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*Spanning the Chasm from Thought to Action*

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## Driving Change in the Direct-to-Consumer Sector

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### OVERVIEW

Shoppers are moving online in ever-increasing numbers, growing ranks of companies are following them, and the Internet is leveling the playing field, as anyone can become a player. Is having a Web presence now driving corporate and product strategy, or is it just good business? How is this new reality changing the competitive arena, pricing, and the importance of branding to commercial success? What are the drivers of successful corporate and product strategies in an Internet world? What does adding an Internet channel imply for marketing, for managing and testing promotions, and for discovering how potential customers find you and who they are?

The Internet has driven evolutionary changes that have transformed the behavior of both consumers and businesses in the marketplace. Consumers have become more comfortable buying a variety of products online, while retailers have learned their lesson from interactions with consumers during the early years of e-commerce. The Internet is now the new starting point for consumer decision-making. With many people pulling longer hours at work, few now have the luxury to search-shop at physical retail locations. The Web has proven to be the convenient solution as it offers a truly inexhaustible source of information that is available 24-7 and accessible from everywhere.

Because the modern consumer is convenience-oriented, there has been an increased demand for channel integration. Recent surveys show that 97 percent of consumers now expect a seamless shopping experience across channels. In response companies have begun offering online purchase with offline pickup and return options. Cross-promoting channels has also become common, as companies collect consumers' e-

mail addresses at their stores, and clerks of retailers are able to place customers' online orders from their store. The pay-off is that 35 percent of multi-channel shoppers spend 33 percent more than single-channel shoppers. Curiously, the so-called Internet-influenced offline spending has exceeded direct online spending in recent years, emphasizing the impact that the Web has had on consumer purchase decisions.

The Internet is also rapidly evolving into a multi-billion dollar marketplace. This rising economic tide is floating all boats. Worldwide online sales in 2004 were strong, totaling \$1.4 trillion. B2C spending, while accounting for only \$400 billion of this spending at present, is enjoying robust growth. In 2004, 25 percent of U.S. retailers sold their products only through the Internet, compared to 14 percent in the previous year, a nearly two-fold increase. U.S. B2C e-commerce totals are projected to surpass \$133 billion in 2005. According to long-term projections, 50 percent of the U.S. population will be shopping online by 2008, up from 30 percent in 2004. By 2010, 12 percent of all retail sales in the U.S. will occur online, up from 7 percent in 2004.

High-income households are the main driver of this growth in online spending. While 22 percent of online households fall in the lower income (\$29K or less) bracket, they represent only 11 percent of online buyers and account for a mere 6 percent of online spending. At the same time, higher-income and middle-income households are responsible for 52 and 42 percent of online spending, respectively.

Examining five key issues illustrates how these current trends in consumer behavior and potential for continued growth in e-commerce is changing the business environment and re-shaping corporate and product strategy.

Most striking, perhaps, is the ongoing impact on the competitive arena. The playing field has been leveled, as anyone can now be a player, micro- and macro-budget companies alike. Geography matters less, as companies can now have a global reach and enjoy a broader potential customer base.

While the Internet was a driver a business strategy in the early days of e-commerce, going online is now just good business. Time-strapped shoppers are increasingly placing a premium on spatial convenience. While physical retail outlets are open for only part of the day, online stores are open all day, every day. Shopping can now happen from the comfort of peoples' homes, at the expense of the brick-and-mortar channel.

With so many companies operating online stores, hyper-choice is prevalent in the e-market. While this situation may benefit consumers, it places an additional burden on businesses, as they must now face hyper price competition. However, when prices have been driven down as low as they can go, businesses must find some other way to get ahead of the competition.

Creating a successful e-brand is the key. A brand can be defined as all the promises and perceptions that a company would like for its customers to hold about its products or service offerings. When asked why they make repeat purchases, consumers list a variety of factors, which can be categorized into primary and secondary drivers. Primary drivers include high quality and/or reliability, performance, and familiarity. Availability and/or convenience, price/value relationship, customer service and advertising represent the secondary drivers of consumer decision-making. But sometimes customers choose not to purchase a product again. These so-called disloyalty triggers

include peer recommendation, perceived price/value shift, new positioning, and new product offerings.

