional and logistics compliance and at the point of order which needs to include terms for delivery costs across borders. Use of an outsourced fulfillment service can mitigate these costs through their previous investments and bring carrier costs that leverage their buying scale and relationships. Paradoxically, the UK is a good place to fulfill from as bulk freight rates back to Europe are low and the exchange rate is favourable to trade in Europe. Service lead times may extend by a day or two and companies should consider that choice as it enables them not to duplicate fixed costs. But there are no insurmountable operational barriers to international fulfillment from a single site operation.

The online operator has a key task to decide the range that it will offer and organising the stock and replenishment to the e-fulfillment operation. This is particularly challenging for multi-channel companies since the stock may be in stores, distribution centres, at the efulfillment site and with suppliers. There are some mission critical processes to define to head off possible points of failure.

Intermediate 'camps' will be a sequence of steps in the development of fulfillment capabilities. These will depend on the market expansion route taken and the success (volumes) encountered by each specific retailer. As scale and market depth increases, the big choices are the locations to be used (national vs regional), the use of outsourcing as against own operation, changes to the delivery service offered and the charges for it, and the operational and contractual configuration of the delivery operations. The key to making these choices is always thorough cost analysis, solid process definition, realistic forecasts and a determined effort to avoid unprofitable complexity.

The 'summit' of international e-fulfillment is a network of country or region specific locations where the range and services may be tailored to the specifics of the local market. Clearly that requires substantial scale which will be more easily attained by multi-channel operators who can leverage their existing operational volume and stock.

What will internet fulfillment look like a decade onward? Based on the predictions of ten years ago, the most extreme forecasts in terms of volume will become reality. We predict that fulfillment services will be fuelled by that market growth, prices for extended fulfillment will decline in real terms and IT will support virtual stock in the network, enabling greater product choice and lower sales yield per sku. For the time being online operators should concentrate on getting the basics right every time and avoiding unprofitable complexity. ■

Insight from arou

HEATHER DOUGHERTY, DIRECTOR OF RESEARCH, HITWISE

The economic downturn in the US had a strong impact upon consumers and resulted in a decline in discretionary spending for nearly two years. However in March, retailers started to report increased sales, signaling that consumer confidence may have increased and shoppers exhibited a willingness to start making purchases again. Warmer weather and an early Easter holiday also helped to bolster spending again, particularly in the Apparel category. One sector that was among the hardest hit during the downturn was the luxury space, but recently retailers like Nordstrom, Saks and Bergdorf Goodman are also reporting higher year-over-year sales.

Online traffic patterns are reflecting the same behavior as visits to a custom category of Designer & Luxury Retailers which increased 28% for the week ending 10 April 2010 as compared to the same week in 2009. In comparison, one year ago, visits declined 18% for that week from the previous year.

This trend started during the holiday season, where the market share of visits to Designer & Luxury Retailers started to reach the same levels of traffic as the 2007 season. The average visit time for the category, at 7 minutes and 30 seconds, was actually a decline from the year before when the average visit time was 8 minutes and 12 seconds. This drop is likely due to increased share of visits as a higher share of aspirational visitors check out the websites to browse for trends as well as pricing.

Among the 54 retailers in the Designer & Luxury Retailers custom category, Nordstrom experienced the highest increase in visits during the week when compared to the previous year. Ralph Lauren, Neiman Marcus and the popular designer sample sale website Gilt.com followed for the highest year-over-year increases. High-end luxury brands like Gucci, Prada and Burberry were also among the top ten websites for growth.

All & all, the increased interest in luxury goods online could be a strong indicator for retail sales continuing to rebound and that all consumers have not turned completely frugal following the downturn.

MARK CHIRNSIDE, CHIEF EXECUTIVE OFFICER, UKASH

Ukash, which is the world's fastest growing online cash-payments company, has been available to consumers in South Africa for more than a year. As the first company to offer online cash payment solutions in the country, we have learned a lot about the market, working with our local shareholders and partners.

South Africa is ranked the 25th wealthiest country in the world in terms of GDP, however it still has a significantly under banked population. This means that of the 4.5 million people who have internet access in the region, many of them have no means of making purchases online as they are without debit and credit cards, or even without a bank account. That said, there is a huge opportunity in the South African ecommerce market for online retailers to appeal to the large cash consumer base by simply offering a cash payment method.

