InternetRetailing

Selling in the digital age

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EDITOR'S COMMENT

It's official. Cross-channel retailing is challenging. At least that's the results of my quick straw poll of Ecommerce and Multi-Channel Directors this month.

If ensuring a seamless customer experience was just a case of investing in best practice systems (and getting them to talk to each other), then everyone would be offering customers the opportunity to 'click and collect', 'order in store' or 'shop your way'. Once you've specified all the systems, evolved from ecommerce platform to cross-channel solution and scoped the internal processes for them to work efficiently across the business, it's time to get buy-in from staff – who may not even use the internet at home.

While all this business transformation is going on, there is still the need for the tweaks and changes involved in trading on a day-to-day basis, making sure you are still getting the core retail basics right.

And, as David Walmsley mused at last month's Internet Retailing conference, what of the ecommerce guru? Are their days numbered as cross-channel retailing dictates an even wider skillset? Certainly not. Yesteryear's webmasters must embrace this third age of ecommerce and "go forth and integrate".

All of the conference proceedings are now availible to view online at screenevents.co.uk/ir2010.

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FEATURES

REGULARS

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FASHION LAUNCHES FALL SHORT

The quality of the new online stores of Zara, H&M and Gap has suffered in the haste to launch into the UK market, believes Christine Bardwell, Senior Analyst at Ovum.

"In the last-minute competitive rush to launch an online store, the retailers have failed to take the customer experience into account and are jeopardising customer loyalty," she said. "Basic and vital functions such as search have not been included. Consumers now expect search functionality. Without it, the retailers are not optimising the sales potential of their online stores."

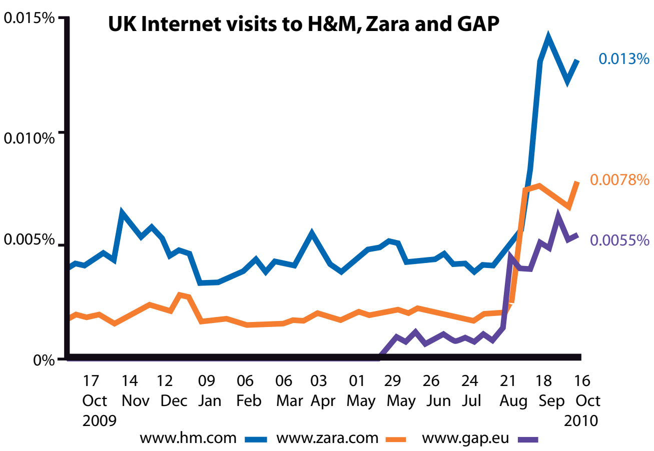
She said all three brands had also failed to adapt their sites to local markets fully. Zara, for example had not localised address formats while Gap did not offer local clothes sizes.

She believes all three have been late to launch their virtual stores because of the complexity of managing fast-fashion supply chains worldwide and the cost of fulfilment. However, the growth of online clothing sales (which is expected to become the third biggest online market in the UK this year when sales reach £3.2bn), has prompted Gap, Zara and H&M to rush to take a slice of the pie.

A spokesperson for H&M commented that the company is happy with the launch. "At H&M we strive to constantly improve in everything that we do, and these comments are of course features that we are also looking into for our online shop for the future."

Inditex, owner of Zara, declined to comment while Gap was not available for comment.

The launches for all three brands have been successful as far as traffic is concerned. In the past two months, H&M has trebled traffic to its website, Zara has quadrupled traffic and GAP has increased traffic by nearly seven-fold. Actual figures for the 10 weeks between 14 August and 16 October, courtesy of Experian Hitwise, are H&M increased by 219%, Zara by 310% and GAP by 587%.



Weekly market shares in 'All Categories', measured by visits, based on UK usage

Source: Experian Hitwise

ONLINE FRAUD DOWN

Online banking fraud fell by more than a third in the first six months of this year, according to payments industry body UK Cards Association.

Online fraud fell by 36% in the first half of 2010 to £24.9m, compared to the same time last year. It's thought that increased customer awareness of the need to protect computers with anti-virus software and banks' use of fraud detection software are behind this fall, the first since 2007.

But, the association warns that although there has been an overall fall in this six month period, fraud losses over the last five years have been volatile, so this may not be the start of a confirmed trend.

At the same time total fraud losses on UK cards fell by 20% to £186.8m, the lowest half-year total for ten years. The use of MasterCard SecureCode and Verified by Visa are among the measures credited for this success, along with work with the retail community to raise awareness of how chip and PIN equipment can be protected.

NEXT MOVES TO USA

UK fashion retailer Next is moving into the US market through an exclusive online deal with Sears.com. Sears has announced a partnership with the 25-year-old UK firm that will see it sell clothes from women's knitwear and suits to men's casual and business clothes.

Imran Jooma, President of Ecommerce at Sears Holdings, said: "At Sears.com, we are always looking to expand and evolve our customer experience while also delivering popular items and on-trend fashions to customers.

"Next gives customers both style and affordability, so they don't have to choose between the two."

Meanwhile, in the UK, Next has extended the order cut off time for next day delivery to 9pm. The company said this was among a host of improvements being made to the website and customer service, and added that its Next Directory – for which 70% of orders are made online – saw sales rise by 9.5% over the six months to July 2010, with growth coming largely from an 11.2% increase in active customers to 2.6m.

Part of the reason for the growth has been the new ability of customers to pay online by credit or debit card without the need to qualify for a Next credit account. Overall, Directory profit was up by 21.5%, compared to last year.

The company also said online was at the heart of its international sales. Chief executive Simon Wolfson said: "We continue to move the focus of our international ambitions towards the internet and are now trading successfully online in 37 countries. Overseas sales on the internet (excluding Eire) have grown 250% but were still small at just £2.3m. Operating margins are healthy and are currently in the region of 20%."

BOOTS OFFERS TREATS

Boots has extended the reach of its Advantage Card loyalty scheme allowing members to collect points from third-party retailers and spend them instore at Boots.

To collect points as they shop online, customers use the scheme's Treat Street website as a gateway to more than 50 participating retailers including eBay, Disneyland Paris, Comet, Currys and Asos.com. Shoppers collect at least one point for every pound spent online with points accrued online added to their Boots Advantage Card through instore Extra Offers Kiosks after 35 days.

This is an interesting step from Boots. The big question though is what's in it for the chemist chain. But effectively, it seems the Treat Street site must act as an affiliate marketing site, channelling custom towards partner sites. Not only does this give the retailer insight into other brands its customers shop with but the incentive of points for customers encourages further instore spending in Boots.

GROCERS EXPAND

The average basket size at Tesco.com has reached £100 for the first time says the company as it announces that sales for the half year rose by 10% to £1.2bn. Profits for the online grocery operation grew by 9.1% with customer numbers increasing by 10% to 1.2m.

Customer satisfaction is increasing with improvements in availability and fewer calls to the service centre. Customer innovations introduced in the first half included an upgraded website, a transactional iPhone app and trials of a 'drive-through' Click & Collect grocery service.

However, overall profits from dotcom operations stayed flat at £58m thanks to the impact of start-up costs in Tesco's online clothing and entertainment businesses and "modest losses in Tesco Direct". Tesco Direct, which allows customers to order non-food items via the internet and catalogues for delivery to home or store, saw sales increase by 27.8% to an "annualised level approaching £500m".

Along with the UK, Tesco sells online in Korea and Ireland and plans to launch an online grocery store in Poland next year with the Czech Republic and China expected to follow soon after.

Elsewhere in the grocery sector, supermarket chain Morrisons has finally announced that it is "investigating" the possibilities for online shopping. The company says: "The board also recognises that certain aspects of the grocery market where Morrisons does not currently operate afford attractive opportunities for future growth, and these are under review. In the first half of 2011 we will begin a trial of a new convenience format and we are currently investigating the opportunities for Morrisons in the internet grocery channel.

"Morrisons' past success has been built on being different, in the offer we bring to customers, and this will continue in any new areas for business development."

OCADO REPORTS 30% SALES GROWTH

Online grocer Ocado has reported a 29.5% rise in gross sales to £126.5m in its first financial update since its flotation on the London Stock Exchange in July. The figures for the 12 weeks to August 8 show that average weekly orders in the same period rose to 92,834, from 70,968 at the same time last year. Average order size was down slightly, at £113.59 compared to £114.73 last time.

More sales were made over mobile phone, through iPhone and Android apps, while new features such as the Service Counter, where meat and fish are filleted and prepared to order, also saw good uptake, the company said.

A second fulfilment centre is due to open in late 2012 which will potentially double the size of the business' capacity. The site, in Dordon, North Warwickshire, will allow Ocado to widen the geographical area it delivers to – its heartland is currently in the South East, but this centre should allow that to widen further north and in the Midlands – and to deliver more orders to the area it already covers.

At peak capacity the new centre is expected to create more than 2,000 new jobs and is set to deliver an initial 120,000 orders a week, rising to 180,000.

The company is also expanding its product ranges with around 200 different items offered under its own brand, to supplement the primarily Waitrose-branded goods already sold. Sandra Ziles, Head of Own Brand, said: "You told us what you wanted in the range and you even voted for the packaging designs."

PURCHANDISING

Searchandising and merchandising relate to retailers' promotion of sales of products to customers. Ian Jindal wonders whether we oughtn't also consider how the relationship between our customers and our suppliers might be improved and ponders whether the English language can survive the word "Purchandising".

MERCHANDISING - the art of promoting goods for sale by their presentation in retail outlets - spawned the non-word "Searchandising": promotion of products on-site by means of search tools, faceted navigation and browse, increasing the relevance of products shown to customers.

Relevant, coherent product presentation increases the likelihood of a sale, but may not increase overall profits. We may sell more of our great products and somewhat more of our (now well-presented) mediocre products, but we may not sell the 'dogs' or purchasing mistakes, destined for land-fill or recycling.

Searchandising attempts to square a resolutely-round circle - the tension between extending product ranges (category authority, dominant range, long-tail SEO) and the desire to minimise ranges (to conserve cash, increase the yield on stock). Despite the science, however, there's a sneaking feeling that there's something fundamentally flawed in a retailing approach that is so focused on persuasion and manipulation to push sales. Indeed, promotionally-led retailing could be seen as the practice of selling the unnecessary and unwanted to the unwilling. Could we not find approaches that increase the 'inherent desirability' or relevance of products?

"Purchandising" would be the practice of improving the specification and procurement of products and services so that they better match the needs, desires, interests and aspirations of customers (thereby reducing the marketing and promotional demands to convert customers' interest into cash). This is different to 'normal procurement' since it would be based upon insight into customers' behaviour, a high level of collaboration and ultimately co-creation. Let's consider each in turn.

Customer insight blends qualitative and quantitive data on preferences and choices to inform buyers as to the products to buy. Null on-site search results (i.e. where a customer searches for products on your site that you don't stock) is an indicator of unfulfilled interest or demand, for example, while "On Site Not Seen" metrics (products stocked but never viewed by customers) might indicate stock ready for liquidation. Equally, verbatim comments in user reviews will help improve the quality of products stocked.

So far, though, so normal. This is simply improving the standard procurement cycle.

In our feature on NakedWines later in this issue we have an example of collaboration between the business, the customers and the suppliers to create new products of increased relevance. NakedWines introduce new wines to their knowledgeable and enthusiastic Wine 'Angels', while those angels in turn support the winemakers identified as prospects by the company. It's open, radical and interesting. But, there is a further possible step: co-creation.

Consider that a product is specified in isolation, produced in bulk, promoted 'at' people to persuade them that they wanted it in the first place, and a numbers game ensues in which we hope to pulp a sufficiently small percentage to remain in business. Far better, then, would be to co-develop products with customers, and release a better-rounded 'version 3' product at scale.

As retail outlets become 'experience stores' to understand and interact with a brand's products for later purchase, we'll see manufacturers sharing prototypes with customers. Phone manufacturers may hand out maquettes and prototypes for feedback in store, and designers assess short runs prior to fuller production. This approach is already visible at sample-central.com (formerly SampleLab) where customers get to try products, take them home and assess them - in return for surveys and insights that improve the products for a mass market. The founders coined the term "Tryvertisting" - trying and experiencing and precursors to great products, rather than advertising post-manufacture to make up for deficiencies.

Whether or not we're able to make the move immediately from procurement to co-creation, surely it's time for professionals in buying in the digital age to come to the fore and engage fully with customers to increase relevance, coherence and profit? Developing our tools, KPIs and approaches to seek customer input, create products alongside them which will satisfy need (at least) and delight (at best) must be the aim. This would be the art of "Purchandising" - a full partner with the digital marketing, social media and searchandising skills of our colleagues. While our new word may assault our ears, it may also release some ideas and action - to the benefit of customers and our profitability alike.

