



# The Multi-Channel Imperative



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*The new economy meets the old as dot-coms widen their customer base.*

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Call it the new imperative: retailers must sell online. Evidence is mounting that multi-channel retailing is a compelling premise for every type of store operator in every product classification — books, music, apparel, health and beauty, grocery, full-line discounting, consumer electronics, and more — and in every size format. Consumers are demanding an online option, and it has become a competitive necessity. If you're not selling online, shoppers will look elsewhere to make online purchases.

What does this mean for traditional and catalog retailers? Multi-channel retailers must give life to online stores that leverage the best aspects of their physical outlets — full assortments, competitive pricing, seamless service, easy transactions, rapid order fulfillment, and satisfaction guarantees. According to Walter Loeb, President of the retail consultancy Loeb Associates and advisor to Ernst & Young, "The success of Internet retailing is now in the hands of multi-channel retailers. Click-and-mortar retailing is no longer an option. It is an imperative."

## **Multi-channel retailing is a business requirement**

While still in an early stage of development, online retailing is clearly essential to the present and the future of retailing. It is the vehicle for commanding attention from consumers anywhere, anytime without

geographic boundaries. Online retailing is also the intelligence-gathering point for chains to acquire a keen understanding of consumer motives, behaviors, and preferences — knowledge they can then apply to make both their brick-and-mortar stores and Web sites more compelling. Simply put, multi-channel retailing is a business requirement.

According to Ernst & Young's research, during the past 12 months some 77% of online shoppers worldwide reported an increase in online spending, and 25% reported purchasing clothing online. Not only are more consumers beginning to spend more and shop in a wider range of categories, but 97% of global shoppers intend to continue shopping online, and the majority expects to spend more and buy more products in 2001. Without question, this indicates that consumers are beginning to accept electronic depictions of the fit, feel, finish, look, texture, sounds, and scents of a wide array of merchandise.

Another dimension to the multi-channel imperative is that pure-play e-tailers are finding that they also need to be multi-channel operators. The dot-coms have begun to branch out by using "old economy" ways to create brand awareness, obtain credibility, attract a wider customer base, and maximize sales. Direct mail, catalogs, and 800 numbers to call and order directly with a customer service representative are now commonly found in some

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e-tailers' expanded arsenals. According to Walter Loeb, "Many virtual retailers with no connection with stores are seeking alliances with traditional retailers. It is becoming a competitive necessity, and the financial world is demanding that they enter into such joint operations to accelerate their path to profitability."

**Bringing the brand online**

Multi-channel retailing entails several major challenges, however. One is brand extension — the ability to bring a likeness of the store marquee, the feel of the aisles, the touch of the goods, the scents and sights of the shopping experience, directly to customers 24/7 in their dens and living rooms, whenever it may be convenient to shop.

It is not an easy task for an e-commerce Web site to convey an image — the essential gestalt of a retailer — to establish the difference between, say, Sears and JCPenney, or between Bloomingdale's and Nordstrom, or between Best Buy and Circuit City.

Nevertheless, it is important to get this right, because brand recognition is a huge issue for e-shoppers. Unlike the physical world, there's no neighborhood proximity or shopping mall bringing people past an e-tail site. Two-thirds of shoppers researched rarely or never access an online shopping mall to get to a site. The recognition of brand is what inspires their visit — knowledge of your name and what it stands for, and possibly some prior successful purchases or attainment of knowledge there — which earn the site placement on consumers' "favorites" list.

Consistent delivery of a brand message between the brick-and-mortar and online worlds is imperative to achieve this status. It's so important because the vast majority of online shoppers access sites by company name, favorites file, or a search engine. More than 80% of consumer respondents worldwide will reach a Web site to make purchases by keying in the company name. Over 75% of respondents worldwide will click on a site from their favorites file or use a search engine such as Yahoo.

**Consumer expectations for merchandise assortment**

	United States	Non-U.S.	Australia	Brazil	Canada	France	Germany	Israel	Netherlands	South Africa	Spain	Switzerland	U.K.
About the same number of products available as the retail store	21%	27%	37%	25%	17%	22%	29%	42%	33%	38%	17%	34%	25%
About the same number of products, but also specials that are not available retail	51%	51%	46%	57%	59%	43%	48%	40%	40%	46%	61%	43%	44%
Less products than at the retail store or catalog	8%	4%	3%	2%	5%	7%	2%	2%	6%	3%	4%	9%	5%
More products than at the retail store or catalog	18%	17%	14%	14%	18%	25%	20%	11%	21%	8%	18%	12%	26%
Entirely different range of products	2%	1%	0%	2%	2%	3%	1%	6%	0%	5%	1%	2%	0%