As we are a UK-based company, entering the South African market for the first time proved challenging, and we learned that it is critical to form strategic local partnerships. We continue to work with a South-African based shareholder, Blue Label Telecoms, which has helped bring in issuing estate partnerships and has fuelled our success in the region. It is also crucial when entering the market in South Africa to work with the South African Reserve Bank to understand e-money regulations in this rapidly changing market.

By following a robust and focused strategy, South Africa has now emerged as one our top ten countries for revenue generation. We are working with numerous significant partners – including the country's two main national retailers – and by adopting a similar approach, other international ecommerce and retail companies can tap into this burgeoning market and enjoy similar success.

SARAH TAYLOR, SENIOR INDUSTRY DIRECTOR, ORACLE RETAIL

The emergence of China as one of the largest and fastest-growing consumer markets has been documented

nd the *world*

extensively in recent years. Despite this opportunity, China still remains a tricky market to infiltrate for overseas investors and doing business in the region requires an understanding of the country environment, including factors influencing consumer lifestyle choices. It is, however, the Chinese market's untapped potential for ecommerce growth that's proving to be the most attractive to retailers.

Understanding the Chinese online marketplace can take time and retailers must accept that it may take a while to establish a retail presence. Wal-Mart, the grocery giant, has been adapting its online platform for the past two years in preparation to launch its ecommerce arm in both China and Japan. That said, it has been documented that China's online shoppers are loyal, so it's worth retailers investing the effort to give the best chance of success.

Amazon's local Chinese subsidiary Joyo.com (the second largest online retail site in China) now owns 16% of the market. And it's not just the global retail giants that are emerging online in China – the country's own Bailian Group and NGS-Mart also went online in December 2009.

Carrefour, the French retailer, is already selling groceries and general goods online in over six cities in China, while other international retail organisations are planning to take advantage of this fruitful market, too. The clothing retailer Gap plans to tap into the Chinese market with the launch of an online service there later this year in a bid to expand its overseas ecommerce operations.

The Chinese market provides retailers worldwide with an international expansion model that delivers growth and return. This may also go some way to explain why China is poised to overtake the US as the largest grocery market in the world by 2014.

MICHAEL MATZER, EDITOR, INTERNET RETAILING GERMANY

In line with its growing importance as an ecommerce market in Europe, Internet Retailing has launched a new site to cover eretailing in Germany. We will be sending a fortnightly newsletter, which you can subscribe to, for free, in the right-hand sidebar on the site - internetretailing.de. At present we're mixing analysis on the German market in English with German-language coverage of Germany and global developments of interest to the German market. We'd be interested to know if this mix is what you want. Please let me know.

A snapshot of the state and future of the German market:

As expected, 2009 was a tough year for retailing with Arcandor-owned KarstadtQuelle, the catalogue retailer/online shop/store chain, becoming one of the casualties of the economic crisis. The demise signifies a change in the retail market; the internet is taking over.

The Bundesverband des Deutschen Versandhandels (BVH) reports that the number of German online shoppers increased by 1.1 million to 32.5 million (2008: 31.4m). Among them are 17.5 million men (2008: 17m) and 15 million women (2008: 14.4m), according to the ACTA 2009 research study.

In 2009, Germans spent 12.4% more on the internet than in 2008, in total 21.7 billion € (2008: 19.3bn €). Some 15.5bn € were spent online on goods and 6.2bn € on services like downloads of music files, online tickets, hotel and travel bookings. For the first time ever, distribution and e-retailers (multi-channel) generated more than 50% of their revenue over the internet (53.3%), according to the 'Distanzhandel in Deutschland 2009' study by TNS Infratest.

Among online shoppers the group aged over 60 increased by 19% to a group share of 28% and the 50-59 age group of online shoppers increased from 43% to 58%. The percentage of women ordering online increased from 43 to 53%, a significant majority.

The BVH expects German shoppers to spend even more online in 2010. The online channel is expected to grow exponentially at a double-digit rate so the total revenue will probably approach the 24bn € mark in 2010.