Are you about to change your business card to "Purchandiser"? Have you thoughts on the tools and KPIs to use? Do you disagree? Have your say via editor@internetretailing.net.

DIXONS: CHOICE, VALUE & SERVICE

Dixons Retail has been busy refurbishing its bricks and mortar estate so customers can better interact with the products. Emma Herrod catches up with its eCommerce Director David Walmsley to talk about business transformation, store refurbishment and replatforming ecommerce for a multi-channel future.

DIXONS RETAIL – or DSGi as it was known until recently – is one of Europe's leading electricals retailing groups, operating 1,200 stores and online across 28 countries. Its retail and ecommerce brands in the UK are PC Word, Currys, Dixons.co.uk and Dixons Travel. The group is part way through a transformation which has seen more than 200 of its stores in the UK refitted, with some being dual branded as Currys and PC World.

Ecommerce operations have been replatformed onto the eMerchant trading platform originated by the group's Pixmania brand. The whole programme has been driven by customer insight, and recent trading figures and customer satisfaction scores seem to show that Dixons Retail is doing something right as it transforms itself from an ailing business that was facing tough times at the start of the recession into a multi-brand, multi-channel retailer poised for growth.

TRANSFORMATION & RENEWAL PLAN

The company's Transformation and Renewal Plan was developed by Group Chief Executive John Browett following a review of the business's strengths and weaknesses to identify which areas needed improvement.

With its strong branding across Europe and its leading position in a number of markets, the group had to its advantage the necessary scale, sourcing and good relationships with suppliers. However, Browett discovered that the business hadn't kept pace with customers' needs. It was overly focused on entry price points across its ranges rather than on giving customers the right product or an entire system. Customers were saying that they wanted better choices and service in store as well as post-sale; they also wanted the stores to be more exciting places to shop.

During the review, Browett commented: "They [customers] talk endlessly about wanting us to sell them the whole solution. They say: 'Don't just sell me the product, sell me the service which goes with it, whether or not it is a subscription service or whatever, and sell me all the accessories so I can get the very best out of the products I have bought from you.' Rather than selling them just the home cinema equipment, it's actually about making sure they've got the right television, the right surround-sound to go with it, and that is a fundamental difference for our business."

The review discovered that business processes were "a bit more inefficient and ineffective" than the group realised and that opportunities lay in raising operational performance and reducing costs so they could be reinvested in improving the customer experience.

Consequently, in May 2008, the company announced a five-point plan to transform the group, the first of which required a fundamental shift to get the business "absolutely focused on the customer and what they need". The five points are:

1. Focus on the customer (through an unbeatable combination of value, choice and service).

2. Focus The Portfolio On Winning Positions (realise potential of UK market position, address unprofitable stores and chains, turnaround Italy).

3. Transform The Business to broaden the choices for our customers and improve the in-store buying experience (wider choice for customers, improve the selling process, upgrade selling space, sell services more effectively).

4. Win In The Internet Market (by growing our pureplay business and becoming the masters of multi-channel retailing).

5. Reduce Our Cost Base By Simplifying Processes (simplification to make processes better, easier and cheaper, one set of business processes).

Since then, the five points have been worked on simultaneously across the company with executive restructuring, store closures, mergers and transformations taking place and one online trading and multi-channel platform being implemented group-wide.

When I caught up with the group's eCommerce Director, David Walmsley, in September, more than two years into the plan, the business transformation was showing real results: profit before tax was up by 61%, customer satisfaction was increasing and store refurbishment was generating higher sales. Progress has been swift with 200 of its stores refitted in the new format by the end of July this year, and it's on track to have completed the revamp of two thirds of its stores by October.

LEARNINGS FROM ACROSS THE BUSINESS

In realigning the business with the needs of today's cross-channel customers, the whole organisation has been transformed – from in-store staff training and implementing new systems, to rolling out the group's best elements across the operation. For example, the whole group has learned from the experiences of the Nordic region's Elkjop brand, and the techniques it has used to develop a strong in-store and online business. "It has a strong customer focus," explains Walmsley "and the key to the Nordic business is the value-choice-service triangle it operates." This triangle is used to balance the three points of:

- getting the range right,
- getting service in store and post-sale and
- products at the right price in the right place.

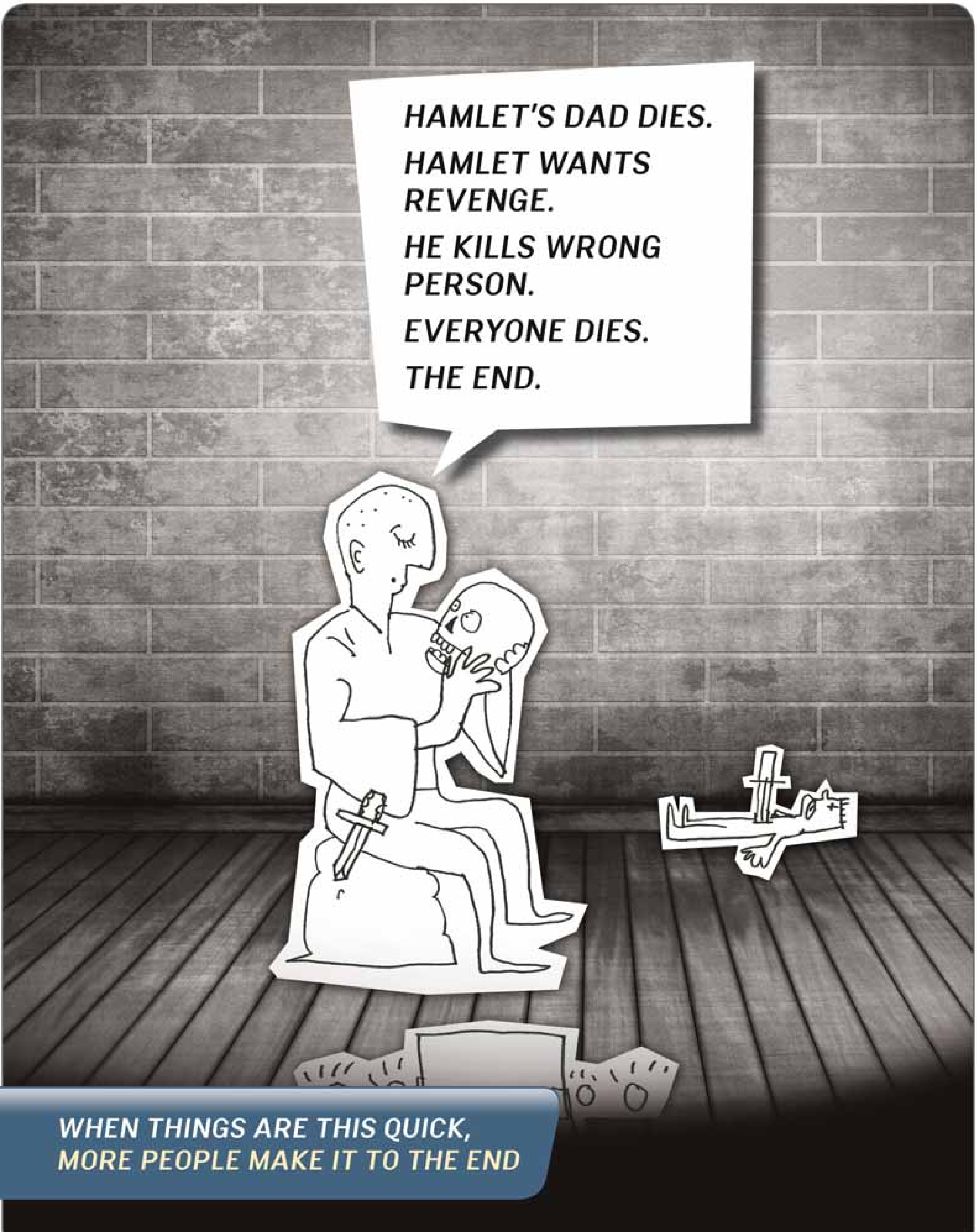
"In the UK we had a very transactional ecommerce set-up that was based on the value element of the triangle," he says. But that's all changing. The group now aims to shift away from simply providing a competent online order-taking experience to offering a rounded shopping experience with add-ons and service to match the in-store offering. Walmsley adds: "We have doubled the range in the past year and will be working on the service element online in the coming months."

ECOMMERCE

The group took the first step of the next stage of ecommerce development in February this year, when the online operations of Dixons, Currys and PC World were transferred onto Pixmania's eMerchant platform. This move was key to its aim to 'win on the internet' as outlined in its five-point plan.

Pixmania has been using a variant of eMerchant for the past 10 years and it is available as a third-party trading platform for online operations. But the brand has been developing the platform over the past two years for use across the Dixons Retail group and to support cross-channel operations rather than functioning purely as an online trading platform.

"eMerchant was built by ecommerce traders for ecommerce traders," says Walmsley, "and we have spent a lot of time building the multi-channel aspects and making sure that the integration with systems such as logistics and store systems was strong. There are some third-party elements to the platform, such as Omniture analytics, but the majority of it has been built in-house. It's got us all to the same starting line, but we have to crack what value, choice and service looks like online and to roll that out across the group."



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He says that the group has identified a further four areas to focus on for future online and multi-channel development:

1) Range – improve the breadth and depth of range to meet customers' needs;
2) Service – create the store experience online with reviews, support, advice and add-on services;
3) Customer experience – give the customer a rounded shopping experience, helping them with browsing, choice and "making sexy products come alive on the site";
4) Multi-channel – give sophisticated multi-channel customers what they want.

"A lot of what we've been doing is getting the basics right," adds Walmsley. He explains that the short-term focus for the ecommerce operation has been to drive footfall to stores over the past 12 months. The key focus over the next few months will be getting the customer experience right online.

THE CUSTOMER

Mobile is 2010's retail growth channel in terms of development time and media column inches, but Walmsley says there's no pressing need for Dixons Retail to launch a 'me-too' app; it has a role to play in the group's operations, but only when it has an understanding of how mobile fits into the customer journey. He explains: "We have to look at how our customers shop with us and how they want us to help them. If it's a mobile shopping app then that's what we'll do – but only once we've understood how mobile can fit into buying a washing machine, for instance."

The transformation plan has ensured that all business decisions are driven by customer insights, whether it's the format of stores, ranges or updates to back-end processes. Walmsley explains that the challenge is not about coming up with good ideas but prioritising them: "We keep going back to the customer and sequencing what's the next best thing we can do for them. Everything we do hangs off the customer plan."

STORE TRANSFORMATION

As the ecommerce side of the business has been undergoing a transformation, so too have the stores. Refits and new formats are being rolled out and

include 60,000 square foot megastores with more than 10,000 products and two-in-one stores incorporating Currys and PC World under one roof. The combined stores, of which there are now 32, focus more on computing, consumer electronics and audio-visual products than the single-brand outlets and have 34% more skus. The average gross profit uplift in the first six weeks for these two-brand stores is 62%. Customer feedback has been very positive because the new stores are easier to navigate, have more interactive product displays such as 'play tables' and improved product ranges.

Other parts of the business will take on board the learnings from the current UK store refits and the megastore format.

STAFF V TECHNOLOGY

A staff training programme has been introduced to improve the in-store customer experience and to help employees understand the online business. Staff have to be able to listen to customers to understand what they want and how they will use the product they are interested in. "Product knowledge is the baseline," says Walmsley. "They have to be able to help the customer make the purchasing decision that's right for them."

Television technology, for example, has moved on a lot in recent years, and store staff have to be able to explain the different technologies and how cabling can impact the end picture. The effectiveness of this knowledge – and the ability to explain it – is shown by Dixons Retail's sales figures in the six weeks leading up to this year's football World Cup when it sold 50% more televisions by value, year on year. That's 30% more televisions by volume than sold during the run-up to the tournament four years ago.

The 'FIVES' plan which is used for store staff training introduced five simple steps for them to follow to identify the right products and service for each customer's needs.

"Working with store colleagues is important," says Walmsley. He adds that it is especially important to the success of a multi-channel business to make sure they are happy and focused on what is happening online. According to Walmsley, when aligning a large organisation, "the technology is the easy bit". He explains that it's important for store

> "TRAINING ON THE SHOP FLOOR IS CRITICAL TO OUR SUCCESS GOING FORWARD"

staff to understand how online forms part of the customer journey and to see how it represents their shop; online provides support for the stores and is the first port of call for a store visit.

"80% of customer trips in store start online," he


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supplier member
Marie, 29 years old
Copywriter
Buys her computer supplies online
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says, which means the stores need to be fully represented online. "We can do things differently with Dixons.co.uk since it operates purely online."

THE TRANSFORMED BUSINESS

The Renewal and Transformation Plan is starting to deliver results and is expected to generate 3-4% returns in the medium term. But changing the business has not been without its difficulties. "The main pain point in implementing the plan to date has been doing it in a recession," says Walmsley. It is an increasingly lean organisation, but investment put into the business during the recession has put us in a strong position for the upturn.

