
VStoreNews

* * * * * **VStoreNews™** * * * * *

Vol. I, No. 3 — DECEMBER 1998 — 7 pages

EMAIL/FAX EDITION

ENTIRE CONTENTS © COPYRIGHT 1998 BY VSN PUBLISHING
All Rights Reserved. Unauthorized Reproduction Is Prohibited.

.....
SPECIAL HOLIDAY FRENZY ISSUE:

TENSER'S TIRADE: Yes, Dulles, Virginia. There IS a Sanity Clause
EVENTS IN FOCUS: HTTP, Holiday Hype and Heraldry
GMA INTERNET MARKETING SEMINAR: P&G Takes A Stand
Sentry 'Plays it Safe' in Consumer Direct
Downloads From The Ether

.....
ANNOUNCEMENT

This month's issue of **VStoreNews** comes to you with an online **bonus**:
We proudly announce the opening of the **Subscribers' Area** of the VStoreNews.com Web site.
Paid subscribers may enter this exclusive, password-protected area using the **user name** and **password**
which is being sent to each subscriber in a **separate email**.
Once inside, explore our **Archive** of viewable and downloadable past issues of **VStoreNews**.
Or join the dialog in the **Subscribers' Forum**, our exclusive message board devoted to the exchange of
knowledge within the virtual retailing and marketing community.
Additional exclusive Subscriber Services are being developed, so stop in frequently!

TENSER'S TIRADE:

Yes, Dulles, Virginia. There IS a Sanity Clause

VSN WORLD HEADQUARTERS, WESTPORT, CT — Well here I go again, torturing the English language in a headline until our readers beg for mercy. Who else would dare sully one of American journalism's most cherished sentimental moments by melding an underhanded jab at America Online with the over-the-top zanyness of Groucho Marx?

Not to pick unfairly on AOL (www.aol.com). It's just that it is based in Virginia, which makes the headline work. Besides, it connects more consumers to the Web than any other provider. It's the biggest and richest aggregator in cyberland, so why not use it rhetorically as a symbolic "every-portal"?

AOL (like Yahoo!, www.yahoo.com, Excite, www.excite.com, and the rest of the audience aggregators out there, great and small) is lurching headlong into what history may someday judge to be the actual birth tremors of the virtual store revolution. There's no denying that Vstores have been

incubating in the World Wide Womb for a number of years now, but this year, this Holiday Season, they have emerged kicking and yelling to claim their birthright.

This will be remembered as The \$3 Billion Season. A heady 6 million households will launch their credit card numbers across the 'Net. The prospect of paying for and delivering all those virtual purchases has executives at Visa, MasterCard, UPS and FedEx rubbing their hands and hiring temps.

If you monitor the press releases, surf a bit, or read your spam, you can't help but notice. Special new holiday shopping pages are springing up like mushrooms. It seems like every Web site with more than a thousand visitors a week is trying to get into the act — usually not as sellers of goods themselves, but as “distribution points” for other existing Vstore operators.

Most conspicuous in this are the above-mentioned “portals” and the creators of virtual “communities” like Tripod (www.tripod.com), The Globe (www.theglobe.com), and GeoCities (www.geocities.com). Each of these services has gathered links to a hundred or so well-known and less well-known Vstores into its own on-line shopping center, or mall.

A comparison with the world of bricks and mortar is apt here: Many of the same retail nameplates repeat from e-mall to e-mall — logos for well-known virtual store brands like Amazon.com, Barnes & Noble, Egghead.com, CDNow, OfficeDepot.com, and eToys all turn up repeatedly. In the typical arrangement, instead of rent, mall operators collect “referral fees” — essentially commissions on sales made to shoppers who link in from the mall-owner's site. Just like in the brick and mortar world, the mall operator's responsibility is to generate traffic, while the stores kick a cut of sales back to the landlord.

This arrangement has proven a boon to Internet companies, who finally can show a source of tangible revenues to their venture capitalists and public investors. In unprecedented fashion, virtual store sales (what the great unwashed masses call “e-commerce”) are propping up many 'Net companies' preposterous shareholder values. And just in the nick of time, because online advertising sales (you remember them — last year's rationale for preposterous shareholder values?) are not materializing as forecast in many Silicon Valley business plans.

The nub of it is: The big aggregators are not succeeding particularly well at selling advertising to *real* consumer brands — you know, like Tide, Coca Cola and Nabisco. Yes there has been a good bit of banner advertising from the likes of Ford and ATT, but the dollar values are really minor. In recent weekly reports from Net Ratings (www.netratings.com) the top ten banner ads have consistently been placed by other Internet brands — mainly Vstores and software companies.