MRETAILING mobile commerce

Reflecting the growing importance of mobile in the online retail value chain, Internet Retailing has launched a new sub-site on its internetretailing.net portal – accompanied by a fortnightly email newsletter – focussed on this emerging channel. Edited by experienced mobile journalist Paul Skeldon, the service aims to keep you ahead of the curve on how mobile is impacting the ecommerce and bricks and mortar retail environments. Paul, who has been a journalist for 20 years – specialising in mobile content, services and technology for the past 12 – will be bringing his knowledge to bear through a raft of news stories, analysis pieces and video reportage. Check out the sub-site at www.m-retailing.net or email Paul on paulskeldon@me.com to find out more, contribute stories or simply to chew the fat about mobile retail.

TAKING THE MEASURE OF MOBILE

Vanessa Daly, Marketing Communications Manager at mobile analytics and billing specialist Bango, gives insight into mobile analytics and measuring for success from day one.

A LOT HAS BEEN written in the media about the importance of including mobile as part of the overall marketing mix. With big online players such as Google and Apple taking big steps into the mobile space, after all its up and downs, mobile is rapidly gaining momentum as a sales and marketing channel. But there are some marketers that are still resisting the charms of mobile and remain reluctant to tap into this channel, so why is this?

One of the main reasons is the lack of awareness and confusion that exists about the importance of accurate mobile analytics, for measuring ROI on mobile. Without a clear understanding of this, trying to convince some marketers on the benefits of developing a mobile marketing strategy has been a challenge.

THE MOBILE ANALYTICS 'BLACK HOLE'

With the extensive reach of mobile devices and more people using their mobile to browse the web, mobile has quickly become an essential way to engage and ultimately generate more revenue from this audience. The speed with which the appeal of mobile phones is expanding from communication to content consumption is significant for brands, agencies and now, the whole world of online commerce. Ask any marketer or digital agency today if mobile is, or will be, part of their marketing strategy, and the answer will be a big yes. Ask them whether they know how to measure the performance of a mobile site or mobile marketing campaign and you'll get a lot of confused faces. As in the early days of ecommerce, many marketers today are still puzzled about how and what to measure on mobile, meaning there has been a slower than expected uptake of mobile as a marketing medium.

Measurement is the key area highlighted by the media, analysts, agencies and brands as the "black hole" in the mobile marketing mix today.

There is a widespread belief that:

- Mobile is hard to measure with any accuracy
- Mobile users are difficult to track
- Determining if mobile campaigns really offer value for money is too much down to personal opinion over objective analysis

To eradicate these beliefs we firstly need to understand the intricacies of mobile and stop assuming that mobile is a smaller version of the PC web.

Mobile is far more complex:

- Many more mobile phones, platforms and browsers
- Wide variation in capabilities and default settings
- Many ways to connect via mobile operators or Wi-Fi

Failure to fully understand mobile gives bad information accuracy:

- Traditional tools simply don't deliver usable mobile results
- Mobile measurement is more than just handset make and model

HOW TO USE ANALYTICS ON MOBILE

There is often a wrong assumption among marketers that mobile is like the desktop, meaning that many of them are obtaining inaccurate results when measuring activities on mobile. This is part of the explanation for why mobile marketing budgets are not growing more quickly, leading many marketers to disregard mobile as another channel to engage with consumers.

So just how different is the mobile web from the regular PC web? As far as consumers are concerned, the mobile web is the PC web – just smaller. When people are looking for services and content that match the immediacy and personal nature of mobile – online shopping, up-to-date sports news, movie listings, dating sites, to name a few – they are browsing the internet but on a mobile phone.