The benefits of successful branding are real, as over 50 percent of purchase decisions are brand-driven. In addition, 70 percent of customers prefer using a brand to guide their purchase decisions and 30 percent would pay a premium for their brand of choice. Ultimately, a viable e-commerce brand spells success. A well-established brand helps a company retain its customers and grow its market. It simplifies customers' decision-making process and stimulates repeat purchases. Premium pricing can become a viable strategy that results in defensible higher margins. Successful branding also fosters power in a marketing channel that can eliminate potential channel conflict. It increases the return on marketing dollars and sends a positive message to shareholders and stakeholders. Most importantly, having a recognized brand enhances the credibility and success of new product launches, thereby nurturing the continual innovation required in a hyper-competitive business arena.

Having differentiated their products, ensuring long-term competitiveness demands that companies differentiate their business. The success factors of physical storefronts have their equivalents online. Store location, for example, can be equated to preferred placement in search results. Branding online is every bit as important as it is offline, but unique customization options are used to grow sales at e-tail outlets. The good service customers expect at physical retail stores translates into simple navigation and effective communication for e-tailers. Timeliness in dealing with consumer inquiries becomes critical when companies are under increased demand for 24-7 customer service.

While good product selection and competitive pricing are requirements for success in both retail spaces, e-tailers face greater price competition. Unique offerings and product features thus become indispensable to success in the virtual marketplace. And while the volume of customer traffic at a retail location remains an important indicator of business performance, online traffic statistics are all but meaningless unless that traffic is trackable. The ultimate goal of maximizing customer convenience finally requires that a variety of payment options be made available. Due to the inherent differences between the offline and online marketplaces, however, security and privacy have emerged on the radar screen of critical issues in e-commerce.

Once a business has thoroughly differentiated itself, launching an effective marketing campaign is next on its agenda. Internet marketing is intrinsically different from traditional marketing, and herein lies the challenge. In an online description of a product, the company has typed text "talk" to the customer. The quality of the information provided online must be consistent with that offered by sales assistants at physical retail outlets. The sheer variety of products and brands available in the e-market further complicates marketing on the Web. While a customer may only get to see a limited selection of brands at an offline retail location, a simple Internet search will show all representing brands of the product the customer is after. Before the e-tailer knows it, the customer may walk in and out of the store's front door and be barely noticed, not get the full picture of the business, and all the while be comparing prices directly. The latter has been greatly facilitated by the emergence of shopbots, which have minimized price dispersion online to the benefit of consumers.

While customers have embraced shopping online in recent years, several major challenges remain for businesses to tackle in the virtual marketplace. At present, tracking

presents the greatest difficulty for e-tailers. The traditional direct response model no longer works, as customer phone numbers and key codes cannot be tracked on the Internet. What a company can do with Web marketing is tag a customer's route through an online store. Since not every click-through a Website results in an actual sale, however, the cost vs. conversion rate of clicks becomes relevant. PaperClick is the tool that the majority of e-tailers currently use to monitor traffic through their Websites, but with each click-through costing the company a fraction of a dollar, tracking customers may for many be prohibitively expensive. Even with the introduction of IndexTools, a new-generation, highly sophisticated monitoring tool, the lack of a unified tool to track customers in the virtual marketplace remains at the heart of the problem.

As if running a business was not daunting enough already, the addition of an Internet marketing channel has now amplified the challenge for companies across the globe. Managing promotions through all the channels has just gotten harder. So has isolating promotions or product tests online or offline. How can businesses use the Internet to gain leverage over the competition? Optimizing the multi-channel environment emerges as both the means and the end for any business that aspires to succeed in today's dynamic and demanding marketplace.