**Merchandise assortment: online vs. in-store or catalog**

	United States	Australia	Brazil	Canada	France	Germany	Israel	Netherlands	South Africa	Spain	Switzerland	U.K.
Same products	26%	100%	75%	0%	34%	33%	0%	0%	67%	67%	50%	30%
Fewer online SKUs than store or catalog	9%	0%	0%	67%	33%	67%	0%	100%	0%	33%	0%	20%
Fewer online SKUs, but unique products	26%	0%	25%	0%	0%	0%	0%	0%	0%	0%	25%	20%
More online SKUs than store or catalog	39%	0%	0%	33%	33%	0%	100%	0%	33%	0%	25%	20%

Not only are consumers fixed on a few ways to reach their preferred sites, they're very selective when shopping online. Ernst & Young research shows that respondents worldwide have bought from an average of about six Web sites over the past 12 months. This holds true in all 12 countries surveyed, ranging from an average of four to seven.

Consider all the categories in which people e-shop and that six sites boils down to just one in each product classification — whether it be sporting goods, apparel, health and beauty, toys or more. All of a sudden, the standard of excellence is set high for click-and-mortar operators, who need to be number-one online against their most direct competitors in order to win cyber-space competition.

**Providing a seamless customer experience**

Multi-channel retailers must also provide a seamless customer experience — the store channel and the online channel ought to be transparent to the customer. This is easier said than done. How do you get people to repeatedly shop at both sites and stores? How do you understand their wants and needs, and deliver on promises of assortment, price, and timely order fulfillment?

Click-and-mortar companies have yet to emerge with best practices, but clearly the winners will be the ones that make their sites as intuitive and personal as possible, and create customer experiences that closely parallel and reinforce what shoppers encounter in their stores. This requires multi-dimensional thinking about the ways consumers relate to their stores and merchandise, as well as their expectations on assortment, pricing, service, and shipments. Do people like to browse for some categories and purchase others quickly? Is there a pattern to how they navigate the site? Are they receptive to suggestive sells of companion products? Do they expect additional online specials?

Ernst & Young research findings answer some of these questions. By an overwhelming margin, e-shoppers worldwide say they expect to see “about the same number of products, as well as specials that aren't available at retail” on the Web site. In all, 51% of consumers said they expected the specials as well, ranging from 40% in Israel to 61% in Spain.

However, there's an obvious disconnect today between what customers say they want and what multi-channel retailers offer. Among companies surveyed by Ernst & Young, just 26% of U.S. compa-

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panies reported that they offer the same products online, as opposed to 40% of the non-U.S. companies interviewed.

The challenge doesn’t end here, either. Click-and-mortar companies must fulfill orders the way people expect them to be fulfilled — meaning they must manage inventory, distribution, and logistics transparently and effectively.

**Driving customer traffic**

Another multi-channel challenge is perfecting strategies for driving customers to one channel or the other. There are obvious advantages to enticing customers to use more than one channel — increased sales, marketing leverage, cost efficiencies, and so on. Ernst & Young research shows, for instance, that companies see the online channel as important to such busi-

ness objectives as driving revenue growth and store traffic.

However, the multi-channel game is not without risks — in particular, the risk of the online channel “cannibalizing” sales in the on-land channel. It is clear from Ernst & Young’s research that online sales are beginning to affect store traffic. Some 55% of e-shoppers said that “because I can shop online, I visit the retail store less often.” On the other hand, 43% claim they wouldn’t have made purchases if the merchandise they wanted wasn’t available on the Internet. This ranges from an incidence of 32% in the U.K. to 53% in South Africa, which, potentially, amounts to a lot of incremental business. Cannibalization is inevitable for traditional stores and catalogs, but is it too early in the development of this business to understand “to what degree?”

**Importance to companies of online channel for various goals**

	United States	Australia	Brazil	Canada	France	Germany	Israel	Netherlands	South Africa	Spain	Switzerland	U.K.
Marketing	3.5	3.7	3.0	2.0	3.0	4.0	2.7	3.3	3.0	4.0	4.0	3.5
Brand extension	3.7	3.7	2.8	3.3	2.3	3.3	3.0	2.3	4.0	3.0	2.8	3.4
Driving store traffic	3.1	3.0	2.5	1.7	3.3	3.7	1.0	3.0	3.0	3.0	3.3	3.0
Driving revenue growth	3.7	3.7	2.8	2.7	2.7	3.0	1.7	3.0	4.0	3.7	2.8	3.4

