

“The death of e-commerce, the birth of t-commerce”

Good morning, I want to tell you a few stories and let me start with a personal one.

I used to be the e-commerce Director at Argos Stores. Most of you will be familiar with that near 1,000 page catalogue. It carries nearly 80,000 product lines, from underwear to computers. This catalogue has a fantastic UK franchise. It's in 16m households across the country. It's used variously as a doorstop or draft excluder but it also generates around £3bn in turnover.

In the early days when I was there, whenever we talked about the website, all our discussions were about how we can sell more online, how can we increase sales on the Net. At the time we couldn't put all 80,000 products on, we had about 5,000. Well, we said let's just make more products available. Let's spend huge sums advertising argos.co.uk – let's revamp the website to make it better, easier to use, let's forge lots of agreements with other online partners who will refer customers to us. Let's give special discounts on products only available online. I know, let's email everyone telling them about new products and features online. Let's.....

Well yes all those things were good ideas but then the team had one of those simple but breakthrough insights. Look, this is all very well and yes we do need a great website but we've also got nearly 300 stores across the country where at present we do more than 90% of our business. Actually shouldn't we also be encouraging people to visit those stores? Shouldn't we somehow measure our online presence not just in terms of how many boxes we sell online but also how many more customers we drive into the stores? Isn't the success of the online business actually gauged by its multi-channel impact and by the total incremental business it drives?

In effect e-commerce is a very misleading term. I want to banish it from the rest of this conference. I want you to hiss and boo the next time anyone mentions it. It's not e-commerce, it's “total commerce”. Sales online might be relatively low but sales arising elsewhere as a result of what you do and say online might be astonishing.

In the US, 73% of people go online first to research and evaluate which car they want to buy and only then go to a dealer. So 73% of all US auto sales and choice of dealer are all heavily influenced by what a prospective purchaser first sees online. In the UK it's around 45% and growing fast.

29% of people go online to research what car insurance to buy. 43% of people research their travel plans online before buying. 26% of people decide what TV or what fridge freezer to buy before going into the store to buy it. And I've just seen one piece of research suggesting approximately 80% of people decide what computer they're going to buy by researching online first before going into the shops or buying elsewhere.

At Sears, the US retail department store, they've coined the term: “the halo effect”. The Marketing VP at Sears has made the following comment: “we now see online as a crucial part of our communications mix to our customers. We have to be online, we have to get it right but a good online experience seems to generate significant extra store traffic as well: we now see multi channel behaviour: people researching online, buying in store or the other way round or phoning us up quoting stuff from our web pages. We're starting to see people coming into the shop waving a print out of a page from the web saying ‘We want that product’”.

People used to see online as a channel to market in its own right. It stood alone. It stood often in competition to other market channels. It created conflict in the organisation. It became an 'either or' scenario. People talked about cannibalisation about the risk of "if you promote stuff online you'd take away sales from your sales rep or your stores or branches or telesales".

All that's old thinking. The total commerce approach instead makes us re-evaluate what is the purpose of online, how should we be measuring its success and how we can use it.

So at Sears, for example they now find in their research that the web has driven 15% more customers, who are now new customers to their stores. That's people who only came to Sears because of what they saw and learnt online. Sure online sales are growing and already exceeded \$100m but online's purpose and value are much greater.

At Argos we introduced "Click 'n' Collect" and more recently "Text and Take Home". These services/ features were deliberately designed to exploit the multi-channel role of the online presence. And they've been hugely popular. Total Argos online sales are now over £250m but the incremental multi channel sales are now getting close to 15%.

Well, I understand a large proportion of people in the audience are owner/ entrepreneurs or members of small to medium sized businesses.

Well you might argue that it is all very well for 120 big corporations like Sears or Argos or others to go on about the value of doing business online and having a strong web presence. But, you might say, I employ 10 people; we've got all the pressures of being a small company in a big world. I'm doing well but I just don't have the spare cash or budget to start with all this online stuff as well. Besides I've not lost any business because of the Internet – at least not that I know of! And anyway I have got his website with my address and phone number if people need to contact me. That sounds like multi-channel total commerce to me.

