



The Berkeley Partnership

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E-commerce: Making the right moves

*What's the best approach
for your business?*

A maze of possibilities

There's a lot to consider when embarking on an e-commerce project. Here are a few tips to help take your business in the right direction

E-commerce projects may look straightforward to deliver, but online projects can be every bit as complex as the biggest IT implementations. There's a lot more to creating a successful transactional website than you might imagine.

Getting your project management basics right is just as important with e-commerce as with any other project. However, there are some areas that need special attention if you want to set yourself up for online success. Here are some key observations from the experiences of Berkeley and our clients: think it through – from front to back; sort out your systems; get the governance right; and be ready to move quickly.

THINK IT THROUGH – FROM FRONT TO BACK

Designing the customer experience is critical to the success of any e-commerce initiative. Jacques Dekock, Head of Business Information Systems at Habitat, says:

"If a customer walks into a store, they're using all of their senses, but in e-commerce they're just looking at the screen, so a lot more needs to go into capturing their attention and triggering the buying decision. If you don't grab customers' attention in the first few seconds, there is a massive drop-off."

But beware of making promises that operations can't deliver. It's all very well creating an exciting front end, but it's equally important to take into consideration the implications for the back end – warehousing, fulfilment, the store base and returns processing – so they can be reflected intelligently in the customer experience.

If these issues aren't raised at the outset, expectations can become misaligned. The result can be costly overruns or sub-standard solutions that could have a damaging impact on the brand.

Dekock says: "Buying online carries with it a higher degree of trust in the retailer because buyers are giving their money to someone they can't see. Some aspects need to be done even better than in store – capturing attention, getting people to the right products quickly and then prompt delivery and good customer service."

Customers now expect an online experience to be integrated across store, phone and, increasingly, mobile channels. This adds to the complexity of any solution. Thinking through the implications early on allows you to make informed decisions about the trade-offs between service and cost.

For example, it may be enticing to offer a 10-day delivery service or a no-quibble returns policy on a custom-made product, but you need to work through all the implications to ensure that your margin won't be destroyed by fulfilment costs or returned stock that can't be resold.

SORT OUT YOUR SYSTEMS

Even though companies have had some kind of web presence for nearly 20 years, for many the underlying architecture is a patchwork of point solutions. This often leads to a disjointed customer experience.

For instance, data models can be fragmented – call centres work from different customer data to stores; email campaigns are disconnected from sales data – and systems have often grown organically, with no grand design. E-commerce fulfilment systems may piggyback on retail solutions built for bulk transport rather than individual picks.

Those who have chosen to develop new infrastructure have found that the e-commerce systems market is less mature than



“IT needs to be geared to change at the pace the online market requires”

others (such as the ERP market) and there is no off-the-shelf, market-leading solution that meets all needs.

So successfully navigating this technology decision is harder than you might expect. Getting it wrong – be that with the wrong combination of packages or choosing an immature outsource provider – will haunt you for years to come.

GET THE GOVERNANCE RIGHT

Even with a well thought-through customer proposition, integrated operational design and sound IT architecture, projects can become delayed or dysfunctional if you don't have your internal governance set up correctly.

The place of the e-commerce department within an organisation is often problematic. In some it is seen as 'just another store', when in fact its needs are significantly different. In others it is a historically autonomous entity, but reliant on the business and IT to get anything done.

Against this complicated backdrop, good governance and road mapping are hugely important. Without these, good ideas get lost, as there isn't a mechanism to push them to the top of a company's agenda.

Rob Wamer, a Berkeley consultant, says: "In my experience, due to its typically multichannel nature, e-commerce touches a large number of stakeholders, often with stakes of different sizes. The trick is to ensure there is alignment at senior level, strong sponsorship and a framework for removing obstacles along the way."

Even when this delivery governance is navigated, problems can arise in operation. For example, if store staff are only incentivised on store sales, you will often find that customers aren't led towards an online product or service that might successfully meet their need.