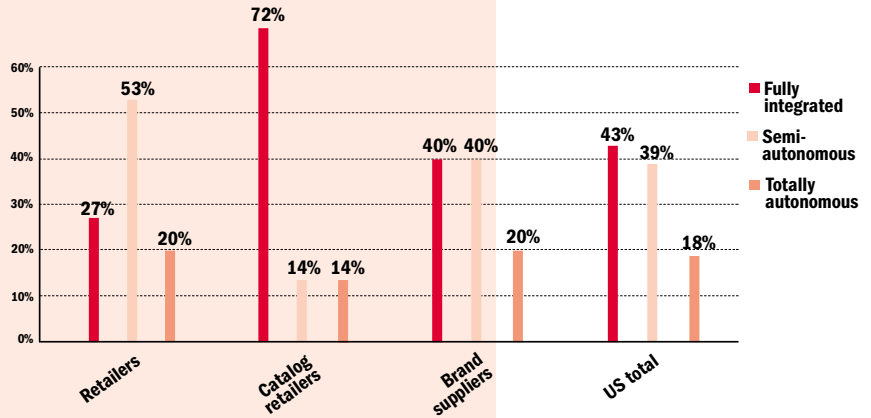
Mean rating on a 4-point scale, with 4 meaning very important

## Organizational structure

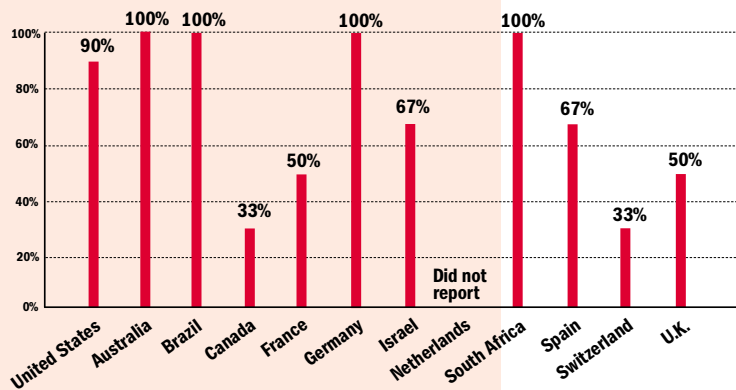
Multi-channel retailers must also address the question of how best to organize the online entity. Should the online business be part of the core business, or should it be a separate entity? The need for organizational discipline might prompt retailers to consider setting up a separate online entity to manage itself. While that has some obvious operational advantages, it could sacrifice management of the brand, which is, after all, the overarching value of the business. It is worth noting that Ernst & Young's research shows that catalog companies in the U.S. are generally more integrated than other sectors, and numerous catalogs have been successful at integrating their online and off-line channels.

The question of organizational structure — indeed, many questions about multi-channel retailing — has no definitive answer at the beginning of 2001. There are no clear best practices at this early stage of development. What is clear, however, is that multi-channel retailers have an opportunity to lead the way.

Independence of online channel vs. core business (U.S.)



Online management separate from core business



# The Seamless Customer Experience

*Providing a seamless customer experience means integrating operations, marketing, and merchandising.*

**Multi-channel retailers have also found that their e-stores must come as close as possible to replicating the shoppers' experience in their physical stores.**

In developing a multi-channel presence, perhaps the biggest challenge for traditional retailers is meeting and exceeding the expectations of e-customers sharpened by years of shopping in their stores. That may sound easy, but the execution of a consistent operational and merchandising strategy that rewards today's cybershoppers with a no-hassles experience has been difficult to master. The litter of abandoned Web site shopping carts is a testament to the complexity of the task. To refine their efforts, chains must determine how often their online target customers are the same as on land, and whether they have the same shopping needs in both channels.

## **Integrating operations, marketing, and merchandising**

Creating an agreeable online experience for e-customers requires traditional retailers to develop a different area of the retailing "brain" — and seamlessly integrate that new capability into all aspects of operations, marketing, and merchandising. This has proven to be a formidable test. Indeed, while their well-established brands give traditional "bricks" retailers a decided edge over their Internet-only brethren, it doesn't guarantee them smooth entry into electronic retailing, as many powerhouse companies, including Wal-Mart, have found out.

Traditional retailers who've begun to master the intricacies of multi-channel integration have learned some important lessons. Most important: success requires creating a seamless shopping experience for customers, both online and at the actual store. Most shoppers are going to expect the store to be a single unit that keeps track of all transactions, whether made at the mall, online, or through a catalog, even though different databases may be in place for each channel. When shopping in a store, a customer expects to be able to purchase the merchandise that is featured. No different online, shoppers who go to the Web site expect to be able to online purchase the merchandise displayed.

Companies like Borders and Kmart have invested heavily in integrating their various customer databases into a single entity in a process known as channel synchronization. At Borders, when the process is completed the company will be able to track customer transaction histories across all of its divisions, and that will give Borders the ability to respond to customer queries about any previous purchase, no matter where made, and also to tailor its direct marketing efforts to individual customer tastes.

