

Key strategic challenges in e-retail

Paper one: robustness and change



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Foreword: the six key challenges

Retailers live in troubled times; probably more troubling than many can remember. Consumers are spending less, but expect much more. There is greater competition, but less cash to go around. And, retailers' costs are increasing, while they are struggling to grow their sales lines. In this kind of environment, everyone has to work a lot harder just to stand still.

There are some bright spots, however; and the internet is one of them. While the growth of online sales will inevitably slow down, the channel remains an attractive one. Although, retailers should be under no illusion that success on the internet is far from guaranteed. As online retailing has grown in importance, it has also grown in complexity and it is now much harder to do well than it used to be. Success today requires so much more than simply opening an online store and waiting for people to come and buy.

So, what do retailers need to do? In our series of white papers we have identified six key challenges, which are shown opposite. These are not the only areas retailers need to focus on, but we believe they are among the most important. In short: good online retailers need to get closer to customers – personalising the site experience wherever possible; they need to have infrastructure which is robust and able to cope with peaks in demand; and they need to ensure that the internet channel is fully integrated with other sales channels and parts of the business. And all of this needs to be done against a background of ever faster technological change.

So, it's not an easy task. Yet the internet is worth persevering with; and those retailers that get it right online are much more likely to emerge in a stronger position from the downturn.



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robustness

speed to market

With an upsurge in the number of consumers using the internet and with patterns of demand being uneven, retailers need to make sure their sites are robust enough to cope with high levels of online traffic.

However, robustness must not come at the expense of evolution: the online world is constantly changing and retailers must ensure their sites constantly evolve to meet new consumer expectations.

▶ **topics discussed in this white paper**



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personalisation

range management

The one size fits all model of internet retailing is no longer relevant today; sites need to be far more sensitive to the needs of individual users; the web experience needs to become more personalised.

Nowhere is this truer than in the management of product ranges. What online consumers of today want is edited choice – to be presented with things that are relevant to them.

▶ **this research can be found in white paper two**



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communications

integration

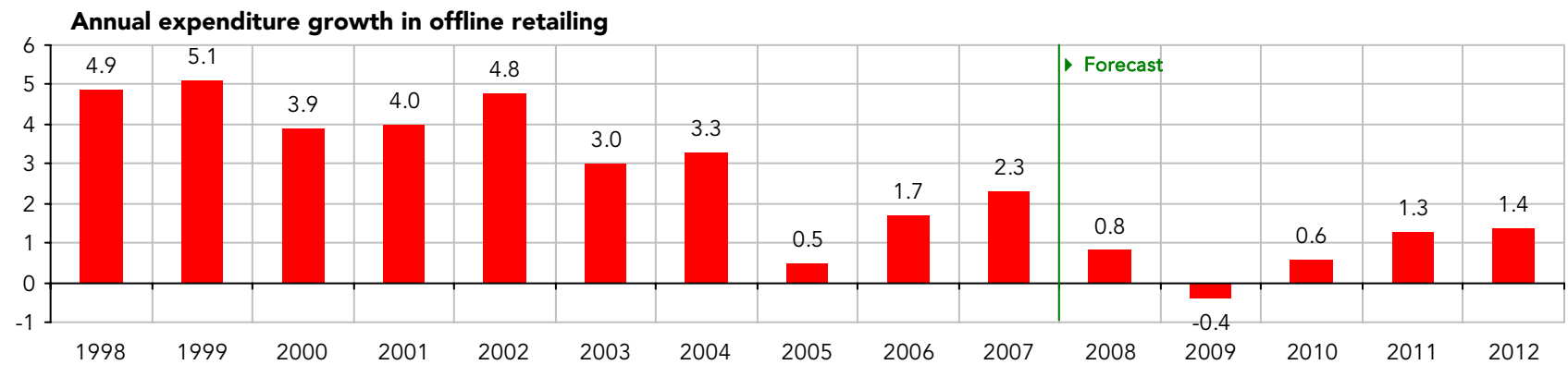
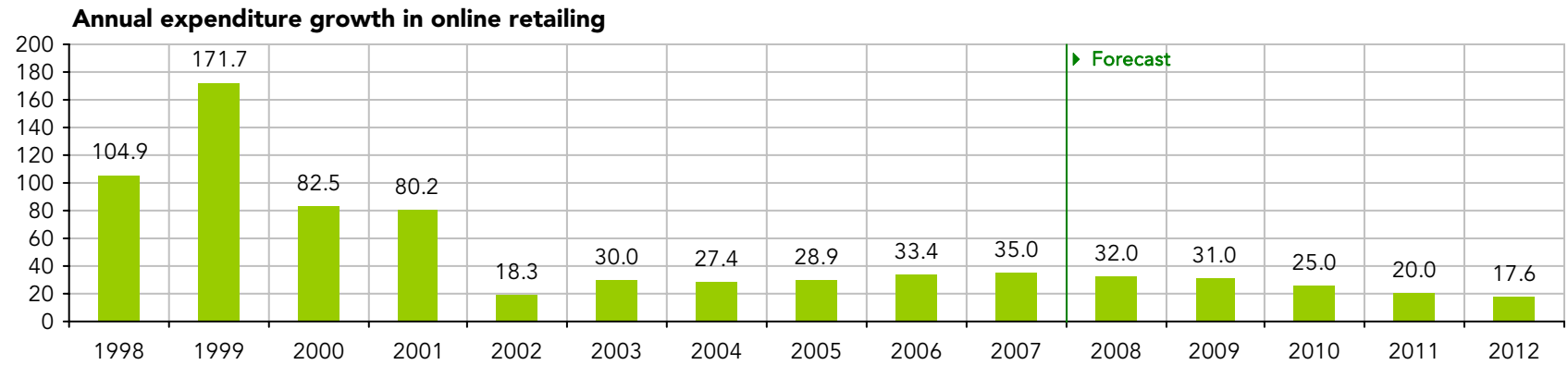
Keeping in touch with customers is critical. However, blanket marketing campaigns are not enough: today it is about quality rather than quantity of communication; it is about engaging customers.