E-commerce departments may find they have a dual role, driving their own sales figures while also being a channel for the business unit. This is sometimes a difficult position to maintain and requires a strong partnership with the business.

For instance, you can afford to be more dynamic with allocation models in an e-commerce environment, as products can be held centrally in a warehouse until sold, as opposed to the complex logistics of getting a product to store. However, many retailers still forecast store requirements and e-commerce

is given what is left over. It takes a strong relationship and a good understanding between the business and e-commerce to allocate stock according to soundings taken from the online customer base.

BE READY TO MOVE QUICKLY

Companies often struggle with the fast-moving pace of the e-commerce marketplace. Innovations spring up all the time and quickly develop significant customer momentum – look at social networking sites, for example. What's more, the online market makes it easy for customers to compare different offers. With big online players such as Amazon and the supermarkets broadening their ranges, it's a competitive area.

What can organisations do to address this? Gillan Hawkes, Head of Business and Channel Development at Marks & Spencer, says: "My experience at M&S and Tesco is that IT needs to be geared to change at the pace the online market requires. E-commerce is about lots of small initiatives that require a faster, more nimble IT implementation cycle.

"The business cannot afford to take three or four months to plan. The trick is to balance the boring underlying platform changes with the fun stuff, to ensure the business and customers don't lose interest in and appetite for subsequent phases."

Look at portfolio planning and IT demand management processes to ensure they are as responsive as they can be. If your technology infrastructure is fragmented, or relationships with outsource partners are strained, your ability to deliver to short cycle times will be considerably inhibited.

Consider phasing carefully. Testing a basic form of a new idea suits the online world well, so get something out there – if there is customer interest and it starts taking money, you can phase in additional functionality and range later.

CONCLUSION

The rewards in e-commerce can be substantial, with the online market predicted to continue double-digit growth rates for years to come. Above all, remember that an e-commerce project is like an iceberg; the pages the user sees are only a small fraction of the total picture. Getting the infrastructure, governance and speed to market right is crucial to a successful outcome.

Balancing ACT

There's always an element of risk when deciding on a software solution for your e-commerce project. Weigh up your options carefully to get the most out of your investment

Evaluating the raft of e-commerce options can be daunting, and making the wrong choices can be costly in terms of time, finance and performance. So which route should you take?

Here, we examine some of the technology options available and find out how one retailer, Habitat, chose to go online.

CHOOSING THE RIGHT TECHNOLOGY

Beyond building your website from scratch, software options for e-commerce fall broadly into two types:

- 'Out-of-the-box' software platforms that can be purchased, installed and integrated with a selection of add-on packages
- 'Software as a Service' (SaaS) solutions, where the website is set up and managed by a third party on an externally hosted platform.

Both have their merits and limitations. The crucial decision is finding out which one is most appropriate for your business.

Out-of-the-box

The out-of-the-box option offers the greatest flexibility after custom build, allowing you to pick and choose the component packages that best suit your needs.

The e-commerce market is very immature, however, compared with more established software markets, like ERP, where you are likely to be able to fulfil most of your functional needs through one product.

With e-commerce, it is not so much out of the box, as out of several boxes. In other words, once you've purchased the basic platform (e.g. MS Commerce or IBM WebSphere), you will probably have to buy and integrate a range of additional products from other vendors in order to handle functions such as search engine, website analytics, content management, image handling and

visualisation, and marketing campaign management.

Integrating a selection of different packages can be costly and complex to implement, but there a number of other challenges too.

Firstly, having to use several 'back end' interfaces can make day-to-day website management and maintenance more difficult and time-consuming for both IT and the business.

Secondly, having to keep a number of different packages integrated can result in higher ongoing IT development costs, due to your requirements or the packages themselves changing. Given the degree of fragmentation in the marketplace today and the likelihood of ongoing product development and market consolidation, the scale of ongoing IT development may not be trivial.

Berkeley consultant Mark Bryant says: "If you buy IBM WebSphere or MS Commerce, you may have to plug in seven or eight other packages to achieve your requirements. I wouldn't underestimate the overhead involved in integrating these in the first place – and then keeping them integrated as things change over the life of the website."