The aggregators' business plans promise shareholders and VC backers that ad revenues will spiral upwards, but real world consumer brand marketers are coming to this medium a bit tentatively, unimpressed as they are with the value of hits and clicks. As a result of poor demand and growing inventories, the cost per click is spiraling ... *downwards*.

It's as if the Big Brands are thinking, “Who needs the aggregation?”

Okay, okay, we're torturing The Language again. But no doubt, many major consumer brands can and do drive bigger audiences to their web sites by tagging their URL's to a few of their own magazine and television ads.

So why the swipe at AOL in the headline? Call it VSN Holiday Spirit. Our friends in Dulles, VA are making real money off their so-called distribution deals with leading Vstore operators. For the moment at least, they and the other portals seem to have cracked the ever-changing code.

So here's the Sanity Clause: Right now it looks like collecting commissions from online sales is the best — maybe the only way — to make money on the Internet. Big advertising revenues remain somewhere over the rainbow — and there they will stay, as long as marketing on the World Wide Web remains as inward-looking and self-referential as it is today.

My Advice?

Hang onto your strategies, folks.

Next month's holiday sales reports may send everybody back to the drawing boards.

JAMES TENSER, Editor & Publisher

.....
.....**ADVERTISEMENT**.....
.....

The Web's Premiere Party Planning Resource

Affairnet (<http://affairnet.com>) is your first stop resource for all your wedding and party planning needs. We offer centralized access to a multitude of quality wedding and banquet vendors to help make your event a special one.

We know you don't have time to waste ... you're planning a big party, and there's lots to do! That's why Affairnet's site is streamlined for fast, easy access to the information you're looking for. No slow-loading pages or flashy graphics here — just information. And you can search our database for services in your area!

.....

EVENTS IN FOCUS:

HTTP, Holiday Hype and Heraldry

WORLD WIDE WEB — How does that song go again? *“They know when you’ve been surfing. They know when you’re in chat. They know what you’ve been buying, so for goodness sakes be discrete about that!”* ...

If the volume and ubiquity of Holiday Hype is any indication, a host of major cyber-players and cyber-seers have determined that this is the pivotal season for holiday shopping online. And the trends — well they had better not cry about those (*I'm telling you why*):

First, the forecasts. Allowing for the general lack of methodological rigor evinced by most of the research houses that are currently tracking web commerce, most are generally on the same page with their holiday sales projections, once you untangle their definitions.

New York-based Cyber Dialogue (www.cyberdialogue.com) said in a November report that some 12 billion Americans will “rely on the Internet” for holiday shopping, “impacting” some \$5 billion in total spending. *VStoreNews* applauds the careful wording of this release, since it addresses the cumulative impact of the Internet on total purchasing, not just actual online sales.

“Contrary to conventional wisdom, many retail stores will actually benefit from the Internet, during this holiday shopping season,” Cyber Dialogue reported. It went on to assert that 6.7 million adults would purchase holiday items online this year. It also forecast that 9.0 million shoppers would purchase products in stores after first gathering information online.

Just a few days earlier, Forrester Research, Inc. (www.forrester.com) had predicted that online retail sales for the fourth quarter of 1998 would reach \$3.5 billion, making 1998 “a pivotal year in the evolution of e-commerce.” Here the figure appears to blend Holiday gift sales with routine online sales. An aggressive number, but we think it is fairly realistic.

As usual in this market sector, reliable numbers are hard to come by, what with varying methodologies and definitions of terms. Still, logarithmic growth seems inevitable, considering that the major portals have been adding huge numbers of links to their shopping areas. Yahoo! for example, said it had attracted more than 3,000 merchants to its Yahoo Shopping Area between Nov. 15 and Dec. 18. Like many major Internet players, it has been promoting its services online, on TV and in print.

The *New York Times* reported on the front page of its Nov. 25 business section that America Online had designs on fostering online shopping growth by offering Vstore hosting services to new and existing retailers. Explained AOL President Bob Pittman in a pre-Thanksgiving news conference, “We see a major business in offering them an end-to-end solution.”

Offline advertising and promotions by established and emergent Vstore operators have reached a fever pitch in December. Especially frequent are radio spots for TV, print and radio spots for Priceline.com, radio ads for CDNow (www.cdnow.com), newspaper ads by Value America (www.valueamerica.com), and our favorite television spots by software seller Outpost.com.

We especially enjoy the latter example, for its unabashed political incorrectness. The most memorable spot involves the firing of gerbils from a cannon aimed at an opening in an Outpost.com billboard. It takes about five misses before the shooter succeeds in propelling a hapless rodent through the center of the letter O. (The remaining gerbils appear to survive the indignity and scurry away.)