"The success of the plan is in a large part down to the triangular plan of choice, service and value. It's not just one thing. It's the operational processes across the business. Getting the basics right and meeting customers' needs. This is leading to an increasingly strong position."

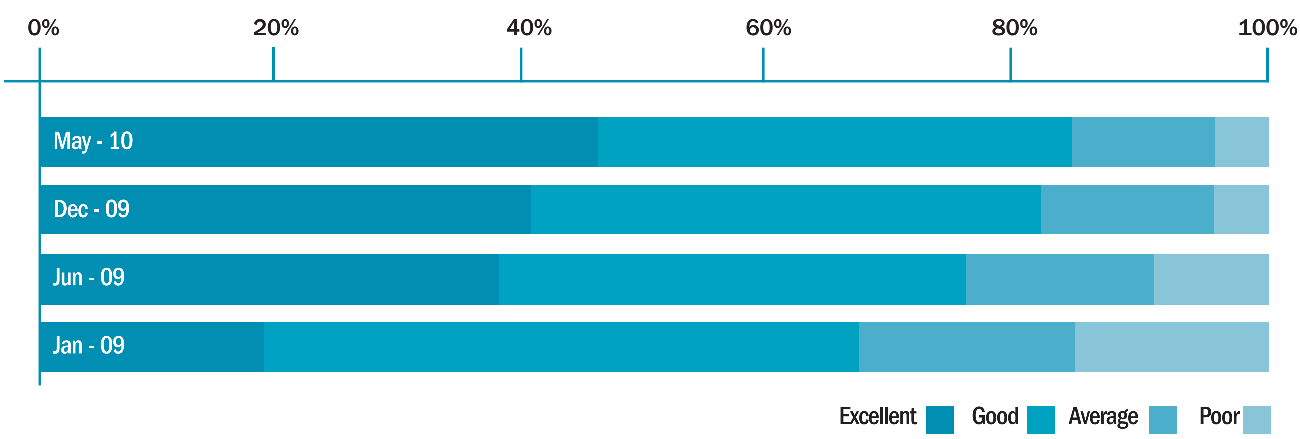
This is evidenced in the confidence that suppliers are showing in the group. It was chosen as a launch partner for the iPad in the UK and introduced Apple shop-in-shops. This shop-in-shop model is proving successful and Phones4U shops are now being rolled out while Starbucks is already providing shoppers somewhere to mull over big ticket purchases without leaving the store.

Unsurprisingly, multi-channel is seeing higher growth than online alone. In its trading statement for the 12 weeks to 24 July 2010, the group announced a 3% increase in both total and like-for-like sales with UK internet sales up by 12% driven by its multi-channel and reserve and collect services.

While Walmsley won't reveal specific figures, he says improvements in the group's multi-channel operations are reflected in improvements in customer satisfaction, adding that "shoppers who shop more channels with us are more satisfied".

So, what of the future? The entire business is now focused on the customer, and the multi-channel operations are pulling out all the stops to try to emulate the new, improved in-store customer service. The technology of the online operations is not expected to match the level of personalisation achievable by staff in store, but with time still left to run on the transformation plan and with "bigger ambitions" beyond reserve and collect, Dixons Retail in the UK could leap ahead in engaging customers, suppliers and store competitors alike as ecommerce catches up with the rest of the new-look business.

Improving customer satisfaction measures



OPENING THE KIMONO

In the second in his occasional "Alpha Series", Internet Retailing's Editor in Chief, Ian Jindal, looks at a disruptive business that connects suppliers, customers and the retailer in an innovative and thought-provoking fashion. Oh, and there's wonderful wine involved too...

TO HEAR Rowan Gormley, the laid-back and charismatic founding CEO of NakedWines.com, speak is to be persuaded of the utter joy of running your own business. Of course, the oenologist within each of us warms to the idea of having such 'consumable' stock, and we're no doubt already planning our outfits for the extensive wine tours and vineyard visits. However, it is the disruptive and thought-provoking business model that really intoxicates.

Gormley had plenty of time to consider the problems of wine. A Chartered Accountant by training but an investing entrepreneur by inclination, He had moved from Arthur Andersen to found Virgin Money. From there, with an overlapping stint in Private Equity, he founded Virgin Wines, bringing the cheeky brand values of the Virgin group to play on a market sector characterised by high-end merchants on the one hand and pile-'em-high box-shifters on the other.

It doesn't take Gormley's head for figures to recognise that there's a problem with wine: the costs of bottling, storage, transport and marketing far exceed the value of the wine. Indeed Gormley suggests that within an 'average' UK bottle of wine (around £5) only 30p of the cost is attributable to the wine itself. He identified that there was a flaw in a business model in which customers paid far in excess of the value of the prime product, the wine-makers make an unsustainable subsistence living and the whole supply chain compromises value. He reflected that "We needed to break the 'chicken and egg' cycle - before the egg was made". His solution was to approach both winemakers and customers directly and connect the customers' capital with the winemaker's expertise. The result is NakedWines.

From the customer's perspective there is an already-established mechanism to get good wine at a discount: buy in bulk from a specialist chain (with 6-12 bottles as minimum purchase) or from a supermarket (and have keen prices on a focused selection). In neither case though do the winemakers profit. The approach with NakedWines is to make the customer an 'investor' in the wine - an 'angel investor' if you will.

Customers can decide to 'buy into' a vintage at a number of stages. They can commit when the grape is on the vine, in the vinery, in the bottle, on the ship or docked in the UK. The price for 6 mixed bottles from Mauricio Lorca, for example, shows how the price rises from £24 (had we committed by February 2010), through £27 in November while the wine was being bottled, rising to £55 retail once in the UK in summer 2011. In return for a commitment of some 18 months the keen wine-buyer gets to double the value of their investment. This surely must add something to the taste of the wine - the high-notes of a bargain allied to a lingering level of happiness on the palate - since NakedWines now has some 30,000 angels investing in wine, giving NakedWines some £800k each month of free cash to "invest in wine".

INVESTING IN TALENT

NakedWines offers a benefit for the winemaker too - removing risk and investing in talent. Many of the NakedWines makers are smaller independents, often with a 'main job' who are driven by passion to create great wines. For them, a harvest might product 4,000 cases and NakedWines will underwrite purchasing 3,000 of those cases. This gives the winemaker a secure financing for their work, plus the ability to sell 25% of the total on the open market, establish price and reputation and adding further income. These proportions will of course vary, but importantly the connection between NakedWines and the winemaker are personal and specific.

Gormley notes that they "invest earlier and wait longer" to get good wines and that they "de-risk the whole operation" for the winemaker. He cites examples of working with the maker to buy the very best grapes - which may add only an additional 15p per bottle to the costs - in order to get a far better wine for the Angels and to allow the talents of the winemaker full play.

Furthermore, the Archangels (the high-value wine investors) at NakedWines are also able to directly invest in winemakers. The story of Constanza Schwaderer is illuminating. Initially providing wines to NakedWines as a part time project, the supply was cut off when her major customer objected. A cheque from NakedWines has now allowed her to set up along with her husband and they are already winning awards in Chile in their first year.

Gormley also cites Bill and Claudia Small, a husband-wife (and children!) team, who were already working for one of the world's most revered New Zealand wineries. Thanks to an investment from NakedWines' Archangels they were able to join the 20-plus winemakers funded by NakedWines. Interestingly, Gormley notes that he'd never met the Smalls in person when he made the investment. Rather he relies upon a network of advisors, sector knowledge, the quality of the wines they were already making and "gut feel - (recognising) someone who really cares and knows about what they're doing". Interestingly, he also involves the passionate Angels and they happily taste wines, give feedback and even visit the winemakers. Gormley travels a lot and will generally invite an Angel to join him on a trip - whether as a result of expertise, high spend or as a 'random act of kindness' (eg the person who commented on the website that they had never understood the premium on some French wines: Gormley invited him on a week's tasting in regional vineyards).

The contractual arrangements with the winemakers are purposely open. Gormley will agree a commitment with them to purchase a set quantity of the output at a given price, he adds on a set margin and this leads to the visible pricing on the site. The winemaker is able to sell any excess or other wines separately should they wish. However, 74% of the wine is made for and sold by NakedWines exclusively and for 68% of wines sold NakedWines are the biggest customer of the winemaker. The range is supplemented by some big name wines, but this comprises only 6% of the sales.

RETAIL CONSIDERATIONS

The attraction of 'disintermediation' has been a constant since the dawn of digital - removing steps and cost from the retail or publishing chains has driven down costs to the customer while making good businesses for the 'disintermediaries'. The NakedWines approach though is more than a volume-discount play or a removal of a cost element from the supply chain: the approach focuses upon co-creation, co-development and sales security for the supplier. One could argue that a pre-purchase model of this sort simple disintermediates the waste that arises from uncertainty, creating more profit for the supplier while increasing value for the shopper.

I asked Gormley to reflect on other businesses where his approach could be extended, outside of the wine domain. His reflection was "any business where the proportion of the sales price that goes on raw materials and raw talent is very small". Made.com is a business in this mould. Founded by Brent Hoberman (famously founder of Lastminute.com and recently of MyDeco.com). Made.com offers "beautiful furniture without the high street markup" (to quote their strapline). Similar to NakedWines, the Made.com approach provides a direct outlet to designers, allowing them to connect with customers.

Catwalkgenius.com is a relatively new business that connects fashion designers both with customers and potential investors, allowing investors in a collection not only to acquire pieces themselves but to share in later profits as the collection is sold more widely.

These approaches are different to 'direct sales' models inasmuch as they connect the customers with the suppliers (designers, winemakers) to both co-create the product in the first instance and to de-risk the production in the second. More than a simple channel-efficiency approach or cost-elimination proposition, the approach of NakedWines puts the customer and the producer at the heart of the business, building value for both and including the customer within all aspects of the experience - from vineyard visits to wine tastings via grower tours and learning opportunities.

There's no argument that marketing is not necessary or that brands will disappear. Indeed, global wine brands serve a purpose in market-making and creating a shorthand for casual buyers around the world, with admirable consistency. However, in areas where customers are interested, keen to know more and willing to participate in supplier development there's now an interesting new business approach. In our social media, customer-centred etail world the NakedWines approach certainly chimes with the times and offers food for thought for businesses looking to increase connection, effectiveness and value.

Our thanks to Rowan Gormley for his openness in discussion following his presentation at Econsultancy's inaugural "Jump" event in October 2010. If you have an interesting service or business model to bring to our readers' attention, let Ian Jindal know via editor@internetretailing.net. ■

GAP REVIEW

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

RETAIL STRATEGY

Emma Robertson, Senior Multi-channel Consultant, Transform

Customers and industry commentators have waited a long time for this and the welcome message on the newly launched Gap.eu site shouts out 'hello UK'. Gap has already made forays into online sales through a deal to offer selected lines through Asos.com but the launch of a dedicated site and a new online distribution centre in Stafford, clearly intended to ultimately fulfil orders for the whole of Western Europe, means all eyes are now on Gap to see what the late market entrant can bring to the online channel.

The site has a lot of the standard functions expected of fashion retailing, and handles zoom, sizing and colour options well. In addition, Gap has introduced more advanced functionality with the one-page checkout, which aims to reduce basket drop out by keeping the customer within a single page. This feature would be more successful if some of the standard usability practices had been implemented – compulsory registration and unclear promotional code processes are both proven to turn customers away at the final stage.

Gap.eu also features the Gap Inc "Universality Platform" allowing customers to shop across brands within the same shopping basket. Although limited to Gap and Banana Republic in the UK, this feature is undeniably powerful and represents nirvana for many retailers looking to extend the ranges offered under an overall brand umbrella.

However, alongside these cutting edge developments, Gap.eu is missing the fundamentals – no search function is the most surprising and damaging to the user experience and the reasonably basic navigation gives the impression of an out-of-the-box web application rather than the bespoke platform that Gap has built.

Definitely one to watch, the presence of Gap in the online market is a great step forward, and with a logistics backbone designed to fully support the user experience, Gap.eu represents the investment the company is making in the online channel into the future.

USABILITY

Simon Duke, User Experience Consultant, User Vision

Despite having more than 130 high-street stores in UK and Ireland, Gap's online presence has lagged behind, with the UK ecommerce site only launching in August 2010. How good a job has been done in making the site usable and persuasive?

The homepage compares favourably with other fashion retailer websites which have a habit of crowding their homepage.

The main navigation lies through a menu at the top of the page. The menu offers no roll over functionality, so shoppers cannot shortcut straight to a specific product line such as 'Women's trousers' from the homepage but have to make an additional click from the Women's section.

The main product landing pages are well put together, with clear pictures of the product ranges available. A 'quick look' option enables the shopper to have a closer look at a particular item, without clicking away from the wider range.