It is also vital that communication and brand messages are consistent across all retail channels. As such, the online experience and the store experience need to come together as seamlessly as possible.

▶ **this research can be found in white paper three**

Introduction

- The rise of the internet as a sales channel is impressive. From an almost non-existent 0.1% of all retail spend in 1997, the online channel has grown into a multi-billion pound business. This year alone shoppers will spend £19.4bn on retail goods over the internet, accounting for some 8.6% of all retail spend.
- The rapid growth is set to continue and by 2012 we forecast that 13.6% of all retail spend will be made via the internet channel, equating to a sales value of just over £44bn.
- While the internet affords retailers a significant opportunity, it also poses some challenges too. One of the main ones is the impact it is having on growth rates.
- Overall, retail expenditure will grow at a slower rate over the next five years than it did for the previous five. From 2007 to 2011 annual growth will run at an average of 2.9%; comparatively, between 2002 and 2006 annual growth ran at 3.2% per annum.
- What is most significant is the degree to which the overall retail growth rates are flattered by the inclusion of internet sales. Over the next five years, well over 40% of total retail expenditure growth will come from the online channel. Strip those sales out of the equation and annual expenditure growth drops from an already muted 2.9% to a worryingly low 1.8%.
- This more muted growth rate comes at a time of rapidly increasing cost inflation, the growth of which we believe will outstrip sales. This means that unless retailers can grow their top lines, they will see their margins shrink.
- However, growing sales during the current downturn will be an extremely challenging task. Consumer demand is far softer than it has been historically and, in some sectors, shoppers will simply have less money to spend. Those that do have cash to play with, will often be more reluctant to part with it.
- The solution to this will not be to simply open more space or stores. Many retailers already have sufficient space and adding yet more, at a significant cost, will not necessarily yield additional revenue.
- The internet, on the other hand, does provide a more sustainable route via which to grow sales. This is especially so because of the rapid growth the channel continues to experience.
- The bottom line is that those retailers without an internet presence are going to find it much harder to attain growth over the next five years; some will inevitably lose out on sales. Offering consumers a credible multi-channel approach, combining physical and virtual stores, is a critical component in maximising future growth opportunities.
- However, internet retailing is not an easy win. Over the course of the next few years, retailers will need to be more creative in building the online experience and will need to think much harder about how the internet interacts with other parts of the retail business.
- In our series of papers we have identified six focus areas that retailers need to explore and come to grips with if they are to be successful in the online environment.
- In this paper we look at the first two challenges: robustness and speed to market.