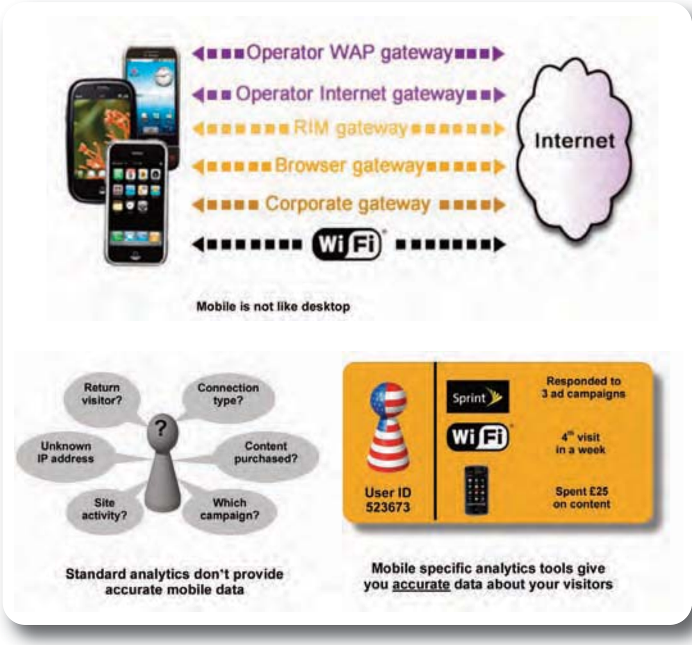
The problem is that many of the most trafficked PC websites don't work well on leading mobile phones – despite the fact that typically over 10% of visitors to PC websites now come from mobile devices. This means that brands are not adapting fast enough to match mobile browsing trends and are failing to present mobile-friendly versions of their sites. In these days of economic uncertainty, wouldn't you pay to capture 10% more customers at once?

One of the reasons for this is that when brands analyse their traffic, they use web analytics tools that aren't optimized for mobile, meaning that they miss the mobile-originated traffic that comes to their PC sites. Many popular web analytics tools available today, such as Google Analytics, rely on JavaScript tags for data collection. But tracking this way will not work on the majority of mobile devices because only the latest handsets support JavaScript. So, while this method detects smart phones such as BlackBerry, Google Android, iPhone for example, it will miss around 80% of mobile traffic.

Other web analytics tools depend on cookies, but although most modern handsets support cookies, there are still issues with reliability, both on the device and as part of the internet connection, where transcoders and operator gateways can block their use. This result in a high percentage of the mobile traffic not being identified correctly – especially repeat visits.

As well as the differences in tracking technologies that work, the whole mobile web infrastructure is more complex than the PC web. Mobile has many hundreds of devices, each with multiple versions of firmware, some specified by the operators. Each can have multiple browsers, some of which are totally hosted on the handset, while others use dedicated servers to connect to the internet. Wi-Fi is also a major factor today, as smart phone sales continue to soar and handsets automatically select Wi-Fi as their preferred connection. Websites today can expect to see over 25% of their mobile visitors connecting over a Wi-Fi connection and it is important to be able to understand and track consumers switching between operator and Wi-Fi connections.

So, what all of the above clearly shows is how crucial it is to use a mobile specific analytics tool to accurately analyse mobile traffic. Only this way will you be able to build engagement with this growing segment of your customer base.



MOBILE ANALYTICS ARE A MUST FROM DAY ONE

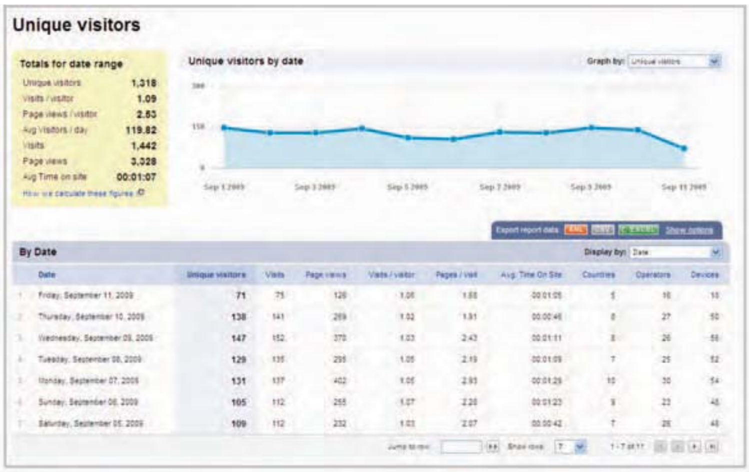
If you are planning to integrate mobile as part of your overall marketing strategy, implementing mobile analytics right from the start is key. Mobile offers the best data available to target and personalize your brand's offering and to measure your mobile campaign's ROI.

