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21 Winning Ways for Online Retailers

Rules are there to be broken and that's certainly the case for retailers. They're throwing the rulebook out of the window in order to stay ahead of the competition by giving customers the ultimate online shopping experience

The appetite for shopping via e-commerce and m-commerce is only set to grow over the coming years, presenting a tremendous opportunity for retailers. Shoppers in the UK are expected to triple their online spending to £67 billion in 2020 from £21 billion in 2009, while offline retail is set to fall by £18 billion to £247 billion during the same period.

Winning that market share won't be easy and executive teams and boards are facing some tough decisions, especially for larger retailers with entrenched operating models. Added to that, innovation in the digital space continues to evolve rapidly, morphing the purchasing habits of consumers in the process. Criticaleye spoke to a range of experts to garner their views and tips for forging a dynamic and successful strategy both to drive sales and engage with customers.

1. Deliver a Multi-Channel Experience

The best businesses have long understood the importance of a sophisticated web and digital offering alongside the retail channel. **Brian Kalms**, managing director of Accenture's UK Retail practice, says that during the past year "retailers have decided that they need to be fully multi-channel operators".

For this to be effective, the lines of responsibility need to be clearly delineated. Brian adds: "Given the speed and diversity of the changes presented to retailers, it's vital to have an established, multi-channel director and make them important. This cannot be simply stuck onto the side of the business; it has to be something that is part and parcel of the core operation."

2. Get Up Close and Personal

Unlike a generic, brand marketing campaign, online analytics make it immediately apparent if the latest promotional push is making the right impact. **Don Elgie**, CEO of the insight and communications company, Creston plc, suggests that "the online model requires a different kind of marketing, so it cannot be a duplication of the bricks and mortar strategy as it's a different medium, but it certainly needs to be embraced".

Steve Richards, Chairman of gift website, Getting Personal, and health and fitness chain, The Third Space, says: "A lot of retailers have struggled with online because it requires skill in direct marketing. Historically, high-street retail has been about generic campaigns, focusing on brand, whereas now you're breaking down your offering to individuals on a very personal, immediate basis; today, you need multi-channel marketers who can work online and offline and understand the complexity of ROI."

3. Brand Power

As the rules of the retail game are redefined, businesses both large and small are fighting to understand the nature of the new market differentiators. Brian comments that, as more people appreciate the ease of online shopping, the "stores of the future will be different" as the days of simply building focussed assortments in the right location will no longer define good retail practice. Trying to stand out from the crowd by price, range, and location will all be harder as the internet levels the playing field in terms of how consumers, armed with banks of information, browse and select what they need and how they receive it. Service may actually be the most critical differentiator.

4. Avoid Operational Silos

A common mistake is for the online offering to be something of a separate entity to the rest of the business. **Moira Clark**, a Criticaleye Thought Leader and Professor of Strategic Marketing at Henley Business School, comments: "Customers need a seamless experience when going from online to offline. They must not be seen as separate things as, ultimately, online is just another distribution and promotional channel and therefore it has to be integrated with the rest of the marketing strategy."

The operational and strategic planning must be intertwined. Moira adds: "Multi-channel integration means that when you go into a store or go online, you should feel like you are dealing with the same organisation. Naturally, this can be hugely challenging, but you know when a company has got it right – walk into an Apple store and it feels like exactly the same experience as using its website."

5. Customer choice

For higher end items, the web offers a great platform for customers to personalise and even design their purchases (for better or worse), which can then be created.

It's about understanding how technology is recalibrating consumer expectations. Don says: "There are people who are going to want physically to see a product, but increasingly where a store also has a website, the store is being used as a viewing facility and tailored choices are made online. Think of a car dealership, where you go to view and test drive a vehicle, but decisions on comparative pricing, models, colours and upholstery, are being conducted on the internet."

6. The Game's Already Changing

An email address is vital when capturing online data and intelligence to chase up repeat business through direct marketing. Steve Richards notes that a challenge is lurking on the horizon as "a whole generation is going to grow up without an email address as they use Facebook and other social networking sites".

He poses the question: "How are we going to market to those people?"

7. When Two is Better than One

A smartly judged joint venture can allow for a company to make up ground if it has been slow to grasp the opportunity presented by the web. A report by Accenture, *Redesigning Retail: Operating Model Imperatives for International Retailers*, highlights how, in Japan, Fast Retailing's UNIQLO brand has joined with Taobao, China's largest internet retail website, to bring the Japanese company's casual wear to Taobao's 100 million online shoppers.

Fast Retailing is also collaborating with Selfridges to offer a new and exclusive UNIQLO men's collection at the higher-end retailer. Consider too Alliance-Boots' design and sourcing partnership with Mothercare, which makes children's clothing, and the European personal products retailer's reciprocal selling arrangement with Waitrose supermarkets. Both deals enable customers to shop and purchase from the expanded assortment in stores or to order online and pick up their purchases in stores using Alliance-Boots' Click-and-Collect service.