Well let's look at some stats. At the last survey by the UK Government for 2002, 66% of the smallest size businesses were online, that is for businesses of less than 10 people. For business of more than 10 people that number is now 83%.

Year on year, even during 2002 when the "technology bubble" had burst more and more businesses were going online and looking to do business that way.

Let's consider 9 companies, which are variously small to medium-sized businesses, as brief case studies, and just review what can be achieved.

1. Good Book Guide
2. Charles Tyrwhitt
3. Paxton Access
4. Healey Williams
5. Anything left-handed
6. China Craft
7. Plade
8. Interface Fabrics
9. Delap and Waller

6 key questions:

1. How many here are involved in small to medium sized businesses?
2. How many are online?
3. How many sell online providing a clear purchase option to online visitors?
4. How many do more than 25% of total sales online today?
5. How many see online as major driver of future growth in your business?
6. How many have a “total commerce / multi channel” sales effort?

These are all small and “traditional companies”. They’re not new dotcoms or run by technology geeks. But they have all made the Internet work for them as a complimentary channel for conducting business. They are private companies where the owner entrepreneur remains in the driving seat. They range across a number of industries from books to engineering. Some found they were forced to respond the new media/ internet commerce challenge or they risked extinction. Others saw it more simply as a way of reaching out to new customers.

1. **Good Book Guide** – this was originally a mail order catalogue bookseller and it initially hurt by the emergence of Amazon, BOL, Borders and others online. But it has responded to the challenge and has carved out its own catalogue plus online sales niche to act as an upmarket guide to the book buyer. They now provide customers access to an online database of 1.2 million titles.
2. **Charles Tyrwhitt** – initially also a mail order and catalogue operation selling shirts and ties to ABC1 men and more recently women! “The challenge has been painful but now Net transactions account for 16% of sales and are fuelling an increase in total sales”
3. **Paxton Access** – is a small family run engineering company in Southern England manufacturing and selling a variety of electronic access control systems. Last year turnover was £3.8m and pre tax profits of just over £300k. Positioned firmly in the security products arena for home and business, Paxton finds itself in a reasonably fast growing but very competitive market place. It wants to grow sales but has been doing all its business through a dealer/ distribution network. Selling direct on the web is an attractive option but, can Paxton do that without alienating its distributors? Paxton can only afford to employ 3 sales reps so its coverage of the market is limited. So what Paxton is now trialling is using the Net to drive sales leads for its distributors. So it reaches out direct to customers and customers can contact Paxton direct but all business is then channelled very explicitly to the distributor nearest that customer. That’s the agreement it’s struck up with its dealers. And early results are promising as Paxton and its distributors experience additional sales and new customer contact points. Its win: win for all parties.
4. **Healey Williams** – is a corporate merchandise supplier distributing items like logo-branded pens and stationery to the marketing departments of mainly blue chip companies. Healey Williams made a decision at the start of 2003 to “Use the net as a strategic tool to build a branded website that would merchandise the product range and make it easy for customers to buy whether by phoning the company direct, getting a copy of the catalogue next through the mail or “buy direct online”. This move has certainly proved popular with our international customers especially who want flexibility of how to purchase.

5. **Anything left-handed** – has always had its challenge getting known to all its potential customers throughout the world. “The Internet has been a boom for us, we’ve now got a global market and our sales have tripled”.
6. **Chinacraft** – has 7 stores but its trade is largely visitors to Britain. After 911, sales dropped dramatically but as the founder of the company Carolyn Balcombe says: “The net has managed to protect us from much of the worst effects of the drop in air travel and tourism. It’s provided us with another way of doing business”.
7. **Plade** – is a Scottish engineering company making high value capital equipment for the semi-conductor industry. As that industry increasingly went global, Plade was forced to follow those global markets or find itself out of business. Plade uses the Net to reach out to its customers all over the world. It uses email aggressively to receive and respond to new customer queries and to send through specifications and quotes. It also enables it to establish its market production around the world as a “bespoke engineering solution” to the industry. “We track all visitors to the site and recently got an order for \$6m from HP as we had noticed they’d been revisiting our site over a number of weeks and it enabled us to follow-up. Normally we’d never have had the sales force coverage to visit HP ourselves”.
8. **Interface Fabrics** – is a supplier of commercial textiles. It invested £25,000 in building its online presence in 2001 and it’s experienced a three-fold increase in sales as well as cost savings on getting those sales.
9. **Delap and Waller** – are consulting engineers with the two founding partners still very much involved in the business. They have offices in Belfast, Dublin and London and found it was experiencing lost orders because it was relying on the mail or courier to send through engineering drawings and quotations. It began to realise that rivals were closing deals in a matter of hours because it was all being sent electronically. Internet Broadband connections have been the way forward for this firm. It has given them the connectivity with customers and it’s more competitively priced than leased lines and more efficient than ISDN. “We now use the web exclusively as a medium for doing business with customers, but also amongst ourselves”.