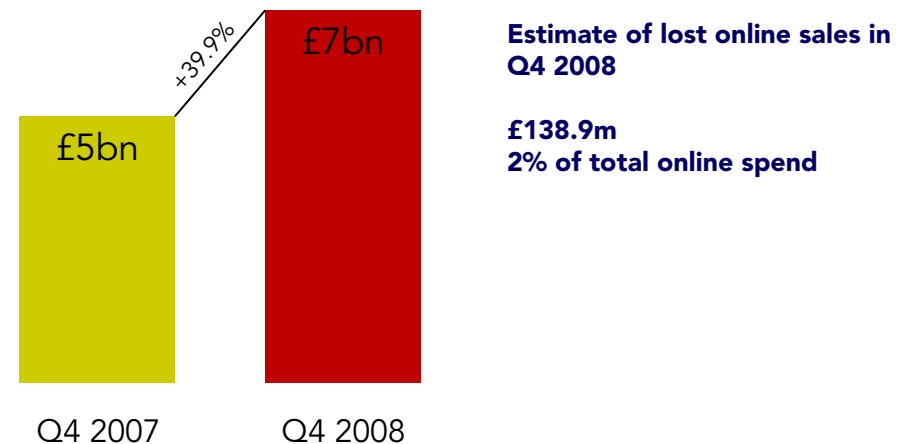
Rates of consumer expenditure growth in on- and offline retailing 1998 to 2012



Robustness

- With the growing popularity of the internet as a route to market, having a robust infrastructure that is able to cope with peaks in demand becomes increasingly important. This especially so over the busy festive period when demand is both heightened and, often, very uneven.
- This year, we forecast that internet shoppers will spend £7bn in Q4 – some 36% of all online expenditure. This is almost a 40% increase on last year. Websites need to be able to cope with this increase in demand.
- Not all are able to do so. Many retailers have difficulty in managing the peaks of trading and it is still relatively common for websites to either underperform (i.e. react slowly or deny consumers access to certain parts of the site) or to fall over completely (i.e. simply be unavailable for use).
- We forecast that in Q4 of this year, £139m of sales will be lost from the online channel from a combination of underperformance and website malfunction. That amounts to almost 2% of total online sales in the fourth quarter.
- The importance of a smooth, uninterrupted browsing and transactional experience cannot be overstated. Making the online shopping experience inconvenient by having a slow website or a website which is not available when the consumer wants to use it can, and will, alienate online shoppers. Many will simply take their custom elsewhere be it to a physical retailer or an online competitor.
- While the problem of lost sales is very much with us today, without remedy, the problem will get gradually worse. As the internet grows as a channel, retail websites will need to cope with ever increasing volumes of transactions leading to pressure on those sites that do not have the appropriate infrastructure in place.