Beyond the very promising Vstore traffic reports and sales projections we have seen so far, it seems that this surge in off-line advertising by Vstores and portals is perhaps the major story of the season. Just when it seemed as if the Internet advertising community was smugly engrossed in its “navel-gazing” ways (a characterization which must be duly credited to Chan Suh, chairman of New York based interactive ad shop, Agency.com), a few of the smartest cyber-marketers have lifted their heads and brought their branding propositions out to the people.

They understand that there is no e-branding. There is only branding. And branding — whether on or off the Internet — is certainly of crucial importance. The enormous unaided awareness among all consumers of brands like Priceline and Amazon.com is not primarily due to these companies’ online marketing activities, but rather to their assertive (and expensive) offline public relations and advertising campaigns.

Next month we’ll take a look at the holiday sales reports and try to analyze the multiple lines of force that are driving this market sector headlong into unexplored territory.

.....
..... **TRULY QUOTED; DULY NOTED**

“The net is a shopping paradise. It represents infinite choice, instant access to thousands of stores around the globe and no traffic jams, crowds or pushy sales people to contend with.”
— *eMarketer Report 1998*



“I think that by the end of the year 2010, as much as \$85 billion worth of merchandise will be sold over the Internet.”
— retail consultant Walter F. Loeb,
from an interview in *Discount Merchandiser* magazine, Nov., 1998

.....
GMA INTERNET MARKETING SEMINAR:

Procter & Gamble Takes A Stand On Vstores

ATLANTA — Manufacturers of fast-turning consumer goods will generally acknowledge that the prospect of selling direct to the consumer via the Internet has a certain surface appeal.

The promise of one-to-one consumer relationships, without the intermediation of the retailer, makes some brand marketers downright misty. Not to mention the gross margin dollars that stand to be recaptured.

But thought leaders at Procter & Gamble, Cincinnati (www.pg.com) have used marketing research to determine that in most of its product categories, Consumer Direct selling on the Web is incompatible with the principle of consumer-centric marketing. And the company is vigorously sharing these conclusions in the hope of influencing the emerging order of online retailing.

“Our research indicates that selling our traditional brands on a ‘direct to consumer’ basis is not consistent with what consumers want from this emerging channel,” said James Boyce, P&G vice president for e commerce & services new business development.

He added, “As we develop new service models, we’ll have to determine what role we’ll play in the new channel. It will vary. In most cases, we believe that the traditional role of retailers as aggregators will remain front and center. In fact, consumers have told us as much.”

Boyce presented these conclusions in a major address he delivered before the [Grocery Manufacturers of America](#) Internet Marketing & Promotions seminar here on December 8, 1998.

[**Editor's Note:** The full text of James Boyce's address may be accessed on VStoreNews.com by clicking the link at the top of "Column One".]

Boyce said P&G has concluded, after significant consumer research and other market study, that its name-brand, fast turning products like Tide, Pringles and Oil of Olay are not well-suited for direct sale to the consumer. For this reason, his group is devoting much of its effort to a set of principles for virtual store retailing intended to enhance consumer interest and satisfaction.

"From this manufacturer's perspective, the opportunities for improving customer satisfaction, for creating new value, and for adding benefits in service, information, and time savings are infinite," he said. "The key question of course, is how do we capitalize on them? Again, we have to be 100% consumer and shopper-focused! The consumer is in the driver's seat — we must listen to what they need and want in this environment."

Boyce cited research indicating that online shoppers want to limit the duration of their typical weekly online shopping sessions to 21 minutes. "So far most current offerings are taking significantly longer than this, especially considering the time consuming start up process."

P&G's consumer research also indicates that many consumers highly value the simplicity of automatically replenishing products for their households on a weekly basis. "In a study with a leading provider," he said, "it was found that the majority of buying was done from the personal shopping list. This type of tool allows the consumer to automate the routine and add simplicity to their shopping experience."

Current models for online grocery shopping fall short, Boyce, asserted, in one aspect of value. "Current delivery fees are a barrier to trial for consumers. In fact 89% of consumers cite the delivery fee as the key reason they have not tried Consumer Direct. These demanding consumers have come to expect time savings and are not willing to pay additional fees."

At the root of P&G's position is a recognition of the role of retailer as aggregator of consumer needs into a single, convenient point. This principle, he says, remains as valid on the Internet as it does in the world of traditional stores.

"In a few cases, P&G can meet consumer needs by selling direct," Boyce noted. "But, in most cases, for our brands, consumer needs for convenience and simplicity will be best met by selling our products through retailers who can aggregate our goods with others to provide a one stop shopping experience."

P&G is testing direct-to-consumer selling online for two brands in its portfolio of more than 300, where it feels the approach can provide unique value to the consumer, Boyce said.