Just a few case studies here but they show the Net can work:

- Effective across all industry sectors
- It’s reasonable cost means it’s competitive to run
- There’s no big investment to get going
- If you do it, then it can potentially really help your business
- It can drive commerce online but also support the whole multi channel sales drive

What these people have done is to grasp the “total commerce” opportunity. They recognise they have different sorts of customers. Some like it face to face, they want the comfort and familiarity and reassurance of the sales rep and their explanation. Others like the convenience of the phone or still the fax. Others like the privacy, the almost anonymity of the online environment. Others just want a bit of everything and enjoy the interchange. What they are learning is that they can generate a lot of extra sales by making every channel to market work.

All this is saying is: Think about e-commerce (yes you can boo and hiss!) differently. And it also means understand that the online experience is not just about generating sales leads for your sales reps or providing information and advice on your products and services – you have to think about the role of online in the whole purchase cycle.

So I'm going to introduce you to ACPO. I want to continually challenge the way we think and use the net.

ACPO makes us think differently about the entire purchase cycle and examine which parts of it are best served on the Net for our customers and which are not.

ACPO means "Awareness Consideration Purchase ownership". These are the recognised 4 key stages of the whole customer interaction cycle. At each stage the way we can use the Net can be and must be very different.

Let's go back to cars. Earlier on I mentioned that 73% of people use the Net to research before going to buy a car. That 73% number is critical. 73% are doing most/ all their research online in deciding what car they want to buy.

Before the Net, people would go visit on average 3 different dealers – a Ford, a GM/ Vauxhall and say a Toyota and consider a range of different brand cars before deciding which one and haggling with the lucky dealer.

Now the Net has changed customer behaviours. They research online to such an extent that they now decide what car they are going to buy. Then they still go and visit 3 dealers. But it's not a Ford, a GM and a Toyota dealer. Instead they've decided to buy say a Ford and they'll visit 3 Ford dealers. Their visit to the dealer won't be to compare different cars but now armed with "the best deal price" information from their Net research, they'll be negotiating purely on "can you beat this best price?"

The Net has become the No 1 research and evaluation tool. Right now, it's the real "killer app" of the Net. And as we said this is increasingly true for many products, from travel to insurance, from handbags to glad rags.

That means GM, whom I've been working with in Europe for the past year now has had to make some fundamental decisions about its web site. What is its purpose? Is it an advertising tool, is it to sell cars online, is it a fundamental research tool? Is it all of those things? What are the priorities?

Before I started work with GM they were looking at the Net rather superficially and crudely – putting their money in the "Awareness" category – there's a new car now available, and in "Purchase" – here's how you can buy online, with detail on associated finance deals.

They were putting very little into the "consideration" piece and into "ownership". Now they better understand how customers want to use the Net. So they have completely changed. Now "Awareness" gets very few dollars. That's the job of the offline TV media. Consideration gets the bulk of the available Net effort and budget. There's little attempt to actually sell the car online. And more recently they have begun to think about the "ownership" area. Historically for GM, once a sale has been closed and the car driven away then that was it, move onto the next purchaser.

