

Insight

The 10Ps of ecommerce

One of the industry's key omissions has been the lack of a holistic framework upon which to hang ecommerce – a shared industry view of what it takes to succeed. Michael Ross outlines eCommera's 10Ps for building a successful ecommerce business.

In July 1995, Amazon.com shipped its first book (Douglas Hofstadter's Fluid Concepts and Creative Analogies) and online retail, as we know it, began. A mere 12 years later, Amazon's sales were nearly \$15bn. It is nonetheless sobering that as at September 2007, Amazon's accumulated deficit stood at \$1.58 billion.

Ecommerce is a growing part of the retail landscape and serious retailers know it is vital to their future. Unfortunately, selling online is hard. There is a well populated graveyard of ecommerce failures. Many retailers, who have achieved significant online sales, have spent fortunes building up their ecommerce capabilities. Other retailers have created profitable but small online stores and are not getting their share of the online prize. Overall, there is scant consensus about what success actually looks like with retailers frequently setting overly simplistic or unrealistic goals.

Many retailers are now asking themselves: What's the size of the prize and what do I need to do to achieve it?

Why ecommerce is hard

The ecommerce puzzle is complicated. Ask ten experts what the most important part of the ecommerce enterprise is and you will get ten different answers. One may say it's all about product; another will focus on technology and another on service.

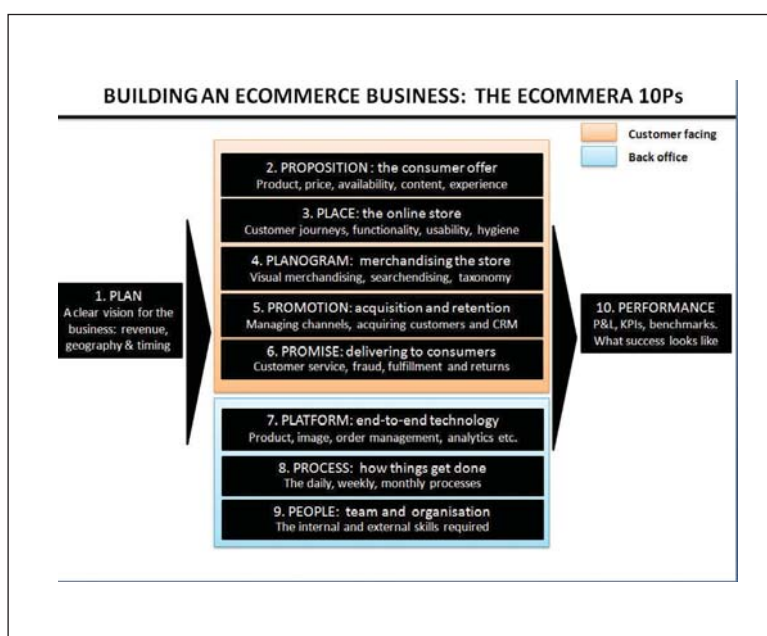
The bottom line is that, to build a successful ecommerce business, you need to do a lot of things very well, and work out how to do them in such a way that you can make money. Retailers who think of ecommerce as "just another store" or a "major project" run the risk of either failing to seize the opportunity or wasting a lot of money. Moreover, false starts and missed targets can create a vicious cycle with each new expert touting a different recipe for ecommerce success. The biggest risk is one of ecommerce fatigue.

The need for a new approach: the 10Ps

One of the industry's key omissions has been the lack of a

holistic framework upon which to hang ecommerce – a shared industry view of what it takes to succeed. This was the catalyst for the development of the eCommera 10Ps. The idea of the 10Ps is that it covers everything you need to do to build a successful ecommerce business. By adopting the 10P methodology, retailers can ensure that all elements of the ecommerce puzzle are thought through and a coherent strategy is developed.

1. Plan. First and foremost is having a clear vision. This may seem obvious but, time and again, unrealistic online goals have led to overinvestment and, when results disappoint, the whole ecommerce edifice rapidly unravels. Businesses must decide what it is they want from their site: Will it represent their largest store or is it a means of dominating their category? Is the goal to build the brand or drive sales? Is it to breakeven quickly or are investors prepared to invest to fund market share growth at the expense of short term losses? Is it a means of expanding internationally or consolidating core markets? The challenge is to set ambitious but realistic goals based on understanding the dynamics of the market, the retailer's competitive positioning and their ability to execute. All key decisions stem from a clear plan.



2. Proposition.

Next comes the consumer proposition with the right mix of product, price, availability, content and customer experience to deliver the plan. It is common – and easy – for retailers to take their offline proposition and simply put it online without further thought until success, more often than not, fails to materialise. Retailers need to decide whether online will offer an edited range, their largest store assortment or will be used to extend the offer into new areas. Pricing needs to encompass product, promotions, delivery and returns. Successful online retailers can all point to one or more distinctive elements of their proposition. For example, Ocado's delivery proposition, Net-a-porter's combination of product, editorial and service, Zappos' range, pricing and service experience. Unlike the physical retail landscape where physical, geographic separation between

similar formats allows both to survive, while online they're abutting and suffer by comparison/confusion.