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## PANEL PRESENTATIONS AND Q&A

Presentations by Country Home Products (CHP) and Beau Ties Ltd. followed the panel overview. The closing Q&A session exposed both similarities and differences between the companies and how their marketing strategies are being shaped by the Internet.

The companies are similar in that they both have a good sense of who their customer is. CHP's target group is predominantly male and in the 45+ age group, settled and owners of substantial tracts of land. Beau Ties Ltd. primarily targets urban professionals in the same age group whose occupations generally require formal attire.

Catalogs and print ads were repeatedly mentioned as a valuable tool for providing legitimacy to the brand, spreading the company name, and attracting potential customers. There was general agreement, however, that the Internet channel was a complement to—rather than a replacement for—the existing channels. Neither the customers of CHP nor those of Beau Ties Ltd. are ready or willing to give up the printed versions of their catalogs as present. Because of the prohibitive cost of printing and distributing catalogs, both CHP and Beau Ties Ltd. have a strong incentive to wean their customers off of existing marketing channels and promote their Internet channel.

CHP made the point that its Web-based marketing cost very little money to maintain and operate, but that the return on this minor investment has been enormous. Beau Ties Ltd. stressed that it is also trying to reduce the volume of printed catalogs by getting customers more interested in e-mailings and offering shipping specials for online purchases. Additionally, older bowtie collections are sold exclusively online at discounted prices. Mindful of the demographics of their customer base, Beau Ties Ltd. does not want its customers to feel forced to give up their catalogs and move online. Therefore, it does not offer items ahead of time or at lower prices on the Web.

A final issue raised during Q&A was whether Internet sales are cannibalizing sales through traditional channels. Since both CHP and Beau Ties Ltd. are direct-to-consumer companies and neither sells through brick-and-mortar retail outlets, the addition of an Internet marketing channel has not undercut the performance of their pre-existing channels. Indeed, Beau Ties Ltd. is using the Internet to build and leverage a new brand that targets the high-end segment of its customer base. This brand, Bill's Private Stock, is currently accessed through the Beau Ties' homepage. While only in its infancy at the moment, the company hopes that Bill's Private Stock will eventually become a stand-alone brand in its own right, complete with its own marketing program and Internet presence. The implication is that adding the Internet channel is allowing Beau Ties Ltd. to further segment and potentially expand its customer base.

Interestingly, the discussion that began with the concern that online sales might be cannibalizing those through other channels ended up providing the group with a valuable insight. At least for direct-to-consumer companies, adding the Internet channel has proven to complement—rather than cannibalize—sales through traditional channels. This finding concluded the session on a positive note and reinforced the notion that adding the Internet channel is now just good business.

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## Useful Links

<http://retailindustry.about.com/>

<http://www.epaynews.com/statistics/>

<http://www.crm2day.com/news/crm/Ep1ZlpuVkvqSdxTFNf.php>

<http://www.crmbuyer.com/story/39929.html>

<http://www.crm2day.com/news/crm/EEpykEpylAaxHAMbNZ.php>

<http://www.crm2day.com/news/crm/EpAFukZuAZbKPWsVZp.php>

[http://www.nacm.org/bcmag/bcarchives/2003/oct/intl1\\_10\\_03.html](http://www.nacm.org/bcmag/bcarchives/2003/oct/intl1_10_03.html)

<http://www.ecommercetimes.com/story/16967.html>

<http://www.emarketnews.com/3/4/luxury.htm>

<http://www.emailmarketingautoresponders.com/auto-responder.htm>

[http://www.acroterion.ca/Online\\_retail\\_sales\\_continued\\_their\\_robust\\_year\\_over\\_year\\_growth.html](http://www.acroterion.ca/Online_retail_sales_continued_their_robust_year_over_year_growth.html)

[http://money.cnn.com/2005/01/19/news/economy/online\\_sales/](http://money.cnn.com/2005/01/19/news/economy/online_sales/)

<http://www.destinationcrm.com/articles/default.asp?ArticleID=4561>

<http://tenonline.org/art/9909.html>

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