The Gap website, however, has no filter functionality. This means there is no way to refine a product search, by factors such as colour, price or size.

The individual product pages are nicely designed. Key details are summarised and the size, colour and number of items selectors are easy to use. Shoppers can view the product from several angles and a nicely implemented zoom function is available.

Once a product has been added to the shopping basket, feedback is quite clear, with the item appearing in the top right hand corner of the screen.

The checkout process is straightforward. In order to qualify for free delivery on orders over £50, the shopper has to add in the discount code from the homepage themselves. Since this could be done automatically, it is hard to escape the thought that this has been deliberately implemented to maximise profits from customers forgetting to do so.

In summary, while the Gap website has been well designed, nothing has been done to differentiate the shopping experience at Gap from most other online clothing retailers.

EYE TRACKING ANALYSIS

Guy Redwood, Managing Director, SimpleUsability

The participants who took part in the research for the new gap.eu website were asked to go shopping to replace their favourite pair of jeans.

From the new homepage we were able to observe that users were drawn to the strong colours on the right hand side of the page (graphic outlined by union jack). Users ignored the main photographic element with the 'New and now' messaging, and decided to go straight to the top navigation options. From here there were no drop-down menus available so users could not quickly get into the category that they were looking for.

Within the category landing pages for 'Jeans' that were accessed from either the 'Women' or 'Men' sections, users often missed that the sub-categories within jeans were displayed at the top of the page. This was despite an animation that occurred within this section when users first entered the 'Jeans' page. One user recognised that there were many sub-categories within this section, but failed to notice that a 'More fits' button was available when users hovered their mouse over this area of the page.

Users moved closer to the screen to read the navigation text and commented that they found it hard to read. The titles within the left hand navigation are not in alphabetical order which made it harder for users to spot the category that they were looking for. When there is no logical order to the groupings and the item that they are looking for is a known name e.g. 'Jeans', then alphabetical ordering may have helped some users.

After users had chosen a sub-category e.g. 'Always skinny' or 'Long & lean', users found it hard to differentiate between the jeans shown at the top of the page to illustrate the cut of the product and the actual product listings below. Users tried to click on the products at the top of the page, and found it hard to re-find this style of jeans in the products listed underneath. Some users misunderstood the purpose of this section at the top of the page and thought they were additional products.

When taking the next step and choosing a product, many users missed that a 'Quick look' feature was available. Users had to be quite precise when selecting this option.

Some users became frustrated when products were out of stock and expected to be able to filter for particular sizes, but no filters were available.

SITE PERFORMANCE

David Flower, Vice President, EMEA, Gomez

For many loyal Gap fans, the launch of its European online store at the end of August couldn't have come soon enough. And, with an independent survey describing it as "far superior" to the web offerings of rivals Zara and H&M, which launched around the same time, things looked to be off to a great start. During the six-week period starting 1 September, Gomez reviewed Gap's 'eu' domain site looking at the average availability and download speed of the homepage. Performance was a little shaky in September but showed significant improvement during October.

Eye tracking gaze plot for Gap.eu Source: SimpleUsability

From the internet backbone (i.e. ISP's data centres) average homepage download times improved from 2.83 seconds to 2.18 seconds and availability rose from 97.34% - which is relatively poor - to a much more acceptable 99.87%.

There were two serious performance glitches in September. From 12 - 14 September there were a number of incidents when users' web browsers requested critical page objects. The data centre was taking a long time to react, adversely impacting performance and in some cases the browser gave up, which impacted availability.

The second incident happened just after 6am on Sunday 26 September and lasted until just before 1pm on the same day. In this case, Gap's servers simply weren't available (perhaps its IT team was implementing a new release?) but suffice to say during this time, the Gap.eu website was totally unavailable to UK users. If you were hunting for a new pair of khaki trousers, I'd imagine this would have been pretty frustrating.

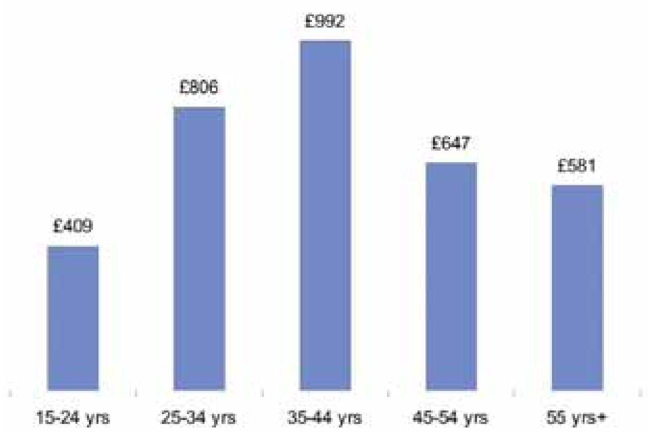
From the Last Mile (i.e. real end-users' desktops), the performance problems identified on the internet backbone were magnified. Availability fell to 97.15% and the average homepage download slowed to nearly 8.5 seconds. Whilst it is likely that the heavy page weight of between 1300 and 1700kbytes contributed to this lack-lustre performance, the technical glitches recorded in September would not have helped either. ■

IT'S GROWTH BUT NOT AS WE KNOW IT

The annual growth in online sales is set to fall from 35% to 12% according to the latest study from Verdict Research.

FOLLOWING a decade of rapid growth, online shopping is set to slow down significantly as the channel matures and competition increases. Furthermore the high spending young family shopper is the one most likely to curb spending as government cutbacks begin to bite. Retailers will have to work much harder to win and keep online customers says Verdict Research in its latest study e-Retail 2010 and Beyond.

How much do they spend per head online?



Average spend per head = £700 per annum

Source: Verdict Research

Although online expenditure will increase by more than 56% to £35bn by 2014, and will continue to outperform total retail, growth will slow considerably from previous years – indeed Verdict forecasts average annual growth between 2009 and 2014 will be 12% compared with an average of 35% per annum over the previous decade.

Moreover, the most valuable and prolific shopper group, the 35-44 year olds, currently spending £6.2bn online, and accounting for over a third of online retail expenditure in 2009, are the ones most likely to cut back on spending.

The number of online shoppers is also heading for saturation – though Verdict predicts numbers will rise to 32.5 million in 2014 this will be only another four million shoppers, and their spend will be spread over far more websites as the number of retailers online continues to increase rapidly.

Malcolm Pinkerton, Senior Retail Analyst at Verdict Research said: "With the number of people shopping online becoming highly saturated, retailers will have to change and evolve their online strategies. Driving loyalty and increasing spend per head across all age groups will become vital factors to ensure growth."

DRIVING HIGHER SPEND

The highest current spenders online are the 35-44 year olds (£992 per head per year) followed by the 25-34 year olds (£806 per head). By tailoring both service and product range towards other, currently under spending age groups, retailers can maximise their online potential.

Furthermore physical retailers are at an advantage; Verdict's research reveals 14 out of the Top 20 most used shopping sites belong to physical retailers and as a retailer's multichannel shopper is the most valuable (because they spend well above the average), encouraging existing customers online and acquiring new online customers offers a clear opportunity.

It is the shoppers in the 15-24 and 55+ age groups which show the most growth potential. A third of shoppers aged 15-24 said the inclusion of pictures and videos on a website are important and these are also prolific users of mobiles. Retailers would be wise to build this into their strategy as it will be those that do who stand the best chance of converting this age group into regular customers.

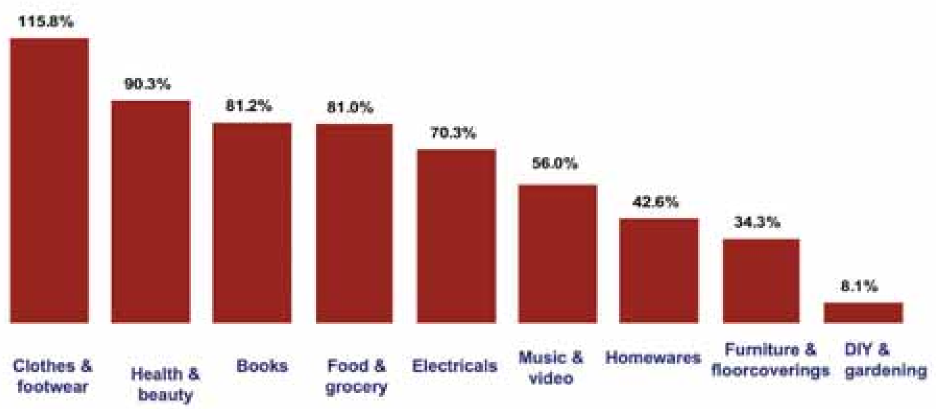
Meanwhile for the over 55s the convenience of shopping online linked to trusted retail brands is a key attraction, especially as they become more internet savvy. Ensuring a customer experience that meets their service expectations will be key to their loyalty.

Sarah Peters, Senior Retail Analyst added: "The online shopper is extremely valuable. Retailers

Online market value 2004 - 2014

Source: Verdict Research

Growth by sector between 2009 - 2014



Source: Verdict Research

have had it relatively easy online over the past decade because of the channel's rapid growth and lack of competition, but just as in overall retail, the next five years will be much more challenging. If they plan their strategy now and understand the change in the competitive dynamics they will be able to ensure they profit as a result."

Commenting on the e-Retail 2010 and Beyond findings, Jeff Dakin, Managing Director customer loyalty specialists Htec, said: "With the outlook for a more measured rate of growth in eretail the ingenuity of UK retailers will be clearly tested over the coming years. Retaining market share through economically difficult times will invariably make customer experience and satisfaction and loyalty key battlegrounds that will govern online expenditure. Technology is already playing its part in advancing and improving experiences like mobile shopping while online loyalty programmes have the potential to incentivise higher spend across all demographic groups. Retailers are going to have to find the right balance of strategies to not only win customers but also keep them coming back for more." ■

Average retail growth excluding online = 1.1%

Source: Verdict Research

CROSS-CHANNEL VIEWPOINTS

The journey from bricks to clicks to cross-channel retailing is neither swift nor without its challenges but it is becoming a necessity for high street retailers. Emma Herrod looks behind the sites and stores to discover the pain points at retail HQ.

IT IS UNDISPUTED that a customer who shops in every channel a retailer sells through delivers greater profit for the business than someone who shops solely in one. John Lewis has measured how this works across its outlets to reveal that a customer who shops in both the web and the high street channels spends 2.5 times as much as a web-only shopper and three times that of a department store-only consumer.

This fuels the argument that cross-channel, integrated multi-channel or whatever you care to call seamless channel retailing is becoming a necessity for high street retailers seeking to react to changes in customer behaviour, maintain or boost profits – or simply keep up with the competition.

What started as a simple journey from bricks and mortar retailing to launching a transactional website has now turned in to a full-scale business-change project that affects everyone in a retail organisation. That transition is all about systems that can talk to each other, something that wasn't initially apparent to many companies. As Susan Aubrey-Cound, Director Multi Channel Development at Marks & Spencer, observes: "At the start of ecommerce development it wasn't expected that the systems would have to speak to the store points-of-sale."

Joining up all the systems is one of the main challenges that retailers face when implementing cross-channel retailing. And it's something that they need to find a solution for, says Aubrey-Cound: "How can you give a customer a view of stock levels from a system that's not used to giving transparency of stock on a one-to-one level in store?"

In addition to linking up enterprise-wide IT systems comes the challenge of ensuring the customer experience remains constant across all channels. "Cross-channel retailing has made it more important to put the customer at the heart of the business," explains Aubrey-Cound. "Customers are using all the channels for research and purchasing, so we're not just a shop, we're a research and service channel as well."

An example of the decision chain looks like this: a customer buying a sofa may research a product range online and then search for a store that has the items they have short-listed in stock before going to that shop to try them out; they'll then consider their choice further at home before making their final purchase online. "Retailers therefore have to give inspiration and advice in all channels but make sure that it doesn't get in the way of the customer," advises Aubrey-Cound.

SYSTEMS & PEOPLE

Marks & Spencer had to decide whether it was going to change its operations by playing the long-game and gradually putting initiatives in place or by altering its company structure in one complete transformation. It has chosen the long-term route and undertaken a few changes to join up the sales channels and take staff on a journey towards cross-channel retailing. Aubrey-Cound says: "If you just put in best practice IT you wouldn't see any benefits, and you'd be missing the majority of the upturn of your systems. The needs of systems and staff go hand in hand."

She says that staff were initially apprehensive about the changes but embraced them once they were able to see the benefits. For example, store staff were wary of the 'Shop your way' initiative because they thought it would detract from in-store sales. The key to motivating staff was to allocate orders to the individual shops if the customer journey touched the store in some way, such as going there to collect an item ordered online. "Ultimately," she adds, "it makes no difference to the business since a sale is a sale."