## Replicating the store experience

Multi-channel retailers have also found that their e-stores must come as close as possible to replicating shoppers' experience in their physical stores. That requires providing a high level of consistency between the merchandise assortments offered in both settings. Feeling the texture of a sweater or blouse isn't possible online, of course, but the photographs of apparel and other items must be as sharp and revelatory as those of a catalog offering. What's more, the online experience has to be easy and stress-free: no interminable waits for complicated, multimedia graphics to load and no dead-ends as the customer navigates through departments and categories down to the particular brands and items desired.

For retailers to succeed online they must offer service levels that meet or exceed in-store standards. Shoppers almost invariably have questions about selected items; they have to be able to dial toll-free and reach a call center or engage in a live online chat with a knowledgeable service representative at any hour. They also need up-front information about all costs, including deliveries, and not be blind-sided at the checkout by unexpectedly high charges.

## Easy returns

Customers must also be able to return purchases without difficulty and without being charged for the service, either by mail or at the store. The ability to return or exchange at the store is one of the competitive advantages expressed by the multi-channel retailers interviewed.

One of the Web sites that illustrate the concept of channel integration is Kmart's [bluelight.com](http://bluelight.com). The company has gone to great lengths to produce an easy-to-navigate site that offers effortless access to all merchandise departments. It has also assembled its customer service offerings onto one page titled "customer care." There, shoppers can click for detailed information — think of it as an online tutorial — including a step-by-step guide to ordering, and instruction and how to return items by mail and at a Kmart store. The page also offers one of the most thoroughly informative lists of frequently asked questions available on the Web.

Nordstrom.com is another example of how integration between channels can work to improve retailer sales and profits — and reinforce a carefully nurtured brand image. When Nordstrom.com launched its redesigned Web site last August, it listed

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- 2) the ability to locate brands quickly,**
- and 3) a fast and straightforward checkout process.**

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three essential ingredients it had set based on customer feedback: 1) the ability to shop and search for products with ease, 2) the ability to locate brands quickly, and 3) a fast and straightforward checkout process. The requirements were consistent with the high-service fashion image that the apparel retailer seeks to maintain throughout its chain of department and specialty stores.

The new Nordstrom site features simple navigation through a home page entry point and a search function on every page, live chat capability, and easy returns and exchanges either by mail or at a Nordstrom store, and easy registration and checkout functions. “Easy, convenient online shopping with a great selection is what our customers have told us they want,” said Dan Nordstrom, chief executive officer of Nordstrom.com.

While simple Web page design works best in creating a stress-free shopping experience, retailers have to be cautious that they’re not sacrificing some of the unique qualities of their real stores in an effort to speed customers through the online shopping process. FAO Schwarz, the specialty toy store, has made a special effort to transfer some of the excitement and feel of its flagship New York City store to faoschwarz.com. In the site’s virtual playroom, for example, a selection of toys can be viewed in three dimensions and full-throated sound, including a dinosaur that roars.

It may be a long while before online shopping is transformed into a “Matrix”-like experience of being in an actual store. But in the meantime, brick-and-mortar retailers have been making strides in making their customers’ online experience as rewarding as the one found in their stores.

# Alliances: Is Blur Good for the Brand?

*Strange but successful bedfellows may emerge as companies “pony up” in the new economy.*

**Companies will look to leverage their strengths with complementary companies in all areas of the organization including marketing, supply chain operations, customer databases, and finance.**

If you shopped at Barnesandnoble.com in December 2000, you would have received the following email: “Congratulations! Your recent purchase at Barnes & Noble.com has qualified you to receive a Gap Code good for \$10 off a \$50 purchase at gap.com.”

In the same month, 39 million Sears credit card users got a chance to win shopping sprees if they signed up for America Online and paid with a Sears card.

Toys “R” Us teamed up with Amazon.com to sell its products through Amazon’s site.

Why would such “big brand” retailers enter into alliances like these? Aren’t they risking the integrity of their brands by “blurring” them in such co-marketing ventures?

The answer is yes, they are taking calculated risks. But they are risks worth taking. These alliance partners are not direct competitors, but they know they have synergies that can build business for each other. More important, they recognize that the winners in online retailing will use this new channel to create new ways to market their brand, and alliances are a critical part of this new thinking.

Companies today ask questions like, “What’s the boundary of the firm and how hard should that boundary be?” said Charles

Conn, chairman of Ticketmaster Online/City Search. “It helps you think about things like whether to buy, build or partner.”