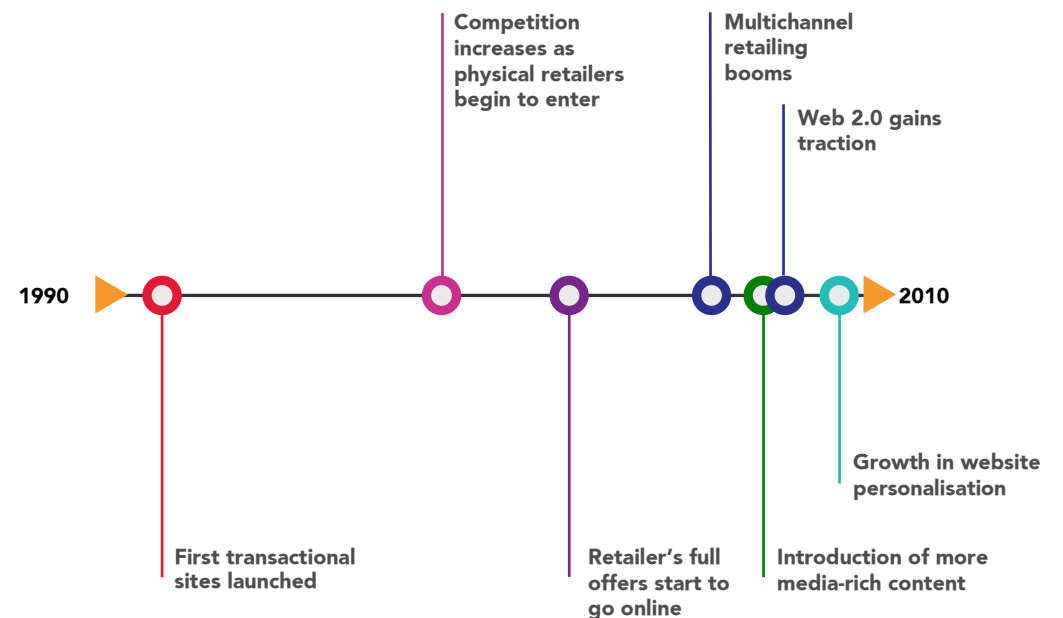
Value of festive online spending and the potential value of lost sales in 2008





Speed to market

- Robustness of infrastructure does not mean static infrastructure. Quite the contrary: infrastructure needs to be able to evolve with the ever changing nature of internet retailing.
- We are currently in the midst of an online retail revolution with retailers' online operations having evolved significantly since the first transactional websites surfaced in the early 1990s.
- Early developments in online retailing saw pureplay independent start-ups being superseded by larger physical retailers that slowly recognised the potential of the internet. These retailers had the buying scale, investment and product expertise to crush many of the smaller pioneering pureplay retailers. Indeed, in the mass market today, only a handful of pureplays like, Amazon and Play.com, remain.
- More recent changes have surrounded the use of technology. Retailers have begun to harness developments in this area in order to maximise the potential of their online operations. These developments have helped retailers to enhance customer service, add functionality and increase customer personalisation.
- And while the online marketplace continues to evolve, the pace of change has also accelerated. Driving this has been faster technological developments, increased competition online – meaning retailers are having to be more creative to stand out from the crowd – and the fact that customers have become more demanding of online and now expect much more from their online shopping experience.
- The online marketplace is evolving more rapidly than ever before. If retailers wish to maximise the opportunity that this presents, they must ensure that their systems, at least, offer the flexibility to evolve with the market, if not, get ahead of it.



About us



Attaining and maintaining competitive advantage in today's highly pressured marketplace requires business decisions to be based on highly focused research and analysis. This needs to be evaluated against detailed knowledge of the market, the competitive situation and your capabilities and objectives.

Verdict Consulting has an extensive track record of working with retailers and those interested in retailing to help them grow their businesses and to make them more profitable. Our consultants deliver high quality, effective solutions through in-depth retail knowledge and an detailed understanding of the dynamics of the sector.

We recognise that no two of our clients are alike so all of our services give you full control over your research requirements and are designed to help you address the key business challenges which are relevant to you. Our consultants have the skills, knowledge and experience to help you through this process and thereby assist you in making better business decisions.

For more information on our range of services or for a free discussion about your requirements please contact us.

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hybris is a leading vendor of multi-channel commerce & communication software. Its clear vision about the need for consistency, co-ordination and personalization of information across all channels and throughout all phases of the customer lifecycle has resulted in the development of a best-of-breed integrated solution which supports the industrialization and automation of communication, sales and support processes. It is spearheading innovation in this field, enabling businesses to communicate and sell across all channels in a consistent and effective way.

Established in 1997, hybris has a proven track record of profitability and growth, with ambitious expansion plans for the future. Headquartered in Munich, it has offices in the UK, Netherlands, Switzerland, Austria and Sweden. Its international presence is extended via a dedicated network of business and technology partners across Europe and the USA. It has over 150 customers worldwide running more than 1.500 websites "powered by hybris". Customers are global brands from retail and manufacturing industries, including Toys R Us, Zavvi, Norgren, TUI, Lufthansa, Puma, Ulla Popken, Reebok, Grundfos, Demag, Sika, Hagemeyer, Phonak and Bechtle.

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