By implementing mobile analytics during the design of your mobile site or mobile campaign development, you will have a clear picture of how your customers interact with your mobile site or ad campaign. This will allow you to see from the initial stages what works, what doesn't and to make adjustments depending on the results, so no money is wasted unnecessarily.

Up until recently mobile analytics provided general data to marketers, such as tracking the number of people who visited a mobile site, clicked on a text ad (CPC) or sponsored link (CPM), but this legacy metrics only offered marketers a general view about the performance of a mobile site or campaign. Nowadays, good customer engagement is the real key indicator of the success of a mobile marketing strategy and this is why it's becoming even more essential for marketers to know what happens after the "click". Here is some of the key information you can measure with a mobile specific analytics tool:

Traditional data:

- Monitor your visitors in real-time, by the hour
- Track the most popular pages



- Track engagement levels - entry/exit points, bounce rates & number of pages viewed
- Understand visitor paths & behaviour
- Optimise your mobile site

Mobile specific data:

- Mobile device
- Operator (MNO/MVNO)
- Country / location

MOBILE ANALYTICS = CUSTOMER ENGAGEMENT

We've all heard that mobile is an effective platform to reach millions of customers worldwide. But in this competitive market it is not just about reaching customers anymore, but about engaging and building relationships with them, and you can only do that through effective targeting, relevancy and personalisation. So how do you build customer engagement on mobile? The answer is simple: Measuring, hence mobile analytics.

In mobile analytics terms customer engagement is measured by the number of conversions that happen, for example as a result of an ad campaign – how many customers or prospects take an action, buy something, or sign up to a service on the site. In all cases it is vital that marketers identify and record the visiting customer or prospect - not only across the current single visit but across the entire lifetime of the relationship.

To be able to do this, it is crucial that marketers use mobile-specific analytics, which provide a unique user ID for each visitor, rather than simply counting page views or ad clicks. One which clearly shows unique visitor count in real-time, rather than pre-cached information. This will allow them to identify new and repeat visitors, and see what the decision points are across the site or ad campaign so that they can better understand their customers' behaviour. Only this way can they fine tune their mobile proposition, mobile ad placement and the complete visitor experience, but more importantly build customer engagement and maximize ROI.

The two graphics show some of the key data brands can measure when using a mobile specific analytics tool, such as Bango's.

UK STARTS TO EMBRACE MOBILE

The UK is second in the list for mobile web browsing, accounting for 20.3% of worldwide traffic. The increase in the number of users accessing the internet from mobile phones has driven more UK brands to start committing more resources to this channel. Brands like Marks & Spencer and Interflora have both built a successful mobile presence, not only as an extension of their online website, but to create brand awareness and more importantly as another channel to engage with their customers.

Marks & Spencer, for example, has been successful at using mobile as a CRM tool, to support their customer loyalty scheme. In the run up to Christmas 2009 they launched a mobile gift site, to help customers select and buy presents for themselves or their friends. Once on the mobile site, customers were asked to answer questions about themselves and their friends and depending on the answers, a suggested gift list was created.

On the other hand, Interflora has succesfully developed a mobile commerce site, which effectively complements their main website. Users are presented with a familiar browsing experience, similar to their PC website, giving them the ability to order flowers and gifts using a simple payment check-out process.

In the next twelve months there will continue to be an increasing number of UK brands using mobile to engage with customers. As they realise that in order to survive in this competitive market, mobile offers great opportunities to promote their services, create brand awareness and more importantly build customer engagement.

But there is a big difference between simply creating a mobile presence and developing a well thought-out and successful mobile marketing strategy. Only those brands clever enough to realise the crucial role that accurate mobile analytics will play in the success of their strategy, will enjoy the rewards. Will you be one of them?

MRETAILING mobile commerce

APPS: A SOP TO MOBILE RETAILING OR THE GATEWAY TO THE FUTURE OF ECOMMERCE?

Mobile retailing continues to gather pace, with brands typically seeing the development of an iPhone app as their way into the market. But is that the way to go or is it just a sop to iPhone-totting board execs? Paul Skeldon, editor of our sister title M-Retailing.com, takes a look at some of the apps that abound and what it means for bringing mobile into retailing.