6 more key questions

1. How many buy online for your business?
2. How many buy online at least once a week?
3. If you don't buy much online, how many research online before buying elsewhere?
4. As a regular visitor / customer at an online site, how many feel "recognised" and rewarded?
5. Would you do more online if you were actively encouraged or incentivised to do so?
6. How many are sold to in a "multi channel / total commerce way"?

But now GM are beginning to realise how the Net can be very targeted and cost effective tool for building loyalty among existing GM car owners. GM has begun investing in an "owner centre" online (click up www.mygmblink.com). This offers a whole range of added value features that aim to make owners feel good about their choice of car. It's welcome to the GM club and as an when you're thinking of changing cars there will be a host of loyalty values and benefits to encourage you to stay with GM.

So it's about learning to use the Purchase Cycle on the Net in the most leveraged way for customers. Putting up a brochure-based website may be absolutely irrelevant and actually turn prospective customers off rather than actually getting them engaged.

What's more this kind of insight into what customers want to use the Net for influences what type of marketing and advertising companies should be doing.

So GM was learning here just how critical the Net is, yet their media budget (how much spent in advertising and marketing) was still based on traditional rules.

At GM in 2001, 99% of the ad and marketing budget went into traditional media, TV, Print, Radio, Posters and direct mail shots to lists of people who GM hoped would be interested in a new GM car. 1% of the dollars went into developing relations with customers online.

Of course this is completely at odds with the research findings about the role of the Net. That's not to say GM should suddenly switch 73% of the budget to the Net. But it should probably be a lot more than 1%.

And when this was first discussed with the GM team there was substantial in-built resistance to taking dollars off the sexy TV ads and putting it into other areas. When we asked "Well, you spend c. \$200m a year on TV, what's the return you're getting when your market share is falling nearly all over the world", we were met with a blank look. "Well, we've always done that much TV advertising". It's taken a lot for them to start challenging the old sacred cows and behaving and budgeting and investing differently.

We were helped in that regard by the very developed web metrics environment that has now built up. As the Net has been under so much pressure in recent times to justify itself "What's the ROI and if it's not clear forget it!" – but the internet industry has responded admirably. There are many web metric tools out there – a few better than others – but each able to start demonstrating what Net marketing dollars are working and which are not, and why. It's not just a question of tracking number of visitors to the website.

You can now track who's visited, what pages they went to, when they visited, whether they are sales prospects or not, what their experience was like, did they buy and if not at what point in the Purchase Cycle did they drop out, did they register, did they ask for a sales brochure, did they check out where the nearest store is, even whether they enjoyed the experience.

This means that as the whole internet/ marketing mix goes forward, the Net is the one medium to really provide clear analysis of ROI easily and cheaply. It rivals DM for its targeted, personalised, direct messages but it can be way ahead of traditional media like TV in demonstrating value for money.

By the way, it's not only GM who is going through a total reappraisal of the value of the Net to their organisation.

Recently the CEO at McDonald's, Bill Lamar announced that McDonalds would be shifting 20% of its total media spend onto the Net: "we've learnt, he said, from a whole series of tests and trials over the past 18 months that we can be much more targeted to our customers using the Net, we get a better response than plain traditional DM and unlike TV we can track the value-added of every dollar we spend".

Heinz too has recently announced a program: "to put the Net at the heart of our marketing strategy... web penetration has now reached critical mass... we can use the web to reach younger people who aren't watching mainstream TV and show them detail about our products and their food values in an appropriate way... we can also reward our loyal consumers who regularly buy our products by making them feel a part of one Heinz family of products".

Ok, a bit cheesy, but you get the idea... Now the Net has reached critical mass, we can present product information for youngsters to consider in a light-hearted way for them and we can find ways on the Net to reward regular and loyal customers. Consideration and ownership!

And one last example here comes from research conducted by the IAB with Colgate and Kimberley Clarke on the future role of the Net in their businesses. The conclusion? "The combination of online and offline advertising produces an effect greater than the sum of its parts... to achieve that synergy online should be 10 to 15% of the marketing mix. That in tests drive the most attractive ROIs for the case study companies".