## **New alliances for a new channel**

In fact, strategic alliances are being formed at a rapid pace, and this trend is expected to continue. Of the companies interviewed by Ernst & Young, 65% of non-U.S. and 75% of U.S. companies reported that they are already engaged in some form of strategic alliance. One reason for this is that competition is intensifying in many categories of online retailing. It is likely that a few major players will emerge to dominate every category, so companies are seeking competitive advantage by entering into the right strategic alliances. It will simply be impossible for a business to manage itself properly without considering numerous kinds of alliances. Companies will look to leverage their strengths with complementary companies in all areas of the organization including marketing, supply chain operations, customer databases, and finance.

The Internet also gives rise to “crossovers” between entertainment, marketing, and commerce. This creates the need for technological solutions, which will in turn give rise to more alliances. Through alliances, companies are able to focus on core prod-

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ucts, services, and business activities, and let partners do the rest. This could further spur business development. A network of partners can help multi-channel retailers lure incremental business while also managing production, technology, distribution, warehousing, shipping, and a host of back-office functions such as finance. But across-the-board, quality of product manufacture, customer service, timely order fulfillment, and easy returns must adhere to consistently high standards.

**There are several types of alliances:**

- Product and/or service alliances, where one company licenses another to make its product, or two companies jointly market their complementary products or a new product;
- Promotions, where one company agrees to carry a promotion for another company's product or service, such as Sears/AOL;
- Logistics, which offer warehousing and/or distribution services; and
- Pricing collaborations, where companies offer mutual price discounts like rental cars and hotels or airlines.

In addition, the Internet makes possible new combinations that weren't possible before: portal alliances; database collections, as between catalogs and credit card firms; co-branding; and virtual shopping malls. Any of these relationships can be short- or long-term, though the trend at the moment is toward short alliances. The multi-year, multi-million-dollar deals of just

a year ago are rare, following in the wake of the shakeout among pure-play e-tailers.

**Managing alliances but maintaining brand integrity**

For multi-channel retailers, the question is not, should we consider alliances; it is, how do we manage our alliances effectively, without jeopardizing the brand? This is challenging, especially when the array of relationships grows complex.

Ticketmaster's Conn pointed out that among his company's alliances, two were competitors, Yahoo and The Denver Post. "In the old economy, the question was, 'Compete or buy?' Now anything goes," he said.

As a general rule, retailers have to weigh benefits and risks in evaluating partners for the short- and long-term. First, companies must understand their own asset strength and figure out how to leverage it through smart alliances with appropriate partners. This often leads to a cut in the number of suppliers, then treating the remaining ones as strategic allies, sharing information freely, and drawing on their expertise to develop new products that meet the quality, cost, and delivery standards expected by consumers, thereby enhancing brand equity.

As the Internet adds to an already complex business environment, multi-channel retailers can't expect to meet their corporate objectives if they go it alone. Alliances offer viable solutions when partners complement each other.

# Value Drivers in Online Retailing

*Both profitability and traffic count with investors, not sales.*

By Don Collat, Managing Partner and Chief Strategist, Corporate Finance

**Thirty-one publicly traded e-tailing companies were analyzed to determine which measures best explain enterprise value. Investors concentrated on two factors when evaluating these companies: gross profits and total visits.**

Until the beginning of 2000, Wall Street analysts were convinced that sales were the most important driver of value in the e-tailing sector. They have since amended their thinking and have come to realize, as Ernst & Young has since 1999, that a different financial factor is at work in the valuation of e-tailers. An Ernst & Young study, “Value Drivers in the New Economy,” showed that as early as April 1999 investors were paying attention to gross profits, rather than sales, and had maintained a keen interest in profitability well into this year. Yet, as it turns out, gross profits tell only half the story.

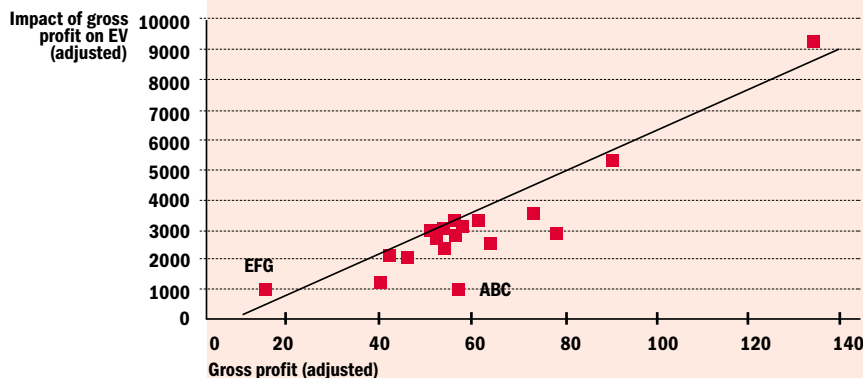
## What investors value

The purpose of Ernst & Young’s study, which is updated quarterly, is to identify objectively the performance measures most valued by e-commerce investors. The

study analyzes several sectors of the e-commerce economy, including business-to-consumer e-tailing. For the e-tailing sector, 31 public companies were analyzed using a regression to determine which measures best explain enterprise value (market capitalization plus net debt). The period under study spans 18 months, beginning in the first quarter of 1999.

