

## Retailers: You Bought the Web Site, Now Sell the Dream

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Retailers must identify and communicate their core value propositions to their customers when developing multichannel strategies.

## ANALYSIS

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This month's Customer Relationship Management (CRM) Spotlight focuses on what retailers need to do to create a viable online channel that integrates successfully into a retailer's overall business. By 2005, retailers that successfully communicate their core value propositions within a multichannel environment will emerge as leaders in their industries (0.9 probability).

Retailers had a difficult time developing a Web presence during the dot-com era of 1998 through 2000. They were pushed into providing operational, transaction-based sites. Feeling pressure from e-tailers, retailers spent a lot of money building these interactive channels to compete. This resulted in unprofitable, poorly run Web sites that damaged the credibility of online channels and, in some cases (such as Toys"R"Us), damaged the entire brand. Not only were the Web sites difficult to navigate, but even the basics, such as the actual delivery of the products and baseline customer service needs, were not being met. Retailers underestimated the integration needed to support the channel within their businesses.

The basic functionality of Web sites has improved, and consumers are responding favorably. In 4Q01, Internet retail sales reached \$25.3 billion, worldwide. However, that number still represents less than 3 percent of total retail sales. More and more people are getting online and becoming comfortable with the Web, but there is still room for the development of a compelling Web site, one that understands what customers want and gives them reasons to return to it.

Retailers set up their Web sites as separate entities lacking integration with key systems not only in technology but, more importantly, in providing a consistent core value. A transaction-capable Web site is not a competitive advantage. The next step is for retailers to identify, strengthen and communicate their core value to their customers online. For example, the unique value proposition of Nordstrom.com is a channel that captures and communicates the promise of exemplary service.

Consider that any retail business strategy can be broken down into three types of value:

- **Price Value** refers to retailers that successfully compete on price. Discount retailers such as Target or Wal-Mart Stores developed their business model around the idea of providing lots of inventory at the best price.
- **Service Value** (e.g., Nordstrom, Saks Fifth Avenue and Harrods) gets consumers to pay more for products as they find value in service excellence.
- **Product Value** is a focus on the product itself. Its differentiation lies in providing the best products or unique products in its category. Hammacher Schlemmer and Williams-Sonoma show leadership by offering a selection of such products.

The challenge with these three core values is that no company is, or should be, a leader in all three areas at the same time. First, there is a resource trade-off. If a retailer invests capital and human resources in efficiency in providing the best price, it will be at the expense of investment in service. Second, customers associate, differentiate and select a brand based on its core value. Retailers need to excel in one core value and be competent in the other two.

Boots is an example of a retailer that understood its value proposition to its customers and extended its core value when creating an online channel. In "U.K.-Based Boots Fills Big Promise of Customer Service," CS-15-0649, we see a synchronized effort to combine service leadership with consumer technologies on the Web.

The execution of a multichannel relationship is a critical success factor for traditional retailing. This gives the retailer and the consumer multiple ways to communicate with each other, in effect, enabling retailers to be relevant to their customers. If retailers are not active participants in consumers' buying processes, they are irrelevant. In "4G Retail Web Sites Focus on Channel Integration," TG-15-2947, we discuss the need for fourth-generation sites to establish, maintain and extend relationships with the consumer.

A consistent experience (i.e., look and feel, personality and core value) in a multichannel relationship is crucial. However, consistent doesn't mean identical. Each experience comes with a set of expectations and methodologies. A sales clerk helping you try on a suit is a different experience than clicking on a suit online. Handing a clerk your credit card, then watching it being swiped through a machine and generating a physical receipt is a different experience than typing your numbers in cyberspace. As we discuss in "Customer Experience and 10 Ways to Establish Trust," SPA-15-1647, there are many steps retailers can take to establish and maintain a relationship online.

Returns and customer service may seem like offline/online operational "pain," but retailers are missing an opportunity to leverage it as part of their core value. A great example is L.L.Bean. Its core value is service leadership and, as a service leader, it has appropriately aligned returns with brand recognition by promoting lifetime guarantees of all its products, online and off. In "Returns and Customer Service," SPA-15-0777, we describe how returns can and should be leveraged as part of an ongoing multichannel relationship with customers.

Despite a rich body of best practices for online customer experience, shoppers continue to be vexed by sites that are slow, where salient functions don't work well, navigation is difficult or inconsistent, items are hard to find, prices and associated costs are not appropriately displayed, and vendors are intrusive before relationships are established. The impact on the individual e-tailer is severe, as shoppers abandon offending sites, but not the online shopping experience.

Satisfied online shoppers shop more often, spend more and tell their friends. This loyalty positively has an impact on customer acquisition costs, customer retention costs and conversion rates. The challenge for Web merchants is to make the shopping experience online as fully functional and as easy as — in fact, often, easier than — shopping in a "brick and mortar" store. "The 'Gartner 15' 2002: Guidelines for Online Shoppability and CRM," COM-15-1289, offers a comprehensive list of advice designed to ensure a positive customer experience.

Finally, a common mistake among retailers, both online and offline, is creating a loyalty scheme that is based solely on price. Although this method can be useful for retailers whose value proposition is price leadership, it is not the only factor that will make a consumer loyal. For example, getting a 10-percent-off coupon in the mail, only to find out that it is out-of-stock once you visit the store will never create loyalty. In addition, segmentation and differentiation among customers is needed. In "Five Ways to Improve Retail Customer Loyalty Programs," TG-15-2147, we discuss how loyalty will come from customer retention and development programs, rather than acquisition schemes.

Retailers must continue to improve the operational problems that alienated consumers in the past. The next step is to integrate the channel into the core business of the company — a project that will start to communicate distinct value propositions to customers, making the business and all of its channels compelling.

#### **Features:**

"U.K.-Based Boots Fills Big Promise of Customer Service" (CS-15-0649). How a 100-year-old retailer of health, beauty and pharmacy products integrated a real-time inventory process to boost its online customer service capabilities. **By Geri Spieler and Virginia Alber-Glanstaetten**

"4G Retail Web Sites Focus on Channel Integration (TG-15-2947). Retailers that optimize their sites' role in multichannel customer relationships will win competitive advantage. **By Walter Janowski and Adam Sarner**

"Customer Experience and 10 Ways to Establish Trust" (SPA-15-1647). The concept of trust in an online relationship is about more than just technology — it involves customer relationships and experiences. **By Joel Wecksell and Jennifer Kirkby**

"Returns and Customer Service" (SPA-15-0777). How returns enable merchants to improve customer service, gain information about customers and lead them back into the virtual store. **By Geri Spieler**

"The 'Gartner 15' 2002: Guidelines for Online Shoppability and CRM" (COM-15-1289). Gartner provides some "rules of thumb" for increasing shoppability and enhancing the customer experience. **By Joel Wecksell and Geri Spieler**

"Five Ways to Improve Retail Customer Loyalty Programs" (TG-15-2147). Customer loyalty programs need to involve more than just pricing benefits. They must also deliver value and surprise the customer with positive experiences. **By Walter Janowski**

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