3. Place. Next it's about the "place" (the online store) which needs to bring the proposition to life. The essence of a good site is a combination of functionality (what it does) and usability (its ease of use). Often websites are designed on the HIPPO principle (the highest paid person's opinion). This is a creationist approach to websites. I advocate a more evolutionary approach – you need a good starting point but then a website should evolve, informed by analytics (quantitative), user groups (qualitative) and testing (survival of the fittest). There is also an arms race of new functionality: wish lists, product reviews, faceted browse, one-click checkout etc. It is very easy to get fixated by some new piece of functionality. Retailers need to get the basics right and then understand the relative priority and economics of new features (what makes sense, at what scale, in what order and at what marginal benefit).

4. Planogram. The core purpose of every online retail site is to unite customer and SKU and for money to change hands. For centuries, retailers have been merchandising their stores, experimenting with different layouts, ways to present product and shop window displays. Many of the same disciplines apply online but with somewhat different terminology: taxonomy (navigational hierarchy), searchandising (sort orders), personalisation, product recommendations etc. are all part of the online retailer's toolkit. Again, smart online retailers need to understand what makes sense for their categories, their customers at their particular scale of operation (there are few panaceas). Many online retailers apply simplistic diktats of physical retail to online – instead smart online retailers need to apply a "test and learn" approach to every element of the planogram.

5. Promotion. The ability to establish a direct link between advert and sale combined with the economics of online marketing (cost per click, cost per action, communication at near-zero marginal cost) mean that the dynamics of marketing online are simply different to offline. Retailers who apply traditional broadcast marketing techniques and metrics to online will fail to take advantage of the opportunity and lay themselves open to be out-marketed by more sophisticated competitors. A key feature is the need to think about marketing as a variable rather than fixed budget. This approach is critical – just as you do not set a fixed budget for credit card charges, nor should you for online marketing. This approach holds whether you are driving sales with a target based on customer acquisition cost, or driving profitability with a focus on transaction acquisition cost.

6. Promise. In physical retail, customers do a lot of work. They find the product they want, take it to a till and, typically, carry it home with them. If they have a problem, they bring it back to the store. Not so online. Taking an order online necessitates making a "promise" to customers. Delivering on that promise requires managing picking, packing, shipping, returns and customer service. One bad experience will typically mean a lost customer. At figleaves.com, our most evangelical

customers were those that ordered at 4pm and received their goods the next morning. Promise is often an afterthought for retailers or is outsourced as an easy solution – the reality is that a great customer experience is fundamental to building a loyal and vocal customer base.

7. Platform. Post-traumatic platform selection stress (or platform envy) is a common ailment of online retailers, convinced that everyone else's platform is better than theirs. Many retailers think that the customer facing website "is" the platform. The reality is that this is the bit of the iceberg visible above the waterline. Mature ecommerce sites are ecosystems of technology including: web analytics, order management, image management, product data management etc. Long term success requires an approach that is both holistic and can evolve in recognition of the fact that today's advanced functionality will be considered basic in a couple of years.

8. Processes. The core processes of retail are well understood. The core processes of ecommerce are still in their infancy. For example, I recently bought a Nintendo Wii from Game for my nephew's birthday and selected next day delivery. My order was stopped as a fraud risk and the retailer posted me a letter (yes, a letter) as part of their standard fraud procedure. This is a great example of a fundamentally flawed process: there was no communication to let me know that the order would be late, there was no check that both the purchaser and recipient were both on the electoral roll, I doubt there is any process in place to review rejected orders and improve the process in future. There are over a hundred processes required to make an online retailer work well – few online retailers have either codified these or embedded them in their organisation.

9. People. Getting the right people and organisation is harder than it sounds. There is a dearth of ecommerce talent and good people are expensive. Moreover, it is imperative to get the ecommerce organisation to scale as revenue grows – there is a delicate balance between building an organisation ahead of sales which can be expensive versus growing incrementally and playing constant catch-up. There is also the balance of what core skills you need within your organisation, what to outsource and how that will change over time. I have come across a number of retailers where the CEO has aggressive plans but the team structure is fragmented across departments and there is no board accountability for success.

10. Performance. And last but not least is performance. Businesses need to rethink how to measure success. Ecommerce is data rich but often information poor. Understanding what data is important, when it should be reviewed, by whom, and what actions flow from that data is critical. An online retailer's P&L is very different from that of a traditional retailer. Run an ecommerce site like a traditional retail business and you run the risk of being outmanoeuvred by more sophisticated competitors.

The 10Ps will not guarantee success but retailers who adopt the 10Ps methodology will ensure that their online businesses are built on sound foundations.