SHOWING RESULTS

Dom McBrien, E-Commerce Director at fashion retailer New Look, agrees: "Store staff have to feel the benefits of cross-channel retailing. What has helped us is not just allocating sales to individual stores' weekly targets but being able to show results of our work online to the departments that have helped us."

New Look will be launching instore order points later this year which will open up the full online product ranges to customers in the smaller shops. It has also been trialling a loyalty scheme in the Manchester area for the past 10 months. While 'Fashion Rewards', as it is called, has succeeded in providing a single view of the customer across the different channels it is still in pilot phase and its future is being debated. McBrien explains that the system has provided insight into customer behaviour while also proving how much more valuable the multi-channel shopper is to the business.

His firm's transformation from bricks to clicks to cross-channel hasn't been without its challenges, admits McBrien, but having the full backing of the board of directors is vital. Many of the challenges it has faced have involved recruiting the right people – especially for a department that was previously based in Weymouth, Dorset – implementing systems and changing processes.

Cross-channel evolution ultimately changes companies and this is certainly the case for New Look, since its journey doesn't consist simply of a move from UK bricks and clicks to a multi-channel operation but encompasses its aim to transform itself into a leading, international cross-channel retailer over the next year.

"Cross-channel is probably the biggest area of change for the whole business," says McBrien. "From a standing start, it's a three-year process of launching the site, implementing click and collect, multi-channel, international fulfilment operations and so on."

New Look started its transformation programme in 2007 with the implementation of its second-generation ecommerce system. McBrien explains that while getting the ATG solution up and running was a 16-month project, getting the back office systems and the way they work right has been more challenging since they were "not geared up for cross-channel and international operations."

The third part of the transformation has involved changing operations and processes; essentially, the way New Look does things, McBrien says.

THE CUSTOMER EXPERIENCE

Giles Delafeld, Group E-Commerce Director at Blacks Leisure Group, adds a further dimension to the cross-channel transformation equation: the customer. Some retailers which have been successful in the past have become less so in recent years because they've ceased listening to their customers.

He says: "The reality today is that all consumers have access to as much information as the retailer. There are still those retailers that are not listening to customers and think they can simply put products in store and be successful. There are retailers playing around with differential pricing, but the point is that there will be times when the customer already knows everything about the products and competitors' prices, and retailers who ignore this will really suffer."

Blacks' business peaked four years ago and was beginning to struggle even before the recession. Delafeld says: "The online part of the business was trading at minus 20 year-to-date in April 2008, which is an unbelievable story considering the growth of the internet."

According to Delafeld, to turn its fortunes around, the company's focus has been on "getting the basics right and that means listening to the customers and understanding what customers wanted from us". This has meant a return to core retail skills while maintaining a focus on cutting costs, significantly reducing the number of skus in store and offering an extended range online.

Listening to customers has helped inform the business as it has developed its cross-channel proposition in a way that's relevant to them. For example, customer feedback guided Blacks to introduce a Buy & Collect service whereby customers could make online orders from Millets for items such as tents and sleeping bags which were delivered to Glastonbury Festival.

One issue, though, for a business in a less mature part of the cross-channel journey is price differentiation and how to remain competitive with pureplays and different trading models. "I am an advocate of the one-price-across-all-channels model, but it is dependant on the maturity of your business," says Delafeld. "If we sold everything at the RRP rather than at the same price as our competitors, we wouldn't sell anything online."

Meanwhile, further along the high street is Cash Generators, which is struggling to make cross-channel retailing work with a franchise business model. Stuart Owens, the firm's Director of Digital Marketing, says: "As a business we are rapidly evolving, with discount retailing being the primary directive of the business. But we have a long way to go before we can claim to be a cross-channel retailer."

He adds: "The hardest cultural change is to encourage our franchisees to reduce retailing activity through existing internet sites such as eBay, Amazon and Game and to list and sell product through our own website. The chicken and egg scenario is that while our franchisees recognise they can gain additional margin through our own site, without the threat of their account being de-activated, it is hard to shift focus to our website if product cannot be sold as quickly. Product cannot be sold as quickly until there is a critical mass of product!"

Employees across its store network are now embracing the change, helped by managers providing training and support, along with dedicated resource and incentives. But many staff have seen the internet merely as an 'addition to the day job'. It's an attitude that lots of retailers implementing cross-channel operations will recognise.

The route to a seamless cross-channel offering is undoubtedly a challenging one for all businesses and it's not one to be taken without the full backing of the board. While processes can be mapped across a business and best practice systems can be updated, it's difficult to achieve a seamless, satisfactory customer experience every time without buy-in from staff in all areas of the company – especially those in customer-facing roles in store.

But, back at the top levels of cross-channel retailing, Aubrey-Cound wonders if by making it easier for customers to shop cross-channel, whether cross-channel retailing will still grow? McBrien believes it will, but only by making sure that the customer experience in cross-channel is second to none. How that's achieved will be what differentiates retailers in future. ■

MONETISING SOCIAL COMMERCE

While a single view of the customer may be panacea for retailers, John Butler, Head of Communications and Media at Dunnhumby, looks further to show how this insight can be extended to profit from your customers' friends.

RETAIL loyalty programmes, when done properly, are far more than just points schemes. If the game were simply about giving things away, everyone would be as successful as Tesco has been since 1995.

Loyalty programmes do something that no other marketing form can do. First, they create proprietary customer-level data that allows businesses to generate insight in the form of:

1.Purchase segmentations. Rather than using un-predictive claimed, demographic and psychographic rubbish that is used today. It is far more beneficial (for businesses and customers) to know what customers do than know who customers are. Things like:

Life-stage – we see your child has grown out of nappies so we don't send you offers for these any more, instead sending you childhood education games instead, or

Value & Loyalty – you are a very important customer to us and we want to seek you out and say thank you from time to time.

Lifestyles – you are an organic food lover who likes red wine, what can we offer you to give you new ideas, variety, a better life overall?

Then, the predictive insight gained by the above provides a rock-solid foundation to create communications and business strategies.

2. Communications strategies which are not just about the right message in the right channel at the right time, but also targeted to the right customer to retain them, grow their custom and win them back if they've left.

3. Business plans that are informed by what people are willing to pay, what they buy when it's promoted, what the optimal ranges for in-store are and even what you must ensure is not out of stock become possible in a predictive and scientific way. No guessing.

A brand is not a brand without loyalty. And loyalty must be considered in light of what we call the "degrees of consumer devotion".

Building consumer devotion/loyalty is utterly possible through social networks and interestingly, helps us to work through all channels better.

Strangely, all anyone seems to be focusing on is combining old broadcast targeting with more complex media targeting for media that is everything but broadcast. We all learned the garbage in garbage out rule when it comes to the information we use to make decisions, didn't we? This lesson seems forgotten today, buried in the complexity of industry convention.

MONETISING THE SOCIAL NETWORK

Today, social commerce is the new, new thing. But in hard commercial terms, how will social networks, this dream of 'word of mouth' harnessed by new technology actually make your business money?

The answer is not in the power of the medium itself, but in the power of the targeting that the following easy ingredients provide:

- Right data: which allows you to see what a consumer has been exposed to and what they have purchased (preferably this is actual data, not claimed). If you can determine how loyal a customer has been, you have the right data.

- Right evaluation: The ability to clearly see what exposure worked with what consumer and how fast.

- Right audience: The ability to see what large groups of individual consumers do over time.

- Targeting 1.0: Today's targeting is the ability to target and communicate with your best customers.

- Targeting 2.0: Social targeting offers the ability to harness your audience's knowledge of their social networks to help you spread your message and/or your offer.

Social networks spread specific messages to specific audiences. You tweet to your Followers, Foursquare and Facebook connections – your self-selected target audience.

It's important not to confuse social commerce with viral marketing. Viral is basically a way for clever content to be distributed quickly, albeit randomly to wide audiences and it uses poor measurement mechanics (exposure to a specific ad is difficult to relate to purchase impact).

Where viral marketing is more or less 'Random Broadcast,' social commerce is 'Massively-Targeted-Narrowcast' (MTN). So, how does MTN work – and how do you monetise it? Here is a recipe you might follow:

1. With Targeting 1.0, identify a set of brand loyalists - those who can be counted on to buy your product through thick and thin;
2. Thank your loyalists by sending them an offer you know they will like;
3. Using Targeting 2.0, ask them if they would be willing to send the offer on to those in their social network who they know might like the same offer;
4. Measure whether and when both have redeemed the offer – and at what rate (i.e. person A redeemed in an hour, person B redeemed in a week, person C did not redeem);
5. Capture which offers worked, and which offers didn't. Understand who within the loyal grouping are also 'vocals'. Vocals will segment into fast, medium and slow and can be related to the purchase cycle (i.e. candy bars will go faster than face cream);
6. Define which loyalists have the greatest impact (i.e. redemption) and speed of redemption. These, in Tipping Point terminology, are your 'mavens';
7. Rinse and repeat, this time maintaining focus on your loyals, newly-formed mavens and freshly-discovered redeemers – the latter of which will spawn a new set of mavens.

Harnessing your loyal customers' knowledge of their social networks is a far more accurate targeting mechanism than the models that identify the loyals to begin with.

You also create a 'second moment of truth' – if you are a long time buyer of a certain dishwashing powder and I (a friend who you trust) send you an offer saying, "hey, try this", you have a much greater chance of trying it than if a company sent it to you.

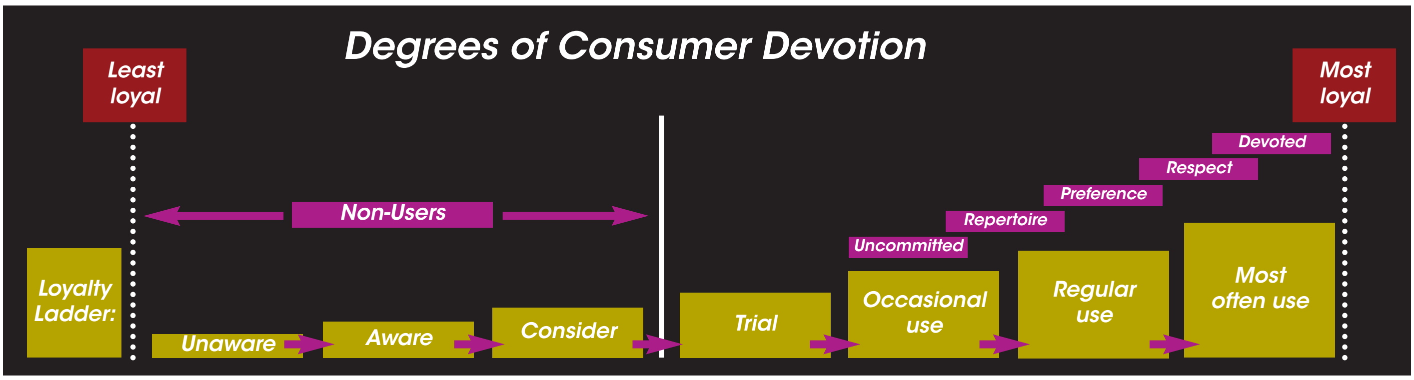
Massively Targeted Narrowcast – sharing targeted offers via social networks is the future of coupons and promotions, a new generation of truly robust, targeted media. The human element adds something that science currently cannot – and can be done on a broadcast scale without cutting and pasting broadcast techniques.

Loyalty cards are already mobile-ready; some of them have the ability to put a coupon on them, and for consumers to manage their offers via apps. It won't be long until your friends who know you are in the market for something (i.e. a brand X television) or love something (Brand Y chocolate) will be sending offers directly to you on every screen connected to the internet.

Consumer-first thinking defines a loyalty programme as a thank you – a thank you for your custom, a thank you by providing a better shopping journey that is more relevant and relevance is measured by actual consumer response.

Connecting purchase data (the effect) to cause data (media exposure) provides the only clear point-of-view of what messages work in what media and why. It may be simple, but it requires passion for the subject, curiosity about your customers' behaviour, and at all times, customer-first thinking.

Social networks are about sharing – sharing useful things whether they are photos or thoughts or simple hellos. When we can simultaneously thank consumers for their loyalty and allow them to share the benefits of this loyalty with their social networks, consumers, brands and retailers alike win. The systems that bring loyalty and social networks together will make happier customers, stronger brands and more connected retailers. ■



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WHAT IF ONLINE CAME FIRST?

Life in physical stores is evolving as ecommerce takes away much of the traditional need to 'go shopping'. Alison Clements asks experts to imagine stores in a world where online shopping came first, to help envisage how cross-channel retail might develop.

WHAT would stores look like if online had come first? They would certainly be ideal locations for 'touchy-feely' contact with product that is frustratingly beyond the scope of web pages. They'd probably evolve as places where interacting socially, 'in the flesh', could overcome another obvious limitation of the virtual world – the solitary, insular nature of online shopping. And branded environments would offer retailers exciting opportunities to engage with, inspire and assist people, leveraging the valuable online data they'd collected, in-store.

