



Retail management and marketing

The internet debate

DR. FIONA ELLIS-CHADWICK:

Welcome, we're discussing the internet and how it's had an impact on retailing, and I have with me two leading experts. One, a marketing practitioner, Dave Chaffey.

DAVID CHAFFEY:

Thank you Fiona. Well I'm looking forward to talking about the fantastic tools that are available, on the, to the retailer today. I'm a consultant, and whether its search engines, social media, websites, mobile apps, there's a fantastic range of options but selecting the right option is the challenge I'm looking forward to talking about.

DR. FIONA ELLIS-CHADWICK:

And a leading internet retailing academic, Jonathan Reynolds.

JONATHAN REYNOLDS:

Hi Fiona, I'm Jonathan Reynolds from the Saïd Business School in Oxford, I'm also director of our retail management institute there. Been working for about twenty five years in looking at e-commerce, even before it was called e-commerce, so we were talking about teleshopping back in the 80s and talking how that would, about how that would transform businesses and here today we are seeing that very transformation taking place.

DR. FIONA ELLIS-CHADWICK:

What are your views, Jonathan on how the internet has changed the way we shop.

JONATHAN REYNOLDS:

Well I think if you look back 25 years, what you'll have seen is economists, academics predicting doom for the high street. Certainly I remember some economists talking about the death of marketing, the death of retailing; everyone would shop from their armchair. 25 years later where are we. We certainly have a great deal of activity going on online, but I think what we've also discovered is that some of the academic models were not very good at telling us what was going to happen. So we had an academic model called the efficient markets hypothesis for example, which actually said that we would go direct to suppliers and buy our goods from them. What that failed to account for was the fact that actually many consumers are actually pretty irrational, pretty lazy, pretty complaisant and also quite enjoyed doing conventional shopping. So I think the change has been rather slower, than we might have expected. But I think we are now seeing some really interesting developments which suggest that we are seeing a sort of shift in the mix of the way in which consumers do their business and go to shop. The technical term we'd use is disintermediation, which means that you're cutting out the middle man or the intermediary, and I think that we certainly have seen a cause with the so called pure play start up companies active in this area, and that's created a real threat for established retailers and they've had to respond to it, those that haven't frankly, I don't think have much of a future in certain categories.

DAVID CHAFFEY:

That is quite a significant change to consider for retailers, is the growth of intermediaries, as Jonathans mentioned, the disintermediation, the other side of that is the new intermediaries growing. We've got our comparison sites, which many customers will go to. So for retailers, they really need to consider the power of those. And I think within online marketing, regardless of country, almost Google is becoming important. And of course that's got its product search, its own comparison engine. In the way that we need to have integration between our offline and online channels for the best effect. What retailers are looking at now is integrating their different online social channel. For example a retailer like ASOS would traditionally, email marketing would be very important to their bottom line, to their sales. They

would have millions of customers on their email list, despite the negative perceptions of spam, email marketing does still work very well. But they've, ASOS have had to look at other channels like Twitter and Facebook, and how they integrate and the strategy of ASOS has been to proactively grow those channels through creating a home for customers to discuss their products and their experiences in a positive way, and I think they've been very successful in doing that compared to some traditional high street brands.

JONATHAN REYNOLDS:

Well I think there are some good examples of companies that are starting to do this and it being reflected in their use of space so Halfords for example announced the other week that they are going to reduce their space by 15%, their stores reflecting the growth online and being very careful to kind of adjust the categories across those channels, as their learning how different things sell different through different channels. And adjusting the space mix in their stores, which will be cheaper for them to run their stores, against what they offer online.

DR.FIONA ELLIS-CHADWICK:

But which sectors do you think are going to see more and more shift online?

JONATHAN REYNOLDS:

Well here again I suppose we've seen the pundits being confounded rather. Because everyone said courtly software tickets, digital products, software entertainment products, e-books and so on. I remember Greenbury who was chairman of Marks and Spencer sort of 20 years ago saying well "frocks will never sell online, you know, you'll be able to buy knickers and t-shirts but frocks will never sell online" and we've just been talking about the example of ASOS which is now the second biggest online provider of clothing in the UK after NEXT and has been phenomenally successful now in growing its international business. I think we've seen the kind of predictions about which categories will be obvious candidates being confounded.