According to a survey conducted by DM2PRO and Quattro Wireless in December, 64.8% of marketers and publishers are planning to invest in mobile apps this year. That's a lot of retail apps vying for attention on the already overcrowded apps store. Is there really anything to be gained by having an app?

Well, they certainly seem to have a role to play in getting brands and retailers into the mobile retail space. However, from talking to many of the retailers that have rolled out apps so far this year, most really see apps as (a) a funky 'must have' thing to brag about to their marketer mates in the pub and (b) a cheap way of getting a 'mobile strategy' that the board will approve because either they all have iPhones and love them, or simply don't get it at all.

But, only 12% of UK consumers have an iPhone and, while apps provide a useful way to test the market, are they leading vendors up a blind alley?

Digital marketing consultancy Econsultancy's editor Chris Lake certainly thinks so. "It's not just about apps," he says. "Mobile-optimised websites are a great starting place for any retailer that is keen to generate revenue from this channel."

But most people aren't there yet. They see apps in simple terms: an all important entry point into mobile that bridges the gap between wanting a mobile shopping experience now and just repurposing your website for mobile access when everything is just one big internet.

eMarketer analyst Tobi Elkin agrees that caution needs to be exercised around this rush for apps, consumer packaged goods marketers in particular need to be very clear about the value and benefit to consumers of a mobile app, she says. "Consumer products brands desire closer relationships with their customers and the opportunity to invite them into personal exchanges and immersive experiences," says Elkin, who has authored a report "Mobile Apps and Consumer Products Brands" for eMarketer. "The right kinds of mobile apps tethered to social media can move consumer products marketers closer to their goals."

■ Ocado iPhone app generates £15m of orders since February.

Apps do work. Grocery delivery company Ocado's iPhone app has generated nearly 5% of its total orders – accounting for £15million of revenue – since February this year, the company has revealed.

The news comes as Ocado launches its first voice-activated mobile app on the Google-owned Android Marketplace store, enabling users to update their orders both online and offline.

■ Shopping.com launches comparative shopping app…

In a move that may send shivers down the spine of many a high street retailer, Shopping.com, a pioneer in online shopping comparison, is extending what it does into the real-time shopping world with, yep you guessed it, an iPhone app. The free application is the next phase in shopping.com's mission to change the way consumers shop, helping them make informed purchasing decisions by giving them access to product information, reviews and price comparisons wherever they are.

■ …while white label barcode scanning comparison app Stripey Lines gets an official launch as Eurostat finds 64% of consumers are using the web to research purchases.

Stripey Lines, the barcode scanning white label iPhone app already out in beta form from ecommerce company Portaltech, is now out in official v1.0. Originally launched at the end of 2009 in beta, Stripey Lines comes along as a recent report by Eurostat finds that 64% of customers are using the internet to research a product and 50% of customers use the internet to browse before purchasing in store. This trend is only likely to grow, as a recent Admob report stated that 50% of phones in the UK will be smart by the end of 2010.

■ Oasis app features in app check out.

Oasis is rolling out an updated version of its iPhone app that allows users to not only look at the retailer's product range, but also to collect goods in a shopping bag in the app and then buy them at an in-app checkout.

"This feature enables the user to 'build' a bag of products as they travel through the application and then from any point in the application select the bag and go to the checkout," says Rod Anthony, eCommerce R&D Manager, Aurora Fashions, Oasis' parent company. "The checkout is a custom built interface in the application that provides a smooth and enjoyable purchasing journey that makes the checkout simple as it should be in a mobile environment."

■ Barratts Shoes to launch one for the ladies 'retail mobility system'.

Shoe retailer Barratts Shoes has rolled out what it is calling "a state of the art retail mobility system" – that's an app to you and me – that delivers a virtual shopping experience, says developers Infogain, and presenting users with the entire season's collections, searchable by occasion – weddings/evening dress/casual wear, etc – or by brand. It will also feature a "trend-setting" Barratts Changing Room, where clothes images can be uploaded to mix and match against the latest shoe styles, and a 'birthstone' finder with related colours and styles, to add a new, very personal search dimension. See our video at http://bit.ly/cgkCUV

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