Software as a Service

Software as a Service (SaaS) is growing rapidly. A recent Gartner report indicated that, by 2013, 90% of e-commerce sites will use at least one product from SaaS vendors and that 40% of e-commerce sites will use a complete SaaS solution. This rise is due to the fact that SaaS offers several advantages.

SaaS websites can typically be implemented more quickly and at a lower cost than out-of-the-box solutions. This is because they are created by configuring the provider's platform, rather than by acquiring and integrating several separate packages. In fact, many SaaS offerings can be implemented with no capital outlay at all, since any upfront costs incurred can be rolled into the ongoing management fees.

In addition, SaaS websites alleviate the resourcing and cost burden of maintaining and operating your own software and supporting infrastructure. They also typically allow for more consistent and transparent ongoing ownership costs.

There are drawbacks, however. Firstly, you are likely to have less functional flexibility, because your website will typically be configured using the same standard



platform that the provider uses to host websites for all of its customers. Many platforms do come with a significant amount of flexibility built in, but it is a point worth bearing in mind, particularly for well-established providers who already have many customers on their platform – and may therefore be less willing to change in order to accommodate individual customers.

Secondly, if you don't invest enough effort in contract and commercials, then, rather than saving you money, the SaaS approach may actually result in higher costs over the long term. With most providers, payment is typically through an ongoing fee for service or a cut of online revenue. Before agreeing terms, it is important to fully understand the implications of the provider's proposed

payment model and what it covers, compared with your other options. Then, armed with this understanding, carefully negotiate a deal and contract that not only provides the service level you need, but that makes good commercial sense for your business over the expected life of the website.

Finally, because your website will be managed externally, you need to have particular confidence in the third party hosting it. Are they a strong organisation? Are they committed to continuing in this line of business? What would happen to your website if their business were to be wound up? Conducting external due diligence and speaking to existing customers in order to develop this confidence is particularly important when going down the SaaS route.

One retailer's experience

High street furniture retailer Habitat had to evaluate these options when it set up a new e-commerce channel in 2007. The retailer had observed significant online growth in its core product categories and saw that its competitors were already exploiting the medium. With Berkeley's help, Habitat defined an e-commerce strategy and decided to pilot the new channel in France. It wanted to move online quickly, with limited investment and with limited impact on, or risk to, its current operations.

Jacques Dekock, Habitat's Head of Business Information Systems, reflects on some of the most important aspects of their technology decision.

He says: "We wanted to maintain a high-quality visual identity in line with our brand and product positioning, but integrate it into a site that could dovetail with our existing back-end systems. We also needed a fast turnaround – there was a six-month set-up time – and the site needed to be user-friendly so existing back office staff across four countries could perform basic activities like activating online promotions. The main decision for us was: did we buy a solution that was top-end in terms of graphics and capability, or did we allow some degree of

compromise for something that would be implemented quickly, integrated easily and easy to use by non-technical staff?"

Ultimately, Habitat went down the SaaS route with Fresca.

"They could meet all the key functional requirements, as well as some specific technical features we needed, such as being able to show 360-degree views of products. They were able to incorporate some of that rich visual material without needing lots of add-ons."

Crucially, says Dekock, it offered sufficient flexibility in the software without costing a prohibitive amount. "We now have the capability to switch on new countries quickly. With our e-commerce model, we have worked out what needs doing and how much it will cost."

Even with a strong e-commerce system in place, Habitat still encountered challenges. The ability to showcase products effectively is not only affected by the functionality of your website software. Equally, if not more, important is the strength of the back-end systems and processes that are used to provide the site with its information.

Habitat wanted to present its products in a highly commercial way that appealed to customers: presenting 'roomsets' that grouped

together complementary products. To do this, it needed to get to grips with and strengthen how the back-end product data would be created, maintained and plugged into the site. This is something Habitat continues to improve, as it is key to achieving the right level of commerciality to support the company's online sales objectives.

