

The right strategy

Remember when no one was sure if or when online retailing could ever become a significant source of profit for UK retailers? asks David Adams

Once again, Christmas online sales have provided clear evidence of the internet's growing importance to the sector. £13.6 billion was spent online over the festive period during 2007, according to Forrester Research, a 40 per cent increase against Christmas 2006.

With the High Street having experienced mixed fortunes in general, might those figures make more retailers' CEOs consider putting more resources into multi-channel strategies? Few retailers have got close to achieving the genuinely integrated multi-channel services which technologists were predicting would need to be developed ten years ago, with integration between online and in-store operations often patchy. At the same time, while online sales may be booming, few retailers have invested in mobile phone-based services, beyond some useful SMS alert systems designed to enhance order tracking or reservation services.

Is 2008 going to be the year when that starts to change? Not many of the sector's most successful clicks and mortar propositions fit the pattern envisaged by the technologists a decade ago. "Argos seems to be the benchmark for a lot of people, even though the website is pretty clunky, and the search and compare functions aren't that slick," says Daniel Turner, head of retail and the hospitality industry at Microsoft UK. For him, the important point to note is that this success is, "driven from the back end

systems and operational efficiency, rather than an all-singing and dancing website." The same could be said of Tesco.

Up to now it has not been possible to say that the success of a website depends on seamless integration with other sales channels. The range of items available on johnlewis.com is genuinely staggering in its breadth (more than 30,000 items, from exercise equipment to clothing buttons), but you can't place an order there and pick up the goods in store. Does that matter?

"John Lewis is one of the winners," says Fiona Sweeney, industry strategist for the retail sector at digital marketing specialist Axiom. "They have a very strong relationship with people in terms of home delivery. And they've got the Ocado side. Suddenly, from being a retailer with a proposition that was all around the local environment, they are now a company with very strong relationships across multiple touch points. Where the online and store channels do blend is the brand values. You feel as if you're



dealing with the things John Lewis stands for."

David Walmsley, head of web selling at John Lewis, explains that the site's success is the result of a canny calculation on the part of senior managers who bought the buy.com business as a standalone e-commerce operation in 2001. "With that approach complete integration was only a long-term opportunity," he says. "That's the risk that the business took back then. It paid significant dividends in terms of speed to market, and we now have a fantastic operation."

The aim of the site, he says, is to offer key elements of the in-store John Lewis experience: "It's about (product) advice, about shopping as hopefully quite a calming experience. Where we are at the cutting edge is in terms of service, quality, predictability in stock levels. The bright and shiny functionality is less important."

It's worth noting that the area where there has been strong integration is in customer service and CRM, across the Partnership's other stores, chains and online services, including Waitrose and Ocado. The customer service call centre is completely integrated with online operations.

The key to success

That ability to identify and focus on what really differentiates the business may be the key factor in the success of an online operation. Dixons.co.uk is another special case, transformed into a pure play internet retailer, with its old stores closed or absorbed into the Currys brand by parent company DSGi. But with it inheriting parts of the online technology and logistics infrastructures originally developed for the PC World and Currys websites, and the addition of new products that would previously have been sold in those stores and not in the old Dixons, you could argue that Dixons.co.uk is, in effect, DSGi's online channel.

It is also performing well. "It's been about taking what was a very strong, technology-driven High Street brand, understanding what our value proposition for our customers was, compared to other pure play retailers, and benchmarking against them," says Pat Foley, head of marketing and operations at Dixons.co.uk. Further investment in supply chain operations and back office architectures will reduce lead times and improve efficiency.

Most importantly, it should make it easier for the website to cope with huge spikes in demand at busy times of the year, such as Boxing Day. Interestingly, one could easily argue that, for all the work Dixons has done with online marketing and third party affiliation, the real source of the brand recognition that leads to such surges in demand is surely its defunct store network. It's an example of the way that multiple channels can feed off each other, even beyond the demise of one of those channels.

The reverse is also true. "Something else not considered that frequently is the engagement of store staff," warns Dan Wilkinson, retail business consultant at Conchango. "What you hear (as a customer) from the store staff is what you believe about the business. If you go into the store and the staff say 'don't look at the website, it's rubbish', you've immediately set yourself back."

"It's about getting the staff to promote, understand and use the website. That's an uphill struggle for a lot of retailers, particularly where bonuses are linked to individual performance, so they see the website as a competitor." He cites Woolworths as a retailer that has – after a shaky start – found an effective solution. "Woolworths

make sure that their in-store ordering kiosks have immediate access to their whole range, so staff don't ever say 'it's not in stock' anymore, they say 'we don't have it here, but you can order it and have it delivered'," he says. "Stores are incentivised on purchases made on the web, if the purchase happens within the store."

Integrated marketing and CRM functions also play a crucial role in a multi-channel strategy. John Lewis's Walmsley believes the Partnership's CRM strategy is one of the most impressive elements of the business. "That's one of the key building blocks," he says. "The challenge is to work across the groups in the business to understand the important customer groups. And it will be important to react promptly to what our customers are telling us they want and don't want in terms of communications."

Harvey Nichols is another example of a retailer taking its own approach to online retailing. It is also reaping the benefits of enhanced, real time multi-channel CRM, using CDC's Pivotal solution, sending captured customer profile information from the PoS and the website back to the shop floor via a Merret sales transaction database, enabling staff to review customers' previous in-store and online purchases. Customer information is also captured through in-store hospitality operations, and from the OxoTower restaurant in London, to help Harvey Nichols gain a better understanding of customers' buying habits.

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The retailer's website has expanded, taking advantage of an enhanced real-time business information infrastructure built to support the new Harvey Nichols store in Dublin, but remains a small part of the overall sales operation, with transactions limited to a small gifts, beauty and accessories range.

There are good reasons for that. "We're relatively high price point, and we buy quite shallow compared to a volume retailer," explains Martin Schofield, IT and logistics director at Harvey Nichols. "As with catalogue retailing you may have people buying the same thing in two sizes, intending to send back the one that doesn't fit. If you buy dedicated stock for the online channel and you have a high return rate then you have a risk of not being able to sell that stock elsewhere. In future we'll probably extend the range, but look to fulfil from store points, and not buy extra stock. Our focus is going to be taking customer information to the shop floor to empower staff."

So perhaps one thing to be learned from the brief history of multi-channel retail to date is that the old virtues of good pricing, products and service are still as important as anything else, and that above all technology should be harnessed towards those fundamental goals.

"At the back end it's about continuing to choose the right points to integrate and the right points to standalone, while always focusing on the customer proposition," says John Lewis's Walmsley. "It's less about flashy interactivity and more about good honest content."