For the second quarter of 2000, we found that investors concentrated on two factors when evaluating e-tailing companies: gross profits and total visits — i.e., the total number of visits to the Web site of the e-tailer in question. These findings are summarized in the two figures below. Figure 1 shows a positive relationship between enterprise value and gross profits, accounting for total visits; and Figure 2 shows a positive relationship between enterprise value and total visits, holding

**Figure 1: Relationship between enterprise value and gross profits, controlling for the effect of total visits**



**These so-called “real options” can be explicitly valued in much the same way one would value a traditional put or call option on financial security.**

gross profits constant. Note that, in considering non-financial traffic variables, investors valued the frequency of visits, rather than stickiness (the average time spent by a visitor to a given Web site).

The study also found that investors have slightly different criteria when investing in smaller, less mature companies in this sector. Analysis of a sample that excluded large companies, such as Amazon.com and eBay, showed that investors are most concerned about the total amount of time spent on the Web site and the company’s capacity to survive without external financing.

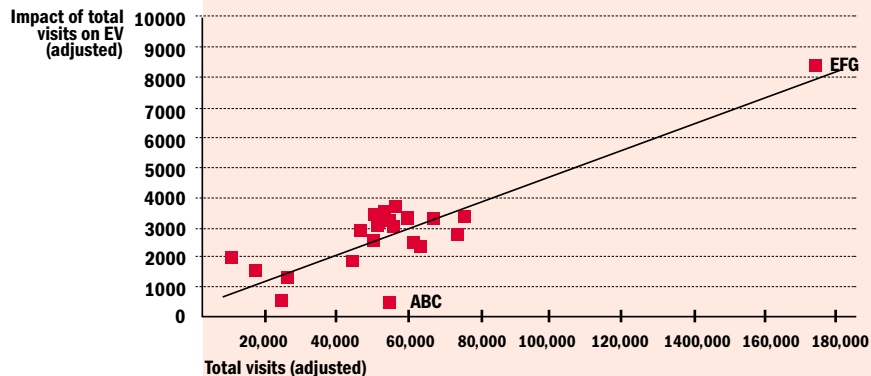
**The insight behind the numbers**

The results of the Ernst & Young study highlight the two primary components of a company’s value. The first, and the most familiar, component is the traditional net present value (NPV). To compute NPV, an analyst estimates future free cash flows assuming that the company follows a pre-determined course of action. These cash flows are then discounted at an appropriate rate.

A second, and often significant, component of enterprise value is frequently overlooked, however. This second component is linked to management’s flexibility — its ability to make mid-course corrections once new information becomes available. Such corrections would include decisions to abandon, redirect, defer, or expand a project. These so-called “real options” can be explicitly valued in much the same way one would value a traditional put or call option on a financial security.

The results of the e-tailing study support the theory of real options. The study identified the two measures that investors care about most in evaluating e-tailers. One of those measures, gross profits, is strictly financial and comports well with NPV. Yet a traditional NPV analysis cannot account for the presence of the other measure, total visits. Investors place a value on this non-financial measure because it represents management’s ability to alter the company’s strategic direction. A large number of visits, for example, may give the company the ability to undertake new initiatives,

**Figure2: Relationship between enterprise value and total visits, controlling for the effect of gross profits**



such as the development of an additional product line. Using its proprietary methodology, Ernst & Young has demonstrated that up to 50% of an Internet company's value can be linked to real options.

### **Creating competitive advantage**

Understanding the drivers of enterprise value can create competitive advantages for both pure-play e-commerce companies and bricks-and-mortar companies investing in e-commerce initiatives. First, insight into these drivers enables a company to align employees' performance with the creation of shareholder value.

Employees can be rewarded for achieving performance goals that are directly linked to measures that drive enterprise value.

The results of our study can also help companies communicate more effectively with the investor community.

Management can determine the value drivers on which it has performed well and emphasize those results in its communications to investors.

Finally, management can more accurately evaluate alternative e-commerce investments. The common practice of relying on a single multiple (or the wrong multiple!) provides less accurate information about the value of the investment than the approach presented here. By the same token, management can use this analysis to inform its growth strategy — in particular, by evaluating how much an investment or an acquisition would improve the company's performance on the measures that truly matter to investors.