There is one final consideration that helped Dekock make his decision: personal chemistry. "It is partly about liking the people, knowing that you can work with them and believing that they are making deliverable service promises," he says.

Habitat's site went live in September 2007, with an e-commerce pilot for selected products going live on the new site in France two months later. The pilot products are trading well and Habitat is now looking at options to roll out more widely.

For Habitat, SaaS and partner Fresca were the right choice, offering a cost-effective route online that fitted well with its particular business needs. But there is never a standard approach to e-commerce. Every retailer is different and has distinct requirements. By carefully evaluating all the available options and tailoring your solution, you can make sure your site brings the right net returns.



As internet retailing grows, positioning your e-commerce channel effectively can help you stay ahead of the game

Growth in internet retailing is incontestable. Retail analysts Verdict reported that, between 2006 and 2007, the e-retail market grew by 35%. This was faster than at any time over the past six years and significantly faster than the total retail market, which grew at 3.6%. This growth looks set to continue, with forecasts indicating that the online sector will triple in value over the next five years, to account for 14% of the overall retail sales market by 2012 – a substantial increase from its current 5% share.

Retailers cannot afford to ignore such a trend, and are responding by rapidly developing or improving their transactional websites. But in making these investments, do they risk simply replacing traditional offline sales? Or can a successful e-commerce offering actually increase overall revenues, albeit with some inevitable shift in the channel mix?

The answer to this question depends on a number of factors: market dynamics, customer preferences, product characteristics – but how you choose to position your online offer will have a huge impact on the outcome.

THE HOLY GRAIL: MULTI-CHANNEL RETAILING

Many retailers would argue that successfully adding e-commerce to an existing mix of stores, phone and catalogue channels moves you ever closer to the holy grail of multi-channel retailing: seamless, near real-time interaction between you and your customers via any channel they choose. Satisfying your customer's need for choice and convenience in this way builds loyalty, which in turn encourages them to spend more with you. One retailer we have worked with indicated that this expenditure could be up to ten times more than can be generated via the e-commerce channel alone.

POSITIONING YOUR E-COMMERCE OFFER

If your overall objective is growing revenue, then you will need some degree of differentiation between offline and online channels. Broadly speaking, there are three positioning strategies you can adopt: enhanced, extended or differentiated positioning.

'ENHANCED' POSITIONING

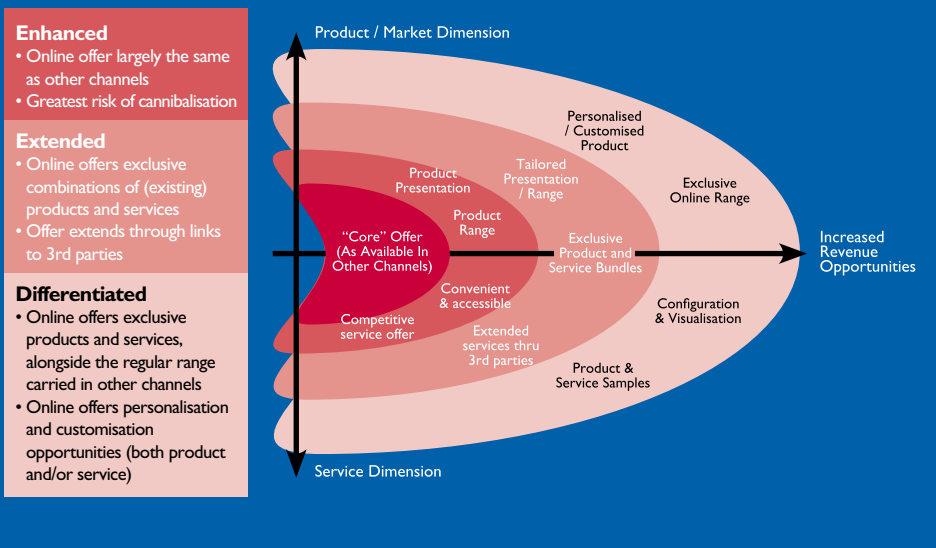
This approach essentially replicates the core offer available in other channels; however, it also plays on the advantages inherent in internet commerce.