DR.FIONA ELLIS-CHADWICK:

If we think about for a moment, traditional established high street retailers, why is it that some of these companies are more successful online than others do you think?

DAVID CHAFFEY:

I think really it's a matter of change management, and its independent really of the internet as an issue, it's just how agile they are in response, in changing response to marketplace horses. It's just the case that the internet is an extremely significant force. I remember Andy Grove of Intel called it a 'tidal wave'. So a lot of the execs in these companies didn't understand this 'tidal wave' coming towards them or they, they couldn't relate to it personally. So I think in terms of success responding to change, it's been the companies that have been most open to it and then they've put in place the governance to manage the channel. So it's the traditional McKinsey 7s resourcing, structure, systems, staff, skills to, to manage. And it's the digital specific skills, so companies who've maybe set up initially a digital marketing team or task force to manage that change have been most successful.

JONATHAN REYNOLDS:

If you think about John Lewis partnership for example, investing in their department stores in the direct market, through catalogues and through the website, and okay you wouldn't say department stores as an obvious candidate for moving online or becoming multi-channel. But John Lewis' direct activities now are bigger in terms of revenue than their biggest department store, and growing again exponentially, but what's more important is they are starting to understand much better how those flows interact, both in terms of customer behaviours and in terms of what they have to do with systems to make them work together more efficiently.

DR.FIONA ELLIS-CHADWICK:

Is there a particular kind of person do you think who shops online?

JONATHAN REYNOLDS:

Of course we have to recognise that as we see with all digital inclusion policies going on in the UK that there is a substantial, a large minority of people who are not engaged in the same

kind of way, who are not if you like digitally literate. Morrison's is right in some respects in saying "We have a local store based customer, they are not going to be shopping online for pork chops, they are going to be buying it straight from the butcher over the counter" And the response perhaps is that it's a generational thing you know, their children will be shopping online. Perhaps that's the case but at the moment we are in kind of transitional phase and I think we have to be really very careful about not imputing behaviours to the population as a whole, which is perhaps the domain of a small number of early adopters or even mass market to restore this long tail if you like of individuals who for whatever reason don't choose to engage in the internet.

DAVID CHAFFEY:

That, there's a good information source actually on this question of what is the typical profile and id really recommend, it's a tool from Google who acquired doubleclick. It's called the doubleclick ad planner and you can actually select any site whether it's a retailer or an intermediary or a social network and it will show the mix in terms of age, gender and spending pattern.

DR.FIONA ELLIS-CHADWICK:

Where's this technology going to take us in the future? Where are we going to be in 2020?

DAVID CHAFFEY:

Currently we're seeing big growth in mobile marketing platforms and the social media, and it's the way these platforms merge together is quite interesting and location based marketing or proximity marketing I think is something particularly interesting for retailers.

JONATHAN REYNOLDS:

But I think we are seeing it through mobility in particular some very interesting developments in terms of an app street rather than a high street for example. I've seen some predictions saying that actually we will have a mobile device of some kind that will actually have a high street in front of us rather than, sort of at home. We can walk around with that and we can actually merge those virtual and physical realities.

DR.FIONA ELLIS-CHADWICK:

If you were going to give a retailer one piece of advice about how to succeed online, what would it be?

DAVID CHAFFEY:

Well it's actually making use of the technology from the sense not of the customer experience but how you actually manage the customer experience.

JONATHAN REYNOLDS:

I would say that actually, I would say to retailers than they shouldn't be afraid of innovating still, they should continue to innovate and they should follow the customer, because actually the evidence is that the leading customers are ahead than even the leading retailers when thinking about some of these things. So gaining that insight into the leading adopters is going to start to give some kind of sense of where the business is going to be in the next 3 to 5 years and so its learning from your customers, working with your leading customers to create the value that perhaps the rest of the customer base is going to appreciate further down the pipeline.