

## The challenges of internet retailing

By Leslie Belcher, President, Jesta I.S. Inc.

At the dawn of e-commerce, retailers were skeptical about the potential to grow sales via the web. Today, however, by integrating e-commerce into their business models, retailers are realizing the Internet's positive contribution to overall sales. For many retailers, e-commerce has become the gateway into previously inaccessible markets. However, entering this new world of opportunity comes with some strings attached: the Customer is a significantly more sophisticated shopper; inventory fulfillment needs to be optimized; and existing stores must be part of the e-Commerce strategy. It is not enough for retailers to be Multi-Channel capable. Retailers must be seamlessly 'Cross Channel' as well.

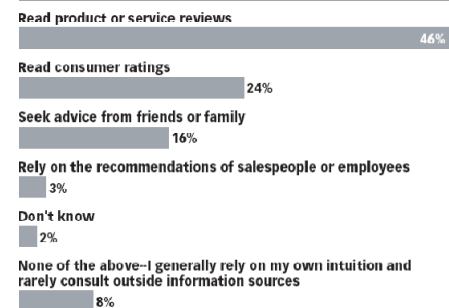
Customers that shop in the bricks and mortar stores are also passing through the gates of e-commerce and are becoming better informed about the products they wish to purchase. According to eMarketer.com, 70% of online shoppers are making their purchase decisions based on product/service reviews, ratings, and/or advice from friends or family. Only 3% indicated they would rather have advice from sales people.<sup>1</sup>

While consumers appear to benefit from the competition in the market, they have also been impacted by the economic downturn. Each purchase takes on more meaning as consumers cut back on discretionary spending. They are becoming much more informed, willing to actively research products and the companies that sell them.. The Internet has been critical in giving consumers access to other consumers - allowing them to share a wide variety of information and opinions. As they become more informed they become more demanding; consumers now expect a particular level of not only quality, but social responsibility.

At the end of the day, consumers call the shots. Their spending may be slowing but their product/service expectations are on the rise; they want to be able to buy anywhere, ship anywhere, and return anywhere, and still retain the ability to shop online or in-store.

While it would be reasonable to conclude that consumers' expectations for uniformity make perfect sense, the reality for retailers is very different. Shoppers often receive inconsistent messages from their experiences of buying online and in-store. It is critical that retailers integrate e-commerce into their business models in order to assure their systems are able to uniformly identify their products, promotions, and customer base. As a result we've seen the advent of business intelligence tools as companies actively gather as much information as possible about their products and customers.

**Most Frequently Used Source of Product/Service Information for Making Purchase Decisions According to US Online Shoppers, October 2008 (% of respondents)**



Note: n=300, ages 18+, numbers may not add up to 100% due to rounding  
Source: Penn, Schoen & Berland Associates, Inc. (PSR), "i inkShare  
TrendWatch Research: New Info Shoppers, Recession Buyers, and the 2009  
Online Shopping Outlook," January 30, 2009

102631 www.eMarketer.com

<sup>1</sup> "E-commerce in a recession", p.6 www.eMarketer.com,

Internet retailing requires availability of both internet technology and distance payment methods. In their most basic form, multi-channel retailers are using disparate systems, run by separate organizations (and importantly, separate inventories) for each channel. While each unit may be profitable, finding and harnessing synergies to enhance that profitability throughout multiple channels remains elusive. As a result, each channel is effectively run as a separate business, sharing only a common brand logo.

With regard to manufacturing and production, retailers could face logistical complications, government regulations and communication barriers. Moreover, retailers with stores are forced to maintain a balancing act between lean inventory and production capacity. If they are too aggressive they can lose sales by having too few products in stock, however if they attempt to maximize capacity they increase their chances of being overstocked. Web retailers often avoid this problem by using a drop-shipping model (products are delivered to customers directly from the manufacturer).

Sharing sales, inventory, and customer data is perhaps the most critical first step to achieving the benefits of multi-channel retailing. Even if systems are not yet fully integrated, decision makers, from customer service representatives all the way up to the C-level executives will be more informed.

As noted, business intelligence tools are critical in providing decision makers with accurate real time and consolidated information. Adopting a single integrated ERP platform that can manage all channels with the same toolset has many benefits. All initiatives are analyzed and managed together. Inventory visibility is complete and can be shared with the customer and supplier alike in near real time. Customers can easily check in-store availability or the status of an order on-line. Stores can expand their capabilities by presenting various options to customers when confronted with a stock-out such as reserving an incoming unit, sending the customer to a nearby store, or placing an order.

It is critical that management consider shaping their organizations to encourage the success of the brand, not the channel. Brick and mortar retailers have traditionally fostered a sense of friendly competition amongst stores, districts, and regions. However since each was driven to achieve its own goals for their given geography, cannibalization was not an issue.

The boundaries separating brick and mortar from e-commerce retailers are becoming blurry; both types are in search of new markets and consumers. As a result, competition has increased and consumers now expect store-based prices and promotions to match those found online and vice versa. For many consumers, shopping on the web is equivalent of yesterdays “window shopper”.

Very few small to medium sized retailers have bridged the chasm between multi-channel retailing and cross-channel brand management; they have successfully transformed their organizations to give customers what they want, when and where they



want it, and benefit from streamlined, efficient management, and greater inventory flexibility. Ultimately, these retailers will be outperforming their peers.

Transitioning from a single channel retailer, to varied levels of multi-channel integration, to the ultimate in cross-channel optimization, one thing has remained constant: the customer. The truly customer-centric retailer has always understood this, and has built up the technical capabilities as quickly as budgets have allowed. Opening up new channels has opened up a new customer base. Integrated reporting has allowed marketers to better target the increasing client base, resulting in higher margins. Those new profits can help fund an integrated system that leverages an inventory investment that can dramatically increase returns and decrease stock-outs. Finally, an integrated cross-channel ERP strategy/system unites the business, reduces costs and optimizes forecasts and execution. All aimed at giving customers what they already expect: anything, anywhere, anytime.

### **About Jesta I.S. Inc.**

Jesta I.S. is a leading supplier of business solutions in supply chain management systems for manufacturers, distributors and retailers primarily in the soft goods and specialty industries worldwide. Jesta I.S. is recognized for its expertise, innovative products and services and its commitment to evolving business solutions in today's rapidly changing business world. Jesta I.S.' solutions process essential business management information for well known industry leaders including Perry Ellis International (NASDAQ: PERY), Puma (German: PUM), Genesco Inc. (NYSE: GCO), Town Shoes Limited, Cole Haan, Haggar Clothing Co., Cavender's Boot City and DSW Inc. (NYSE: DSW) as well as many others.

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