"They'd be places where consumers feeling jaded with digital social communication might gather for quality 'face time' with their friends and family," says Jim Thompson, Managing Director of store design strategists 20/20. "So if Amazon opened stores they would be visually and sensually stimulating department stores celebrating the social experience," Thompson thinks. "Amazon would offer an online network that allowed you to organise an afternoon with your Amazon-connected friends. Through your PC or mobile you'd book a personal shopper who would take care of a group of you, as you enjoyed the fashion floor, watching catwalk shows streamed onto giant screens and ordered from hand-held terminals. In this environment trying on clothes and spending time with a fashion expert – who might already have details of your sizes and brand preferences - would ensure a quality experience."

Thompson feels stores would be less about the product on the shelf, and more about "the value of the experience". In this set-up, bulky groceries might always be delivered from an online order, while shopping for fresh food will become an experiential exercise – retailers hosting tastings and cookery lessons, with bakers, fishmongers and butchers offering expert advice in settings of real retail theatre.

As the 'boring stuff' like narrowing down product preferences, price comparison, reading customer reviews and checking for availability can all be done online, it certainly makes sense for physical shops to complement a multi-channel retailer's offer by hosting specialist interaction. David Judge, Creative Director at retail design consultancy Judge Gill calls this 'social retail'. "If online had come first, stores would be used largely to build on the peer-to-peer advocacy that the online social media scene had created," he says. "They'd be places where advocates – brand fans or 'tribes' – would gather and continue expressing their likes and dislikes."

Judge envisages store experiences being "connected and intelligent" where customers learn about new products and services, and multi-channel retailers continue gathering data and feedback, from which they can keep evolving the environment – always striving to suit the needs of their tribes both online and off. He sees kiosks being widely used to cut down on the need to stock a large inventory, and product displayed using 3D modelling on quality touch-screens, as a useful way for customers to see and comment on product, perhaps even before it's been manufactured.

Practical services such as collection of remotely ordered goods, and 'trying on' would of course drive traffic says Thompson at 20/20, but "it's more of a challenge to expect people to come in just because they love what your brand stands for, as is arguably the case with Apple. Apple have taken the affinity that customers start to feel when dealing with the brand online, and brought it to life in the stores. Apple gives you free lessons and workshops when you purchase an iPad from them, and by using those hooks, they are creating a meaningful networking element in their physical stores – solid reasons to keep coming back and buying into Apple."

So cross-channel stores become more about giving than selling agrees Judge. "A danger would be to see the store as a physical space to merely continue pushing your marketing message, without putting something in there that is providing a real experience, adding value to people's lives," he says. A good example of such value can be seen in the Adidas MiCoach Core Skills programme being brought to life in stores. Judge Gill designed this 'social retail' service for the sports brand's flagship stores and it is currently being rolled out globally. Many retailers are already using their multiple touch-points with customers to cross promote services – PC World emailing in-store deals, and Tesco stores handing out leaflets promoting Tesco Bank's online financial services, for instance.

Pontus Kristiansson, Founder and CEO of Avail Intelligence, a vendor of automated online merchandising solutions, says merchandising and marketing operations in stores would be far more sophisticated if fuelled by intelligence gathered from online transactional data. This is where loyalty kiosks and mobile apps come into play, giving retailers the chance to make suggestions and recommendations in store, based on existing customer information. "This cross-channel convergence is very exciting and will undoubtedly shape store operations in the future," says Kristiansson. The mathematical techniques behind 'behavioural merchandising' that have been used to narrow down customer preferences online can be applied in stores. "So if a customer puts their smart loyalty card into an in-store kiosk, offers and discounts specifically designed for them will pop up. Or iPhone apps will alert customers to the kinds of deals that will interest them," he says. "Once that app has been used several times for store-based promotions – several coupons accepted for instance – your customer has left their profile behind and you can keep building on that intelligence."

CLICK, COLLECT & RETURN

Perfecting operations around the collection and return of goods in stores would be a priority for ecommerce operators designing stores from scratch, says Jason Shorrock, Business Development Director at BT Expedite. "It would be incredibly slick – perhaps with customers given a text alert when their order is ready, so that they can spend time enjoying the retail theatre and other services being hosted on the site." We've already seen Boots teaming with Asos to become a pick-up location for orders and Shorrock believes "there's plenty of potential for retailers to collaborate with each other in that way if it makes life easier for the customer".

Shorrock is another advocate of kiosks or sales assistants using hand-held devices in the cross-channel store, extending the range without needing to stock it on site. And this will revolutionise how retailers manage inventory across their many channels. "It's no longer hypothetical, because many of our clients who have been investing in multi-channel systems in recent years are already radically re-thinking how they buy, distribute and manage stock," he says. "There's a very real understanding that in five years' time the first young adults who have been web-connected all their lives will be entering the market as independent consumers. Cross-channel retail will be all they know, so store ops need to be ready for their high expectations." ■

STORE OPERATIONS GET SOCIAL

Adidas – MiCoach assessments

In flagship stores in Beijing, Paris and Berlin, sports brand Adidas has installed MiCoach Core Skills units – kiosks linking customers to the MiCoach website to test their athletic ability by completing a set of physical tests. Customers can compare their results with friends and benchmark against professional athletes, as well as devise a training programme that encourages them to return to store for re-testing. It's proving a powerful cross-channel customer relationship tool, allowing Adidas to gather global customer data that's fed back to Adidas product development. It delivers real value to customers. Over 52,000 tests have been completed in-store since its launch in January 2010 and nearly 90% visit the Core Skills website on average three times a week, either from the store or from home.

Apple - Workshops

Free workshops hosted at Apple Retail Stores are ensuring that Apple fans are learning the basics of the Mac, iPod or iPhone in the comfort of fully-branded, friendly, welcoming environments. Workshops might teach customers how to create instant slideshows in iPhoto '09, how to rent films using Apple TV, or how to get restaurant directions on iPhone. "All of our workshops — including new hands-on workshops — are free," says an Apple spokesman. "They're taught by people who really know Apple products and are eager to share their knowledge." Customers enjoy picking up plenty of tips and tricks, and will hopefully keep returning to the stores and building their interest in Apple products.

Burberry – Fashion Spectacular

When Burberry showed its Spring/Summer 2011 clothing range at London Fashion Week, the brand opened 25 of its stores in 16 countries to give signed-up Burberry customers the chance to preview the clothes at exactly the same time as the hallowed fashion world. The special evening event treated them to livestreaming of the catwalk show, and individuals were given iPads to peruse the range in more detail and even order items if they wanted. A special mobile app was developed by Burberry to make this possible.

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IT: FROM ECOMMERCE TO MULTI-CHANNEL

The growth of cross-channel is requiring ecommerce platforms to do more than 'take a feed' from other business systems. Full integration with, and changes to, core retailing systems are now required. Glynn Davis looks at the different approaches.

DESPITE being around for many years the term multi-channel has still managed to retain its place as a buzz word among retailers. This is probably because it still represents the oasis they all strive to reach but none have arguably managed it so far.

But unlike an oasis the term multi-channel is very poorly defined. It means very different things to different organisations. Michael Ross, Director of eCommera, paints a picture of one end of multi-channel as being a completely seamless business - where all activities are visible to each channel – and the other end where an organisation has an entirely separate ecommerce operation from the rest of the business.

Retailers are all located at various positions between these two extremities and how advanced they believe they are - with offering a seamless multi-channel proposition - will be down to their own definitions.

But whatever their definition of true multi-channel is, their IT decision-making to take them to their own oasis will be determined by both their legacy systems and how they choose to handle order management.

How the information relating to orders/stock is made available across all channels (the much vaunted single view) is at the heart of any multi-channel business. "The order management layer is the key as it's what receives the order and routes it through the required sale process," says Ross.

As a hybrid systems integrator (SI) and solutions provider eCommera has a strategy of "knitting together best of breed components and then getting them to work". For the order management layer its preferred provider is Sterling Commerce, which Ross describes as a 400lb gorilla of a solution.

He suggests there is a dearth of order management options in the middle ground between the all-bells-and-whistles solution from Sterling Commerce (that is favoured by the major grocery chains and other large retailers) and the much simpler versions that are available for smaller merchants.

Jo Molineux, Head of Multi-Channel at Republic, recognises this component as vital in her ongoing project of moving the fashion retailer towards being an integrated multi-channel business. The company is working with Torex to develop a channel order management solution having already taken a front-end store solution from the IT vendor.

Aurora Fashions is also in the process of developing its multi-channel capability through extending the solution from its existing provider, BT. Based upon BT's Expedite platform, Aurora is developing a solution comprising an order processing layer for single stock view across all the group's channels that is integrated with its ecommerce engine Fresca and its other channels.

Molineux says the order management solution "will sit at the heart of the communications and we'll need to feed stock and orders into it". She adds: "It will be our central hub for orders and stock management." The current big challenge is to integrate this single view of the stock into all the various elements of the business and to be able to update stock positions across the online store, the warehouses as well as in-store in a timely manner.

Molineux says its ecommerce engine from Venda is already fully integrated within Republic's logistics function with full visibility of stock in the warehouse. The ecommerce engines from the likes of Venda, BT Fresca and ATG among others are sufficiently advanced to be able to easily integrate into other parts of a retailer's business as they develop their multi-channel propositions.

Hosein Moghaddas, VP and Managing Director at GSI Commerce, says: "Ecommerce engines are not the be all and end all. It's only one component of the 80 that make up a multi-channel strategy. You can keep the same ecommerce platform and then add the multi-channel elements by integrating them all together."

However, when you start adding front-end projects like Click & Collect; allowing customers to order in-store from warehouse stock, and most complex of all – opening up the store stock to take orders against it online, then this starts to pose challenges.

Ross says the technology cost of having store stock available to fulfil online orders or even fulfilling for Click & Collect might be worth it for some retailers but for others this high level of multi-channel operability is questionable.

"You might build a whizzy solution for Click & Collect but you could alternatively simply ship [the goods for] each order from a central distribution centre and this can be just as efficient. The key is to understand what bits of multi-channel are important," he suggests.

Such decisions can dramatically alter the scope of retailers' multi-channel projects and the architectural choices they make. The two main alternatives, according to Martin Ryan, Technology Consulting Manager at Javelin Group, are either the Enterprise Service Bus (ESB) or ERP approach.

The former is an attempt to create a single integration framework into which 'best of breed' applications can be connected. "This approach looks good on paper and can work well in reality, but the effort involved and expertise required should not be underestimated," says Ryan who adds that this is like the "DIY approach using SIs where the retailer takes on the risk and cost of putting the solution together".

The ERP route in contrast, says Ryan: "Attempts to deliver as much function as possible from a single vendor's suite of products. This places the onus of application integration onto the vendor, but has the drawback of failing to deliver best-in-class functionality in any single area."

Another potential downside is that retailers must work out for themselves how much of the desired integration will be delivered by the product and what will need to be added via customisations.

Tony Bryant, Head of Business Development at K3 - that delivers multi-channel solutions based on the Microsoft Dynamics platform, argues the case for the ERP approach: "Yes, the majority of software has integration tools so it is not a huge deal to tie-up all the parts for a best-of-breed solution but there is a risk of future failure as it might not fully offer real-time processing as a result of the extra complexity.

"The most important thing is how you want to flush orders through all parts of the business. For buyers and merchandisers the total solution from a single provider helps as they can all see how they are buying for three or four channels and the warehouse can see what needs replenishing."

Another route to creating a multi-channel proposition is via the outsourced approach. This is the solution supplied by GSI whose model involves being paid for its systems on a revenue sharing basis from its retailer clients.

Moghaddas says: "There is no capital outlay on the build from the retailer, which makes it especially suitable for those with no IT department and no capital to spend on a multi-channel development."

GSI has successfully implemented a solution for value retailer Peacocks Group, which he says is typical of most of its solutions in that the retailer has signed-up for its entire multi-channel solution – incorporating website design, integration into warehouse, call centre and the crucial order management solution.

Whichever type of platform retailers choose in order to take them down the path from offering an ecommerce service to being practitioners of full multi-channel retailing, Moghaddas says the decision should not be based on throwing out the existing infrastructure.

He is instead an advocate of fully reviewing what is in place with the incumbent vendor and assessing their multi-channel capabilities. "Have they done such implementations in the past and what is their roadmap for multi-channel in relation to the retailer's existing infrastructure?" he asks.

This, however, will not on its own highlight the clear route through which a retailer should traverse to reach their multi-channel oasis because the other crucial component is down to how exactly they are defining this difficult-to-define term. ■

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THE IMPORTANCE OF CROSS-CHANNEL CAPABILITIES

Alan Braithwaite, a Professor at Cranfield School of Management and Founder of LCP Consulting reports on the conclusions of a thesis study looking for best practices in multi-channel retailing.