8. Pricing Pressures

The web has made the question of value one of the key battlegrounds for retailers. Moira says: "On the most basic level, customers will expect pricing consistency. It is fine to do specific promotions, such as providing vouchers to encourage shoppers to go online, like Waitrose have done recently, or to even offer products online which can't be bought in a store, such as bulk food items, but beyond that, I think you need to be very careful."

£67bn

Online retail spend in 2020

For **Brian Murphy**, former Group Managing Director of lastminute.com, it's possible to have a separate strategy which targets a new strata of customers, provided the branding is right. A good example of this can be seen with Dow Corning, a B2B silicon specialist. It told customers that if they wanted an all-round, quality service, then they should use the normal channel, but they then launched a separate brand, Xiameter, which allows customers to order directly and find lower prices, without the pampering and customer service. It's been a success – half of its revenue now comes from the web and, crucially, it killed off competition from Asia, namely Korea, by giving it powerful economies of scale.

9. No Time to Hesitate

Indecision is disastrous for business. Brian Kalms observes the rise of market disruptors in the retail sector as technology makes it easier to personalise purchases and for suppliers to potentially cut out traditional distribution models.

Examples of this can be seen from consumer reverse auction sites such **(Ortso)**, price comparison sites **(Mysupermarket)** , group buying sites **(Groupon)**, manufacturer sites **(pgestore)** and manufacturer stores **(Apple)**. The phenomenal success of e-Books (UK sales rose from £4 million to £16 million in 2010) demonstrates perfectly how quickly the foundations of an industry can be shaken to the core as customers catch on to the benefits to be gained from such technology.

10. Turn Traffic into Trade

Much like the well-worn saying that "turnover is vanity, profit sanity", lots of website traffic will be ultimately useless for retailers if those who are browsing aren't converted into sales or, at the very least, potential customer data is captured (if you go to the Groupon website, you're immediately asked for your email address).

Steve Richards comments: "In their usual high street operations, retailers work hard at driving customers to the door. That means having stores in the right locations, laying out the stores correctly, revising that on a daily basis, putting on pricing promotions and turning a set volume of customers to a calculated amount of cash through the till. They won't necessarily think of it as a conversion percentage, like on the web, but they will work all the time to make the merchandise more exciting and attractive. That level of application needs to be applied to making a website work."

11. What's the Boardroom Vision?

A CEO has to take a strong lead on how a company will seize the online opportunity and inspire both the management team and employees to move in the right direction.

Brian Murphy observes: "There are now 2 billion people on the web and, although there will always clearly be a need for offline services, a business will be heading for disaster if it does not have a clear plan for its online offering, both web and social media. Think of what's happening to HMV and Waterstones, some assumed the experience of coming into a store would protect them against the popularity of buying music or books online, it didn't. Few industries will be immune over time."

Moira agrees: "To not have a concise, integrated online strategy, is to be swimming against the tide. It has to be seen as another distribution and promotional channel and incorporated into the rest of the marketing strategy for the business. Most companies have risen to this challenge and, quite simply, any company that doesn't do it in the near future may find themselves dead in the water."

Too many companies have poorly thought-out, half-hearted online offerings. Brian Murphy continues: ""A strategy of watching and waiting is now increasingly dangerous due to the speed and breadth of current developments. By the time you have waited a competitor could lock you out of the market and have locked in consumers, look at the tie up between Nike and Apple."

£2bn

People now online globally

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12. Two Superpowers

Consumers now have more power and access to information (both correct and erroneous) than ever before, so complacency is simply not an option for retailers. However, this is counterbalanced by the data that can be captured through customer analytics (of course, it's up to marketing and sales teams to mine that data effectively and deliver results to the bottom line).

13. Learn from the Best

When it comes to compiling a list of the companies which fully appreciate how to win online, the usual suspects cited will inevitably include Apple, Argos, M&S, Hotel Chocolat, Ocado, Asos and Tesco.

Steve Muylle, Professor & Partner, Vlerick Leuven Gent Management School, says: "Tesco, as a retailer, has an excellent understanding of how to integrate digital services into the business and use the analytics to drive sales. As an organisation, it is extremely effective in its research, capturing data of customer profiles and purchasing patterns, to see what UK consumers are doing online. So, for instance, as budgets become increasingly important for people, Tesco is offering filtering tools and pop-up windows where customers can select cheaper versions of products to keep in line with their budgets, plus windows for comments to be added too."

Tesco has embraced social media as well, setting-up a Facebook page and providing links to videos which show how to, in one instance, decorate cupcakes. It's an example of how an established retailer is prepared to experiment and explore new possibilities in order to get closer to customers.

