

As seen in **Advertising Age** Ring up E-Commerce Gains with a True Multichannel Strategy

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CMOs, Ditch Division and Finally Bring Together Online and Brick-and-Mortar Shopping Experiences

Even the most forward-thinking CMOs don't know what they don't know when it comes to e-commerce integration, as they struggle to overcome a forced divide between virtual and real-world retail. As more than 50 million households in the United States regularly shop online, e-commerce strategies now face a strategic inflection point. By avoiding channel conflict, the biggest and brightest suppliers and customers today confront declining combined share. In response, they are increasingly courting core shoppers and struggling to retain them in an effort to retain channel leadership.

It's important to recognize that your shopper is already "multichannel." For some products and categories, online distribution has fundamentally changed retail (think Amazon or iTunes). For other products, the touch and feel available through brick-and-mortar retail remains king (think organic produce or luxury apparel).

Fit it all together

The right strategies and supporting principles for effective e-commerce.

SELL TO NICHE CONSUMER

- Inaccessible
- Time constraining
- Demanding discretion

CREATE A COMPELLING BUSINESS MODEL

- Auto-replenish
- Open marketplace
- Online exclusive

CREATE A COMPELLING PRODUCT

- Build to order
- Upgradable

DRAMATICALLY IMPROVE THE PURCHASE EXPERIENCE

- Personalized purchase
- Hyper-simplicity
- New payment choices

The right distribution theater depends on the shopper, who shops across channels and discovers brands across media. Regardless of shopping mode, CMOs must address both need states and trip modes -- for example, time of day -- to seamlessly integrate the "distribution divide."

Forward-thinking CMOs are teaching their peers about the benefits -- indeed, the necessity -- of treating the physical retail environment as a relic of an offline world. They recognize a closing window of opportunity to secure strategic advantage over pure-play or single-channel retail. The web continues to be a gold mine of consumer research: More than 80% of Americans have researched products on the internet before purchase, according to a February 2008 Pew internet survey. These trends undermine the divide-and-lose strategy in favor of unify-and-win.

Category stewards at vendors and retailers are constructing a new working partnership. They create new experiences based on consumer habits and deliver both greater choices and tightly tied checkout across multiple channels. The road to relevance entails mastering e-commerce not as a discrete channel but as a source of killer shopper insights that fuel innovation across all distribution channels.

The first step begins with creating a distinctive e-commerce business model. E-commerce success results from jointly experimenting with four fundamental strategies: sell to a niche consumer, create a compelling business model, create a compelling product and dramatically improve the purchase experience. These strategies work consistently across categories and extend to models back in the offline world.

Sell to a niche consumer

(Think Williams-Sonoma, RadioShack, Wine.com, Zappos.) This approach offers certain consumers access to items they are unable or unwilling to find in local retail. It can be driven by product scarcity or by desire for discretion when buying items such as lingerie, for example. Stores can also push out from their limiting walls by using their websites as online catalogs for niche consumers. Some retailers have long used the model of a small footprint but huge product selection. That integration extends deeply into the multichannel world.

Create a compelling business model

(Think eBay, Amazon, Orbitz.) Online-enabled marketplaces, exchanges and direct distributors have proven enormously successful and promise fruitful outcomes for those committed to extending them to physical retail. At-the-counter experiences could build community among shoppers or provide a means of comparison shopping without leaving the store. Online recommender systems also might cross the channel divide, delighting consumers with new ideas they can act on immediately in the store.

Create a compelling product

(Think Dell, M&Ms, Nike, Nespresso.) Companies succeed here by delivering build-to-order or upgradeable products uniquely enhanced by the web. Several traditional companies are implementing this approach, delighting consumers with newly customizable choices without diluting the value of the core brand. Companies also deploy this strategy to create ongoing relationships with consumers by offering a razor-and-blade models of upgradeable features to a base product.

Dramatically improve the purchase experience

(Think Netflix, Target, Blinds.com.) Leading companies deploy this strategy to overhaul the offline consumer experience. The web is a great enabler for new payment options, a simplifier of complicated pricing schemes and a channel for giving back to the community while shopping. Recommender systems and the wisdom of crowds also reside on the web and need to find their way into the offline store. This strategy also results in integrated offerings, such as the ability to buy a product online but pick it up at a store to avoid the delay and cost of shipping.

Once CMOs develop the right collection of e-commerce strategies, they also must successfully

manifest them in the store. The web's ability to capture data on purchases, shopping behavior and history is just the start. To persuade skeptics, the CMO should commission a fresh look at consumer behavior and how the brand engages consumers where they are in their lives. The moment-of-truth occasions are proliferating, and their requirements are shifting.

Some early examples show just how well an integrated approach can work. An early leader in shopper segmentation and retail integration, Best Buy has reported encouraging results from its multiyear commitment -- involving budgets, people and IT resources -- to better serve its core shoppers. Preliminary results show a 25% to 50% sales lift in segmented stores from 2004 to 2007. Beyond traditional data mining, Best Buy derives insights from shopping patterns and basket analyses -- both in store and online. The retailer uses these insights to improve assortment, merchandising and formats to meet the needs of its shopper segments. The next generation of shopper segmentation will enable near-real-time, in-store innovation, guided by online user preferences, behavior trending, increased interactivity and product customization, and secure personalization. The brick-and-mortar redesigns, powered by digital "fact-sets," have produced compelling and profitable dividends, all led by Best Buy's desire to better know and serve its core shoppers.

Not to be outdone, Circuit City has improved its multichannel retail offer in a variety of practical ways: Online shoppers can conduct research (including product reviews) and purchase online while opting to pick up the purchase in store within an hour of online payment. Once the shopper arrives in the store, trained associates offer relevant cross- and upsell options, such as accessories, warranties and services, pleasing the shopper and working to drive up loyalty and total basket ring. Brick-and-mortar shoppers, in turn, are enticed to visit the retailer online to redeem store coupons, and associates are rewarded for promoting multichannel -- store coupons are encoded to track users' origination points.

The takeaway for forward-looking marketers: You can increase strategic alignment with key customers by speeding up the "channel-less" evolution. Start by knowing your customers' priorities. Serve up only relevant products or services and improve the in-store experience (virtual or real-world) -- all while entertaining and educating shoppers or saving them time, money or both.

Winners in the next phase of e-commerce will delight consumers in every channel, tailoring a single brand experience to the channel chosen by consumers in any shopping moment or occasion.

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