THE AIM of the study, conducted of behalf of the systems vendor, Manhattan Associates, was to identify the critical success factors in securing the high levels of multi-channel growth that are being experienced and identify how to make that trajectory sustainable. A key conclusion was that cross-channel operational integration is the critical success factor in terms of customer satisfaction and hence customer retention and increased share of wallet. Customers are ahead of retailers' operational capabilities in their demands for services and flexibility; the challenge for retailers is catching up and implementing so that the services are affordable to customers and do not erode profit.

Multi-channel integration at the operational level is being called by some 'cross-channelling' and the term conveys the idea of a seamless customer experience in terms of their interaction with the retailer by whatever operational mode and at whatever point in the transaction from research to return. This is about customer convenience, brand accessibility, and visibility right across the chain.

While the research identified that there is no best practice model and that levels of maturity in terms of detailed process and systems development are limited, it found that there are some absolutely core high level processes of which cross-channel interactions are key.

The table following provides a view of what this can mean in terms of customer interaction for the purchase or return and the methods of fulfilment.

This is a complex matrix and customers want to be able to access the same product and return it through any pathway or combination of channel. Customers want to be able to research online and then go and buy in store for take away or home delivery: reserve product online or by phone and collect and pay in store: buy online and either collect from stores, an intermediate drop point or have the goods delivered. The return can be back down any fulfilment pathway and not necessarily the same one through which the goods were delivered.

COST OF ACQUISITION

What is more, customers do not want to pay more for the privilege of such a service. Research has shown that they will make buying decisions based on the delivery costs, in some cases without referencing the total cost of acquisition.

The value of a multi-channel customer has been shown to be roughly 3 times the average so these customers are worth delighting and retaining even if they are extremely demanding. And, they are likely to exercise all the fulfilment options over time.

The implications are clear; retailers will have to connect their channels together to provide as seamless an experience as possible. In practice this means: being able to protect and allocate inventory in stores and distribution to a specific customer request: being able to track and provide visibility at all points in the customer's chosen route of purchase, knowing where the goods are and their status: being able to track and identify the customer's history so that you can interact with her (or him) better. For example, linking a sale to a return is extremely difficult if the customer crosses-channels.

Behind the scenes, inside the operation, the challenge is providing auditable control for goods that are being directed to places that they did not previously go to and from which they may need to be returned in saleable condition. When goods are returned, the challenge is a complex one. Proof of purchase, crediting, decisions on whether goods can be put back on sale or must be reprocessed or scrapped are all intricate and margin eroding processes.

The research discovered that there are no well established and documented process models for multi-channel retailing, such as exist in other sectors for commerce and the supply chain

CROSS CHANNEL OPTIONS MATRIX

	STORES	DROP POINTS	ALTERNATE LOCATION DELIVERY	HOME DELIVERY
STORE SHOPPERS	Classic retail model	Buy and deliver to collection point	Buy and delivery to office etc	Buy and home deliver
ONLINE RESEARCH/ PURCHASE	Research reserve/buy click-&-collect	Buy click-&-collect	Buy click-&-deliver	Buy click-&-deliver
IN STORE KIOSK	Buy click-&-collect	Buy click-&-collect	Buy click-&-deliver	Buy click-&-deliver
CATALOGUE AND PHONE	Buy click-&-collect	Buy click-&-collect	Buy click-&-deliver	Buy click-&-deliver
RETURN	Return to store	Return to drop point	Carrier return	Collection

through the ERP vendors: for example purchase-to-pay and order-to-cash.

Some companies are able to ring fence their stock for customer demand while others have to make a physical separation, some can reserve in store while others cannot see the store stock files online. And, when it comes to execution, the challenge of stock file accuracy is accentuated from a normal retail situation. In the old model, if the customer cannot see it they do not pine for it and may accept the out of stock; when goods are online and a commitment is made to delivery they will feel let down and punish the brand for their disappointment. Store stock file accuracy is a huge issue since in many stores the stock quantity of a sku is quite small by size, colour or style. Our experience is that store stock files are often as much as 15% wrong in terms of right quantity and location which means that more than one in ten customers will be upset if they chose a route that connects with stores. Considering the high value relationship of these premium customers, not having the item available when the customer turns up is a huge negative.

The research found that companies in the sector start from different positioning in terms of multi-channel scale, markets, strategy and operational capabilities to meet these serious and new requirements. There is both a systems and process requirement that will engage the entire business in doing "new things". The maxim for these major challenges among retailers is 'we are where we are' and 'development is a journey'. Our investigation showed that each one can only develop from where they are and their current systems and process capabilities.

The cost of maintaining cross-channel operations and multi-channel fulfilment is potentially high and the questions of affordability and risk are now in full view. While the potential exists to increase the offer and extend the customer franchise, the complexity of lower sales per sku, price normalisation over the internet and the associated fixed and variable costs are all margin eroding.

So, the paradox is that the multi/cross-channel segment is the only place where like-for-like growth is well ahead and it ties in the most valuable customers; however the implications for margin are potentially significant. Few retailers have really grounded the total cost picture of these scenarios and this should be important work-in-progress.

The more aware are trying to push customer demand and fulfilment route selection down particular cross-channel choices which help to maintain integrity within current systems and keep the complexity under control. Others have been overambitious and had to step back from their vision while they get the detail right.

The more aware have also ensured their organisation and KPIs are aligned to cross-channel operations so that everyone who faces the customer is motivated to help them rather than display classic 'jobsworth' behaviours. This is not easy in terms of recognising sales and allocating costs.

The conclusion is that effective cross-channel operations is the future of multi-channel retailing but it requires operators to 'up their game'. Since this will be difficult to do quickly or all at once, priorities must be set against direct customer feedback of what they value from the brand's performance. Prioritisaton will be about affordability and ease of implementation and tough conversations between marketing and the operators will need to happen. If these are well informed by accurate flow cost and capacity analysis and net margin reporting, they will be easier to focus and create a good business result; and that is certainly where we are focusing our efforts. In the absence of such initiatives, the world of cross-channelling is one of heightened risk. ■

Insight from arou

SARAH TAYLOR, SENIOR INDUSTRY DIRECTOR, ORACLE RETAIL

It is widely reported that Russia is a tough nut for international retailers to crack in terms of market expansion with obstacles including political and legal barriers, poor infrastructure and reams of red tape. However, the long-term benefits of achieving retail success in the region far outweigh the problems a retailer might experience.

As the largest consumer market in the Central and Eastern Europe region, expansion is very attractive in terms of the potential number of stores a chain can open. Achieving success in Russia can lead to further growth into other key markets, such as the Ukraine, that are also often hard to enter. These difficulties are exemplified by Wal-Mart's efforts – the retail giant currently has an office in Russia purely to see how the nation operates before attempting to get a foothold in the market.

When it comes to Russian ecommerce, despite positive figures reported by the National Association of Members of E-Commerce Russia, there simply aren't many retailers trading online. The 2009 report states that online users in Russia have increased 35.4% since 2007, far outweighing the US at 7.2% for the same period.

With predictions that Russia will have nearly 43% of its almost 142 million population using the internet by 2012*, it should only be a matter of time before we see retailers taking advantage of this channel and driving customer sales online. Indeed, X5 is already looking to benefit from this fertile ground. With a 9% share in the Russian market, it has a multi-format strategy in place to support business expansion and combat the impact of the global recession. Last year, it collaborated with books and entertainment website bolero.ru and household appliances online retailer 003.ru to launch a joint ecommerce venture and deliver Russia's answer to Amazon. It might be early days but it's a case of 'watch this space'.

Russia is a tough market to crack but its ecommerce future looks bright making it a serious consideration for overseas investors.

**Figure taken from an article by Michael Bloch - Ecommerce and Russia - an emerging online economy -Taming The Beast.net, web marketing and ecommerce tips, tools and resources.*

MICHAEL MATZER, EDITOR, INTERNET RETAILING GERMANY

In their monthly survey the augurs of the Gesellschaft für Konsumforschung (GfK, Institute of Research on Private Consumption) have found that the economic upturn, falling unemployment and a moderate price climate is leading to improvements in consumer sentiment, with consumers expecting the economic upturn to continue over the coming months. In this context, the public clearly sees a realistic prospect of income growth, which is itself helping to stimulate the propensity to buy.

According to a survey by Novomind, German e-retailers can expect to see rising sales in the months before Christmas, since many online shoppers are already planning their purchases. Four out of ten e-shoppers already know they will buy media (books, DVDs, CDs, games), and every fifth customer is interested in buying fashion or consumer electronics on the web.

The fact that millions of Germans do their shopping online has made online shops attractive to retailers. EuPD Research have found in their recent survey, sponsored by PayPal, that every third retailer is doing business exclusively online, while in 2009 is was only every fifth. Two out of three e-retailers expect their sales to increase. In the mail order sector 6 out of 10 Euros are earned via ecommerce.

However, consumers are still wary of small, specialised shops, mainly because they do not expect these shops to be capable (technically or organisationally) to protect their data. Therefore, argues PayPal, higher security standards, like those of PayPal's payment services, would help this sector succeed.

Not everything has to be offered online. According to a survey conducted by outsourcer/consulter Accenture and research institute GfK German multichannel business will grow by 80% until 2015. Multichannel sales based on online and bricks & mortar purchases contributed 14 billion Euros in 2009, equalling 10% of all non-food purchases. This share is expected to rise to 17%. Correspondingly, the share of pure online sales is expected to fall from

nd the world

10 to 7% and the purely stationary sales from 84 to 73%.

Times are looking very promising indeed for German ecommerce, and I could witness the vibrant atmosphere when I visited the recent dmexco expo in Cologne. Some 15,800 visitors crowded the single expo hall where 355 exhibitors vied for their attention. A second hall was reserved for presentations and debates in which online marketing, targeting, e-mail campaigning and the role of social media were identified as areas set to play a crucial role in the development of German ecommerce and the loyalty of the elusive online customer.

SAM ZHUANG, FOUNDER, SMART-PATH.NET

2010 will probably see its eighth year of triple-digit growth in the Chinese online shopping market, which has grown from RMB 1bn in 2002 to RMB 500bn ($75bn).

Three drivers have been pivotal to this dramatic expansion. On the demand side is the fast growing internet population. Then, there is vast advancement of ecommerce infrastructure, including convenient payment system and nation-wide, cost-effective logistics network. The supply side however, tends to be most interesting, since the market has proliferated from a handful of online shopping sites to hundreds, covering a wide range of categories.

After the peak time of C2C in 2008 (where C2C made up 93% of the total online market), the share of B2C has increased steadily, reaching ~15% in 2010.

Taobao (the biggest C2C site in China), though still dominating, is seeing its share taken away by emerging B2C sites, irrevocably.

So, what about the B2C sites in China? First of all, some B2C sites actually came from C2C soil. The owner of Icson.com, an emerging electronics B2C site, once ran a popular Taobao store. Many of the top Taobao store owners have been approached by venture capital funds, to explore business ideas, spinning-off to a separate B2C business being one of them.

Secondly, there is a steady influx of global FMCG giants moving into the B2C market space. Some, like Unilever and Adidas, have run a pilot (usually a Taobao store) to test the water before opening their own B2C sites. Others, like Lining and Uniqlo, start their own B2C sites directly.

At Smart-Path.net, we analyse the online shopping market in China for C2C and B2C business angels. While B2C sites tend to raise a higher price than C2C, what is clear is that whatever path they take few FMCG companies in China can afford to ignore the online market space.

CARL CLUMP, CEO, RETAIL DECISIONS

At Retail Decisions (ReD), we've seen the incredible growth and development of the Indian ecommerce travel sector, working with one of the largest Indian online travel agencies, AkbarTravelsOnline. This is certainly a market to keep an eye on, as it is expected to reach over US$40bn this year, rising to nearly US$50bn by 2012.

The success of the travel market shows the excellent retail opportunities in India for all industries. The rise in arrivals and departures in itself suggests the opening up of business prospects and India is currently undergoing enormous economic growth. An expanding population, along with an increasingly wealthy consumer base, means that total Indian retail sales are expected to be worth $353bn in 2010, growing to $543bn by 2014, according to the Q310 BMI India Retail Report. India offers excellent retail infrastructure, so savvy multi-nationals are stepping onto sub-continental soil.

India's substantial middle and upper class society is obsessed by consumer culture and this is a great opportunity for businesses with overseas expansion plans. However, any such plans must include measures to tackle fraudulent transactions. India is equipped with 3D Secure to address fraud during online purchases but this is not a silver bullet solution. A multi-dimensional approach is the only means to effectively combat cybertheft. By implementing a robust fraud prevention strategy, retailers entering any new space will be well positioned to trade and prosper in foreign climes.