And finally, I'd like to draw this presentation to a close by looking at the "Top Tips" or lessons learnt for how to make this "total commerce" opportunity happen. For some owner entrepreneurs it may simply be a question of leaving this conference with some new insights or waking up one morning as Jack Welch did when he was CEO of GE and walk into work proclaiming "E, we've just gotta have it"! Only some booring here please as at least he was getting the Internet message!

From my experience there are 5 of these "top tips" worth sharing.

1. Dare
2. Test and Trial
3. Neutralise and coopt
4. Metrics
5. Don't treat this as "BAU"

1. **Dare** – is simply about being adventurous, taking a step into something that can be unknown, a bit different and so perceived as challenging or risky. But often times the greatest progress has come from a business leader just setting out a bold target. So Dell, the computer sales group, announced back in 1999 that 60% plus of its sales would be online in 3 years – and they achieved that and more.

Easyjet announced it would migrate 80% of its ticket telesales from its call centres to direct Internet sales and it's overachieved it.

Tony Blair, love him or dislike him, nevertheless deserves praise for galvanising the UK civil service march to make public services available online. At a recent Microsoft conference in Seattle, Bill Gates praised the UK Government for being one of the leading nations in the world for putting its services from the Inland Revenue tax returns to Passports onto the Net.
2. **Test and Trial** – With us all still only slowly recovering from the 2001/ 2002 downturns, few have either the big budgets or spare resources to suddenly announce a substantial Internet investment and it would probably be wrong anyway. This is a new channel to market and it takes time to master it and so the sensible way forward is a series of tests and trials.

At Delta Airlines for example, they have been learning about how to use the Net for their customers for the past 8 years. Even now they haven't got it anywhere near perfect but they are the worlds largest seller of tickets online with some \$2bn plus in sales and they have a program of nearly 400 different tests and trials to learn what Net initiatives work and which do not for their customers.
3. **Neutralize and Coopt** – There is the now infamous IBM story about how IBM became Net-literate and Net-savvy. A few years ago some IBMers attended a conference, probably much like this one, and came away convinced of the power of the Internet to do business. When they got back to IBM they started evangelising across the company and quickly got frustrated. People weren't interested or if they were they were too busy with other priorities to do anything about it. Some got so frustrated that they made a number of enemies and in fact got fired. So the next group of IBMers decided on a different approach to win over their colleagues. They called it "neutralise and coopt". In fact it was a more softly softly approach, find a few champions, nurture them, get some tests and pilots under way, get some results, spread the word, get some more pilots under way, show the ROI, find some more champions, start building the business case... It was a kind of viral marketing approach but it worked!
4. **Metrics** – we've talked earlier on about metrics but it's worth emphasising... Companies like Prudential, Royal Sun Alliance, Allianz – to take the insurance sector just by way of example – have all built web sites, spent money advertising, emailing and driving consumers to use the site but then realise they've got no really good way of measuring and tracking customer behaviour once they reach the site. It's like running a business and never talking to your customers or ever doing any customer research – I did some work with one of those organisations a few months ago and the amount of easy things that could be done to improve sales rate conversion of the prospective customers visiting the site was staggering!
5. **Don't treat this as "BAU"** – As I hope we will demonstrate through all the presentations this morning, there is something quite special about the opportunities presented by the Net and businesses need to have quite some

insight and understanding into knowing how to best exploit this channel. Maintaining some recognition of its distinctiveness, retaining some people with particular experience and expertise in how to exploit it, not treating it as a minority interest are all critical compliments of making it effective.

However since the Net bubble burst, too many people have chosen to ignore the whole area and simply treat it as “business as usual” part of the ordinary everyday stuff. As a result any budget has either been cut out completely or reduced to insignificant proportions and tasks have been delegated to the most junior employee with no one senior taking any interest.

To be successful that has to change, treating it as BAU means continuing to keep heads in the sand. Instead treat it as the multi channel total commerce opportunity it deserves to be.

So, a brief review of the way the Internet can help build sales and drive growth in a business. Some case studies, some ideas for understanding the purchase cycle and some tips for making it happen. There is no doubt that there’s a big opportunity out there to take a “total commerce” approach and so.....good luck!