**Understanding the drivers of enterprise value can create competitive advantages for both pure-play e-commerce companies and bricks-and-mortar companies investing in e-commerce initiatives.**

# Mobile Commerce: Putting Integration in the Consumer's Hands

*Faster than e-commerce, say hello to m-commerce.*

By John Distefano, Americas Services Line Leader, Mobile Commerce,  
Cap Gemini Ernst & Young

**Mobile hand-held devices  
such as cell phones,  
personal digital assistants  
(PDAs), and pocket  
PCs can be used to bring  
online shopping to the  
point of purchase.**

With the emergence of multi-channel retailing have come new approaches to online-on-land integration. Lids, a specialty hat retailer, offers in-store online shopping through intelligent kiosks. Other prominent retailers have tried “e-zones” within their retail stores in an attempt to provide parallel shopping alternatives. Major companies such as Gap and Circuit City integrate online shopping with traditional store purchasing by combining online with in-store pickup and return options. Still, the consumer views these channels as largely separate.

One promising solution is mobile commerce, which brings online shopping capability to any place at any time through wireless communication and mobile devices. Mobile hand-held devices such as cell phones, personal digital assistants (PDAs), and pocket PCs can be used to bring online shopping to the point of purchase. Time-pressed shoppers can get the convenience and versatility of online shopping with the hands-on reality of the in-store experience, simultaneously. Consider the following scenario:

*Susan Steven's teenage son is a discerning music fan. The stereo she plans to buy for his graduation must be rich in features and*

*power. But because she will likely spend hundreds of dollars, she also wants to be price conscious. As she strolls down the aisle of her local Jumbo-Tronics store, Susan spots a suspect. Good looks, good sound, and good price. She scans the stereo's UPC sticker with her personal shopping assistant (PSA) and instantly receives product information and a list of competitive products. She sees that the unit she is interested in has an e-note attached which signals more information. She clicks on the e-note and is told that the same unit is available just down the street at Buy City Electronics. She is also notified that if she purchases from Buy City, her family will be automatically eligible for their preferred CD buyers plan. “Not bad, but is this really the best deal,” she wonders. Another click on the e-note and she is reading the latest product review information from Consumers News, which confirms this unit is rated highest among its peers in this category. Now she's convinced. As she heads to the exit to drive down the street to Buy City, she swipes her credit card through her PSA, and approves the purchase by entering her PIN and speaking a special voice password. She receives a confirmation number and proceeds directly to the customer pick-up counter at Buy City, confident that she made the right choice.*

## **Mobile commerce empowers the consumer**

With mobile commerce, promotions, electronic coupons, comparison prices on favorite brands, and product information are delivered in real-time to consumers, wherever and whenever they need it. Aligning with this concept of mobility is a very compelling proposition to retailers. Companies are more eager than ever to reach consumers, and the explosive growth in mobile devices and usage presents unprecedented potential. Over the next few years, Internet access will increasingly become a wireless phenomenon, with analysts projecting that by 2003 we will approach one billion mobile Internet users worldwide compared with only 525 million wired users.

## **What are the opportunities?**

The ultimate goal of retailers is to get shoppers to buy. Mobility allows new ways for the retailer to weave itself more seamlessly into the daily life of consumers, whether they are riding home from work, rushing to a kid's ball game or sitting at the movie theater. Online shopping is limited in that most consumers may spend only a few hours a week at their home computers, and even then it's a conscious and extra step to use it. Shoppers are, however, nearly inseparable from their cell phones and personal assistants — where they go, so goes their mobile lifeline. Retailers have an opportunity to invent a new class of service that leverages consumer and product information and applications specifically designed for mobile use. With mobile commerce, retailers can

provide an endless number of “virtual end-caps,” each one aimed at a specific consumer segment or individual shopper. Retailers can instantaneously adjust in-store promotions not only based upon what is selling, but who is buying it. Leveraging the wireless and interactive nature of mobile commerce, retailers can establish a personalized shopping channel with the consumer, while a shopper in the next aisle experiences an entirely different set of product promotions and pricing options.

Where will the mobile wave take us, and how fast? To get a better idea, we can look to regions where wireless communication is most advanced. The Nordic countries, for example, are at the vanguard of mobile Internet and mobile commerce adoption. The penetration of hand-held Internet devices is the one of the highest in the world, and vendors of infrastructure equipment, mobile devices, and network operators have all invested heavily in R&D to push the market into mobility. In Sweden, more than 60% of the population is equipped for mobile commerce. To gain a better sense of the thinking shaping the mobile trend, Cap Gemini Ernst & Young conducted a mobile commerce survey in September 2000 with representatives from 90 of the largest companies in Sweden. The interviewees were mostly business development executives, CEOs, and marketing directors.