14. Where's the ROI?

Presently, only 5 per cent of grocery shopping is bought online in the UK and, despite the hype over eBooks, it still only accounts for £180 million of £3.1 billion total sales in 2010. However, the general view is that it's dangerous to study the comparative minor market share of online sales as executive teams and boards need to appreciate the seismic shift that is underway concerning consumer behaviour.

Steve Richards says: "The reason why businesses don't embrace technological change is through lack of engagement by management; typically, with the internet and social media, businesses have been run by middle-aged men and they are pretty poor at adopting what have perhaps been seen as rather frivolous, short-term 'innovations'. Without question, in the public arena, management want to see a return on their earnings before adopting a new channel, but it can happen in any organisation."

Brian Murphy empathises with the slow adopters, up to a point. "As someone who has spent his early career in the offline 'bricks' space, I completely empathise as to why some boardrooms are hesitant regarding the web and especially social media. Having spent the last seven years building online companies – the so called 'clicks' – I believe it's understandable boards are wary. It's wise to keep to your investment standards and not just pour money blindly into the latest fad as a lot of people have done with social media.

"For example Myspace was bought for $580 million in 2005, was valued at $12 billion in 2007 and today you could take it off the owners hands for just $100 million. It lost 10 million users recently which shows the fickle nature of the web with certain business models. But Facebook has scale, monetisation and a fundamentally different value proposition so is unlikely to fair as poorly as its early cousin. Increasingly boardrooms cannot ignore this space as it has the potential to put companies out of business."

15. Market Forces

The economic environment is marked by rising operating costs, wild fluctuations in commodity prices, oil and energy costs, not to mention labour inflation in emerging markets. This uncertainty surrounding margins will, in all likelihood, result in price rises for customers which, says Brian Kalms, may give an advantage to non-store based retailers, as they "may find it easier to absorb some of those supply side costs".

16. Build for Tomorrow

An online strategy ought to be seen as a long-term investment. Steve Muylle says: "Too often, the enthusiasm for online is killed because it is matched to the organisation's existing KPIs, rather than adjusting the metrics for success as the initial market share for the business overall will be quite small," he says. "Ironically, the boards of retailers tend to be distanced from online and then, as it becomes successful, they take notice and are challenged by how it should be incorporated and measured."

17. Don't Cut Corners

There is a view that the entrepreneurial brilliance of the young will help drive a winning e-commerce strategy on a shoe-string budget. For the sprinkling of Silicon Valley successes, this is a myth as the reality is that investment is required and highly skilled individuals need to be recruited.

Steve Muylle says: "There is an initial reluctance [from a lot of large retailers] because they have established their business models decades ago and they have a model that works based on location and specific rules and assets and so on, which is what they try to leverage. Typically, they employ a young person who has a background in e-commerce. This person is then told to build a team on a limited budget, driving the section and trying to move things by being dynamic and charismatic, which doesn't really work. To make an impact, you need top management and people who have the ability to connect with all the different elements of the business. Plus, budgets need to be freed-up for investment and the team must report to C-level executives."

18. Reverse the Proposition

For companies committed to innovating and pushing the envelope, the web isn't seen as a hindrance but a positive disruptive force to steal a march on the competition. Brian Murphy comments: "I'm very interested in how online can be used to drive people to shop offline, almost turning the existing model on its head. Why not send the latest special offers to customers in the local area through SMS, helping to increase footfall through highly targeted marketing? Groupon grew sales to $1 billion in 29 months which is living proof of the ability to drive online consumer behaviour. For this reason looking at a web strategy without reviewing a social media strategy at the same time may lead to trouble down the line."

5%
Online share of grocery shopping in UK

19. Supply and Demand

It's understandable that customers won't tolerate inconsistent delivery times. For retailers who also provide perishable goods, this has led to a costly headache as they handle the logistics of supply to their stores, while delivering to customers who order online.

Brian Kalms notes that many retailers at the moment have "parallel physical supply chains", which is leading to two separate lines of business, with one buyer for the stores and another for online. " The challenge then becomes to decide how to merge back office functions: buying, merchandising, pricing, supply and negotiations and everything else.

"You will want to operate just the one supply chain to gain economies of scale of workforces and leverage with suppliers," continues Brian.

20. Top Guns

As a rule, retailers have established an online, multi-channel director and made them important. The next stage of evolution is to make the multi-channel director become part of the executive team – for most retailers, the classic and increasingly dated structure under the CEO remains a buying and merchandising director, stores director, HR director and supply chain director.

21. Cost of Failure

The best retailers are brilliant at reacting to changing customer demands (think of superstores, Sunday opening and then 24-hour opening hours). But it is a sector that is brutal on those which are wedded to tradition, such as Woolworths, Zavvi Entertainment, not to mention the music and book industries. "Online is the biggest phenomenon of our generation and to not have a strategy is corporate carnage," says Brian Murphy.

Featuring commentary from:

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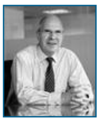

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