MOBILE'S ROLE IN ADVANCING MULTI-CHANNEL RETAILING

Third party services utilising smart phone capabilities and apps are advancing multi-channel retailing for retailers not yet offering their own service. Alan Gabbay, Founder of mobile stock checker Udozi shares his experiences.

UNIVERSITY finals is a stressful time for most people, let alone the student who has left his revision till the last three days before the exam. On the brink of despair and realising that this is not one of his smartest moves, he scours the web frantically for that one academic book that might be his saviour. With earliest delivery being six days away, the high street is the only viable option for him to obtain the book. Enduring the tiresome task of manually calling every book store within a 30 mile radius area he wonders why a quick and easy system has not been implemented to check, locate and reserve stock at high street stores. This student was me and this experience was the driving force behind Udozi.

Since establishing Udozi eighteen months ago, we have seen a substantial shift in retailers' mentality towards both our concepts on stock tracking and multi-channeling as a whole. While many retailers revelled in the idea of stock tracking, they claimed implementing such a system with their current set-up would be too challenging. In their eyes adapting their system was not warranted as they felt their online store was sufficient.

If a consumer went to one of their high street stores and their required item was not in stock, they would be advised to order it from the shop's online store. By pushing the user back online there are no guarantees that they would actually buy the product from that retailer. In essence they were missing the entire concept of Udozi, which aims to drive the online user back to the high street, increasing footfall into their stores.

Shortly after the App Store was released for the iPhone, like many other companies we developed a mobile application. This was a turning point for Udozi as we decided to focus the company more on its mobile application than its website. While the site is still fully functional, we feel that the Udozi mobile application offers the user a new and innovative shopping experience, the ability to search for stock whilst on the move. Now when the user discovers their item is out of stock in the high street store, they can take a picture of the bar code and Udozi will locate the nearest branch which has that item and navigate the user via GPS to that store. In essence it turns a potential loss of sale into a sale. Furthermore by keeping the consumer in store one could argue that they are more likely to buy other products.

On re-approaching the retailers, it became apparent that there was a shift in their multi-

channel strategy. There is now a need to adapt to incorporate these new technologies. The problem is not only making the required changes, but more importantly making it worthwhile. On countless occasions we have spoken to retailers who claim to have entered the mobile space with their application, only for us to discover that they have jumped on the "developing a mobile application" bandwagon. Many of these applications serve minimum purpose and present no additional features to the user apart from seeing how many loyalty points they have collected!

With the advancement of mobile technology, the consumer is pushing the retailer to embrace and advance multi-channeling. Gone are the days where online and high street shopping are categorised as two distinct mediums dictated by different prices and services. A new type of consumer is now merging both platforms into one entity due to their mobility and constant connection to the internet. These "Smartsumers" are powerful groups who compare high street and online prices, read reviews whilst speaking to sales assistants, and even buy products from competitors if they cannot find their desired items, all while in the retailer's store.

SMARTSUMERS

Although it is virtually impossible to eliminate the power of the smartsumers, if retailers can adapt their systems and organisations to take advantage of these new powerful mobile devices, they could offer their consumers a true cross-channel platform. We feel at Udozi there are many ways to achieve this, in particular with the use of MyWatch List. If for instance a user wanted to buy the latest 3D TV but did not know where to locate it, they could go onto our website or mobile application and search for the item. If this item is out of stock the user can add it to MyWatch List. Udozi will then constantly check to see when that item comes in stock and would inform the user via email or text message. This message would contain the store's contact details so they could reserve the item. Once the user is in store to purchase the 3D TV, he could potentially be persuaded to purchase more items such as an extended guarantee or more expensive cables. Through MyWatch List the user can seamlessly interact with the retailer using his computer, mobile and in store.

For a scenario like this to work properly accurate stock information is required. While many retailers still find this a challenge, some have taken on board the huge benefits of stock visibility across most of their multi-channels. Argos, for example, allows the user to view high street stock on their website and mobile application, reserve an item to collect in store and offer customers a delivery of their online purchases within ninety minutes. There are many retailers who have not yet achieved this level of sophistication with their stock control with many still running a manual system. However, they are still willing to explore ideas to improve their inventory tracking.

One main problem with allowing consumers to track inventory is the fact that many stock systems do not have a description field. For the consumer to locate an item they would have to use the product code. By contrast the retailer's websites have detailed descriptions on each individual product. Udozi's solution to this obstacle is to extract the description of the product from the website and the stock data from the high street stores' inventory systems, merging them into one comprehensive database. This allows the user to search for a generic product on Udozi, for example an orange T-Shirt without the knowledge of specified product codes. Through this, the retailers' stock systems have become more accessible to customers without the retailers having to alter their stock systems.

While mobile devices cannot fully account for advancements in multi-channel retailing, they are certainly proving to be a contributory factor. It has helped open the door for companies like Udozi to communicate and work with retailers to bring their services to the market. Consumers are now being presented with exciting, new ways to purchase products and retailers are generating sales via new and innovative ways, thus improving customer satisfaction. With the future presenting some exciting new developments, including the emergence of 4G mobile networks and advancements in augmented reality, retailers must ensure they remain dynamic, flexible and open to these new technologies to further advance multi-channel retailing. ■

MORE THAN JUST RETAIL

It's easy to think of m-retailing as just using mobile as another transactional channel, but it offers retailers much more than that. Mobile is a communications tool after all, so why not use it to communicate with your customers and drive them to buy from you through the channel of their choice? asks Paul Skeldon.

IT IS VERY EASY to get bogged down in the notion that mobile for retailers is about building a transactional channel that works on phones and that's that. But, as m-retailing morphs into just a different device shopping on the web, canny retailers are looking more at what else mobile can do as part of a more overarching strategy to drive business across all channels.

To all you multichannel retailers out there – and to those of you harbouring the dream of becoming such – this is not new. But what is interesting is that a lot of what mobile can deliver around marketing, advertising and the more nebulous role of driving users to shop with you anywhere, can – and is – being done with the distinctly unsexy SMS and MMS messaging technology that has underpinned mobile for more than a decade.

But, while we may all be getting caught up in designing alluring mobile optimised websites and pouting apps with come-to-bed eyes for the lucky few out there that have a smartphone, it is easy to forget that such a strategy overlooks the 80% of people who don't have such a device – a vast number of existing and potential customers who you are, on mobile at least, ignoring.

Text services don't have this problem and, more to the point, everyone wants to receive texts. A study by mobile transaction network mBlox has found that 59% of consumers want businesses to contact them using SMS for everything from bill reminders to sending them coupons and vouchers. With their interest peaked, mBlox prodded the man in the street further to reveal that a staggering 71% of UK consumers want SMS vouchers and coupons sent to their handsets when they are out shopping.

This is part of the reason why, in October, O2 went live with its O2More service which works with brands to deliver location and time targeted SMS coupons and vouchers to consumers who opt in to receive such messages.

Following a soft online launch this summer, the carrier already has more than one million consumers signed up to O2More – including me – and has kicked things off with a campaign for Starbucks to launch the coffee chain's instant coffee called Via and is working with beauty product company L'Oreal around the launch of a new shampoo.

Working with Placecast, the service texts offers to registered phones when they enter 'geo fences' placed virtually around certain stores and locations. It's all very interesting and you can read more about it at www.internetretailing.net, but the key thing is that it is using SMS and MMS to ping offers to people so that it can reach as many people as possible and it's aimed squarely at driving people from mobile into stores.

Similarly, fashion house Karen Millen has also rolled out an SMS couponing service, again aimed at getting footfall in stores. Restaurant chain TGI Friday has also rolled out a time and location targeted offering, this time using rich media it has to be said, to get people into its restaurants Monday to Thursday evenings.

These schemes – along with a host of others currently running or about to go live – show that many retailers are starting to get the hang of mobile's true potential and that it doesn't have to be anything fancy. Unlike the web, mobile can be a spontaneous lifestyle device and so popping a prompt to do something onto someone's handset can be a great way to get action that might not have otherwise happened.

But it does go deeper than that. Placecast, which has white labelled its geo and time targeting platform to O2More, has stats that show that many people do indeed react straight away to a mobile prompt to head into a store to redeem a voucher, but many others keep in it their phone and use it two or three days later. The explanation appears to be that if they walk past a coffee shop say on their way to work and get the message they may not have time to act on it, but the next day when walking past again – and not getting another message, the system doesn't let that happen – they remember they have a voucher and go and redeem it.

This is the true power of mobile: it reaches into people's lives and can change the way they think and act – and it is this that retailers really need to understand and start to exploit – often with simple to run text solutions if they are to really see an ROI on mobile. It is a cliché, but it is the glue that binds all the other channels together. ■

NFC AND OTHER M-RETAILING DEVELOPMENTS

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

Apps verses m-web (part 793)

The war of words between retailers as to whether it is better to have an app than go for m-web or vice versa has loomed large in m-retail – but could a winner be about to be declared? Well, a survey of 1,200 consumers in the US carried out by Adobe Scene7 might be about to lay it all to rest: it found that 66% of respondents cited that they prefer the mobile web for accessing content compared to 34% who prefer downloadable apps. In fact, apps are only viewed as good for games, music players and maps.

Another study by OpenCloud found that, of 1,000 UK consumers interviewed, 38% of smartphone users only download free apps, while 50% downloaded no apps at all in the past month. The study also showed that only 45% of all mobile users actually have the ability to download apps and just 39% of those regularly do so. 29% of those asked do use the mobile web regularly, but the majority of people (83%) use it for texting and voice calling.

So, where does that leave the apps verses m-web debate? Each still has its strong advocates – John Lewis and Marks & Spencer to name two are all for m-web, while Debenhams and Argos are clearly in the apps camp (for now).

Speaking at Internet Retailing 2010 last month, Sienne Viet, Business Development Manager at M&S told the assembled throng that M&S sees m-web as the logical way to do m-retailing as it reaches the most people. Debenhams, meanwhile – which launched its new app at the start of the show, believes that apps are better as they can also include a raft of services that users can use in store and so the app offers customers more. Oh, and all its mobile traffic – 280,000 uniques a month – pretty much comes from iPhone, it says.

Ho hum, looks like the battle will rumble on for some time to come…

Pureplay etailers are better at mobile

Pureplay etailers, such as Play.com and Amazon, are outperforming their high street rivals when it comes to implementing mobile commerce, boasting superior design and functionality, according to a new benchmarking study by eDigitalResearch. However, the study also found that some retailers – though not those two high fliers – are upping prices for the mobile channel in a 'convenience premium'.

Play.com and Amazon led across the ten individual benchmark measures with Play.com claiming the top spot at 89.6% for its intuitive navigation, well laid-out shopping basket and easy click-through to purchase. However, scoring 86.8%, M&S ranked second overall for its impressive product information and ease and speed of navigation. Amazon came in a close third, primarily for its keyword search and simple purchasing process.

Across the ten benchmark scores, keyword search and delivery were the best performing areas, with half a dozen sites scoring over 90%, in the 'excellent' bracket. Two thirds of the sites surveyed delivered product on-time, but there is still room for improvement as a small number of retailers are currently only offering a 'click and collect' service.

Letting the customer pay

Things are hotting up in the mobile payment space – one of the integral parts of m-retailing – with news that mobile service providers will soon be able to deliver fully regulated end-to-end financial services, following an agreement by financial services group Voice Commerce to provide payment and mobile money services to mobile operators through Alcatel-Lucent's Mobile Wallet Service (MWS).

Simultaneously, Monitise, a global leader in mobile money solutions, has formed a partnership with DeviceFidelity that will allow mobile phone users to conduct contactless Visa payWave transactions from a micro SD card that sits in a phone's SD card slot – turning any smartphone with a microSD slot into a mobile payment device.

One of the hot tickets at Internet Retailing 2010 in London was discussion around mobile payments that suggests that integrated NFC enabled chips in phones are very close to coming to iPhone (on iPhone 5, apparently) and with that payments for goods with and even ON the phone will become seamless.

Which is just as well as Alcatel-Lucent asked 226 people aged 18 to 26 in ten countries what they wanted from mobile and 81% of them shrieked excitedly that they were "interested" or "very interested" in employing their wireless handset as a "wallet" linked to bank accounts and loyalty cards. A further 80% suggested they would happily use a phone as the main way of completing transactions, replacing credit cards and their equivalents.

Who's looking at you, kid?

Tracking what people are doing online is easy, on mobile it has always been rather hard – especially as smartphones now leap between wifi and networks. Brands, retailers and media companies can now find out more accurately who is looking at them through mobile channels, following a tie up between digital metrics company comScore and mobile billing specialist Bango. The tagging service gives the ability to tag mobile web and application assets to enable accurate measurement of audiences, including unique traffic counts and engagement metrics, across a variety of devices and platforms in addition to next generation devices such as tablet computers.

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