Results from the survey showed that intentions and tactics varied by industry, but not surprisingly, the fundamental reason cited for adopting the new technology was to support business strategies, either growth or efficiency. Strategic intent within retail was mixed, with 23% of those surveyed

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viewing mobile commerce from an efficiency perspective and 27% from a growth perspective. What is more revealing, however, is that clearly one-half of the retailers surveyed did not view m-commerce as supportive of their business strategy. Compare this with most other industries where around 80% viewed m-commerce as being central to growth and efficiency strategies. Overall, the retail industry appeared to be the most unsure about the future of mobile solutions when compared with other industries.

Is the message “wait and see?” Not at all. Of the retail companies interviewed, 40% have a budget and the majority of these organizations plan to invest in mobility using today’s technology. Also, retailers in the survey expressed strong consensus regarding the aim for using m-commerce as a means to increase service through personalization. Early adopters in less mobile-mature industries such as retail can act as a transformer of the industry, gaining considerable competitive advantage.

At the same time, mobile commerce poses threats to retailers in the longer term. As consumers arm themselves at the point of purchase with more information about products they want to buy, shoppers may gain more leverage over retailers. Just like Ms. Stevens in the scenario described earlier, shoppers will be far more likely to compare prices, features, and service if they can do so with a few clicks rather than having to bounce between several stores. Retailers may also feel pressure from the supply side of their business. For consumer packaged goods manufacturers, mobile commerce allows a new, interactive

tool to build relationships directly with consumers. Manufacturers have been very careful in the past not to promote channel conflicts, and have typically avoided broad-based strategies aimed at generating pure volume through online shopping. Instead, many have focused on offering customized or bundled products, or items not available in stores. But because mobile commerce provides the potential for entirely new ways to advertise, promote, and interact directly with the consumer, retailers should aggressively look to forge arrangements with the manufacturers to deliver innovative services through mobile technology. Those who don’t risk not only creating new competitive issues with their partners, but also missing an opportunity for a more personalized connection with its consumer base.

**Making mobile commerce work**

For mobile commerce to work, two critical components are necessary. First, wireless communication must be available to connect consumers with the services they want to access. Second, hand-held devices must offer more than the limited virtual “shelf space” that is visible on the tiny screen of a cell phone. For retailers and consumers alike, there is good news on both fronts, although the advancement and adoption of mobile technologies are phasing in at different paces throughout the world.

Regions such as Western Europe and Japan enjoy a stable, robust wireless system built on standard technologies. And users there will see tremendous jumps in capabilities as the third generation (3G) of wireless services spreads during the next

couple of years. 3G services will allow users of mobile phones and other devices to download complex graphics like product literature, watch streaming videos of product demonstrations or commercials, and view maps and other full-color objects. The situation is quite different in the U.S., but not altogether bleak. Mobile data users in the U.S. are all too familiar with the frustrations associated with inconsistent wireless access. 3G services are still well in the future for Americans, but the situation is nonetheless improving rapidly. Traditional Telco carriers are finding ways to bolster current technologies to achieve drastic improvements in coverage, quality, and bandwidth without the massive infrastructure investments required to move to 3G. Further, upstart innovators such as Ricochet, Merchant Wired, and WayPort are erecting the infrastructure to enable mobile commerce in the places where it counts the most. As a result, high-bandwidth service will reach the majority of major metro areas and commerce centers (airports, malls, hotels, etc.) in the U.S. in 2001. Layer onto this satellite technology that is now a cost-effective supplement to terrestrial wireless services, and the picture gets even better.

The necessary hardware and software to make mobile commerce practical is also rapidly advancing. During 2001, we will see mobile devices that rival the capacity and speeds of desktop systems of just a few years ago. Larger screens which handle thousands of colors, processors which race through manipulations at hundreds of megahertz per second and micro disk tech-

nology which supports gigabytes of storage are available today in cleverly packaged hand-helds weighing only several ounces. An issue which could threaten the gathering momentum behind m-commerce is security and privacy concerns. Yet cell phones and mobile devices have authentication that is superior to that of PCs. Couple that with wireless security modules, voice recognition pass-wording and encryption techniques, and you have tools with which to establish a dense blanket around mobile transactions.

### **The mobile challenge**

Like any so-called paradigm shift, mobile commerce will be met with a measure of skepticism. There may be some that think it will fade from the headlines before it affects any bottom lines. Don't bet your business on that happening. Though some of the answers are still sketchy, it is clear that retailers who want to get one step closer to their customers and a step ahead of the competition should consider today how the mobile world will impact their business. Leading companies will need to open new collaborations and operating models with manufacturers. They should focus on creating personalized shopping by integrating the in-store experience with an online and real-time shopping dimension. Through mobility and interactive wireless communication, retailers will want to promote communities clustered around common themes such as product usage, demographics, or shopping preferences. And perhaps most important, they must do this while protecting consumers' desire for privacy.

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