Through a website, your product becomes accessible 24 hours a day in any corner of the world. The 'convenience factor'



**Playing
to your
strengths**

E-Commerce Channel Positioning



- Enhanced**
 - Online offer largely the same as other channels
 - Greatest risk of cannibalisation
- Extended**
 - Online offers exclusive combinations of (existing) products and services
 - Offer extends through links to 3rd parties
- Differentiated**
 - Online offers exclusive products and services, alongside the regular range carried in other channels
 - Online offers personalisation and customisation opportunities (both product and/or service)

are well thought through. Customer Service issues are often exacerbated when third parties are involved.

Another extension approach is tailoring your offer to different customer segments. Understand their motivations and buying patterns and adapt the online experience accordingly. Allowing customers to opt in to push marketing or access areas designed specifically with them in mind (think new mums or 'back to school') can add to the experience that they get online and serve to complement, but not replace, the in-store experience.

is one of the key drivers of the growth of internet retailing, but your service proposition must be able to back this up. Delivery policies must be competitive, both from a pricing and lead time standpoint. Customer Service is also important, especially when it comes to queries about payments, expectations of lead times and returns handling.

An online storefront frees you from the constraints of a physical environment. You can present the entire product range that your company offers, rather than making choices that are influenced by your store's square footage and format. Many retailers take this further by deliberately moving 'fringe' products (those that cater to small segments of the customer base) online to free up precious space in store for faster-moving, possibly higher-margin products.

Online, you can be more creative in product presentation, using 'in situ' or aspirational settings. Complex products can be backed up with readily accessible technical information to allow more informed decision-making. Clever use of product combinations – dynamically generated or linked by looks or themes – allows customers to put together complete solutions.

In adopting this position, you are emphasising product availability and evoking its usage, elements that your current store environment may be constraining.

'EXTENDED' POSITIONING

You can further extend the online proposition by introducing elements of exclusivity. For example, you could create product and service packages from your existing range that are only available through the internet. But beware of putting your channels into direct conflict – if customers can easily break down and price compare the package, the more expensive channel will lose out and an associated channel positioning will be cemented in their mind. If that's a concern, consider introducing service elements from a third party. An example could be offering a plasma television with installation by an accredited service provider. This again plays to the convenience angle, allowing your online customer to purchase a complete solution in a single transaction. As before, ensure that the operational complexities

'DIFFERENTIATED' POSITIONING

A third option is to offer a product and service proposition that is completely exclusive to the online channel.

Personalisation and customisation – features that are facilitated by online interaction – can help deliver this exclusivity. For example, we helped one retailer set up a customised-shirts capability, requiring only four key measures to create the right fit. The customer can custom-design their own product online, without having to visit a store. The average price point was moderately higher than that in traditional channels, creating an opportunity for customers to find purchase reasons both online and offline.

Similar opportunities exist around product visualisation. The use of online configuration tools (such as kitchen design programmes and 'to scale' renditions of your living room to help visualise furniture ranges) is becoming more mainstream. As is the 'try before you buy' concept, allowing customers to download a sample of the product before purchasing.

These features encourage your customers to shop in one channel depending on the offer and experience they are after. It is less about competition between channels and more about broadening the range of experiences that you can offer overall.

WHATEVER YOU DO, BE CLEAR ON YOUR POSITION!

Bringing an online channel to market is always going to alter the channel mix and is likely to cannibalise sales in other channels to a degree. You can, however, control the extent to which this occurs. Your channel strategy has to be clear; customers should understand the value proposition that sits behind each channel choice that you present to them. You will have to plan for some degree of overlap, as your customers will want to exercise their ability to choose. However, if you carefully construct your channel strategy to play to its strengths and communicate clearly with your customer so they understand these inherent advantages, it should ultimately deepen your relationship with your customer base...and maximise revenue potential accordingly.