An example is Millstone Signature Blend, a personalized made-to-order coffee blend that is customized to meet the tastes of individual consumers. This item is not sold in traditional retail channels, but rather, online or via mail order, because of the unique capability of the Internet to allow the customization of individual purchases. At the same time, P&G sells a full line of Millstone Gourmet Coffees in traditional retail outlets which are not offered "direct."

"We can not harness the power of the web by simply transferring our bricks and mortar practices into the digital arena," Boyce concluded. "In fact, if that's what we do, we'll miss a tremendous opportunity to rectify some of the inefficiencies we've built into our traditional channels. And we'll fail online, because consumers will reject our value proposition for those that respect the unique functionality of the Internet."

.....
..... **ADVERTISEMENT**

List Your Vstore — Free!

StoreDotStar.comSM, the consumer's fastest and smartest

on-line gateway to Internet shopping, is offering FREE listings to qualified online retailers.

Our goal is to offer shoppers the most unbiased and comprehensive resource anywhere on the 'Net.

To add your store to the **SDS** database, simply go to http://www.VStoreNews.com/vsn_addurl.phtml

and complete the online form. View the site at <http://storedotstar.com>

.....

Sentry 'Plays It Safe' in Consumer Direct

ROCHESTER, NY — “We are not doing direct sales on line to compete with our retailers,” declares Scott Fox , General Manager of Internet Applications for the Sentry Group here.

The company, which makes fire-resistant home safes and lock boxes sold widely in mass merchants, home centers, and office supply outlets, began offering some products direct to the consumer on its web site last summer (<http://sentrysafe.com>). But Sentry is not about to alienate key customers like Home Depot and Staples by undercutting them on line.

“It is meant to complement them,” he explains. Most retailers have four to eight feet and carry four to six of our products. They simply can't carry 80 products.”

He adds, “We sell at or above the retail price, so we're not undercutting retailers.” The site even includes a number of hot links to retailers who carry Sentry products.

Sentry's niche items like its fire-resistant Photo-Keeper and media safes are large, heavy, high-ticket items which turn relatively slowly, so for many retailers it does not make sense to put them in a mainline display, says Fox. But the line, with its numerous optional configurations, is perfect to sell over Internet, he maintains. “Mainstream retailers don't carry them anyway.”

Fox says sentrysafe.com was built first and foremost to promote customer service. Safe owners can use the Web site to check a forgotten combination, replace lost keys, or obtain answers to frequently-asked questions. The online process cuts key replacement time from about 15 days through an authorized dealer to roughly 5 days using the site, he says.

A secondary purpose was straight marketing communications. “The site communicates to the consumer who we are, what we do and how we do it,” he says. “How would people research a purchase of a safe? They can view our customer testimonials, guarantees. It helps them make better decisions.”

While an online catalog section informed people about where Sentry products are available at retailers with hot links, the addition of the online store came only after a year of online experience, says Fox.

The Sentry Safe Vstore is built around a web-based “CUSTOM-ize” process, an offering of dozens of interchangeable options adding up to hundreds of custom safe interior configurations. Choices also include waterproof seals, manual, electronic or key lock systems, and several levels of fire-resistance. The customizing engine was built for Sentry by Logisoft, (www.logisoft.com) a value-added reseller and Web services company based in Fairport, N. Y.

On Nov. 1, sentrysafe.com added a Holiday-themed page. In keeping with the company's focus on home security, the page featured a free offer for a fire-alarm Christmas tree ornament.

The company also working on several international sites, designed “in-language and in-currency,” Fox says. “We are sold in 80 countries. So internationally we have even greater issues about customer services. This gives us incredible ability to get people close to our site.”

.....

DOWNLOADS FROM THE ETHER :

Half In The Bag; Komeback Kids; Gum-by-wire

Imagine our surprise and delight on a recent Wednesday, as we retrieved our daily copy of the *New York Times* from the puddle at the end of our gravel driveway. Instead of the usual tasteful blue bag, the paper was clad in garish lime green, white and navy — a paid advertisement for Vstore operator egift, promising a \$25 discount of “any purchase” made from its web site (www.egift.com).

The bag was produced and distributed by our good friends at The Sunflower Group, in Overland Park, Kansas (www.sunflowergroup.com), which specializes in delivering samples and promotional offers to the home in its patented design newspaper pouches.

The proposition was a simple one: egift.com had a selection of pre-wrapped gourmet food items, flowers, cool gadgets and toys all ready to ship on a keystroke's notice. A legend on the wrapper urged shoppers urged to enter the code "bag98" in the Special Offers section of their online shopping bags to access the \$25 offer.

For added interest, a packet of egift postcards was sealed in a pouch at the end of the plastic bag. That same morning, street samplers were staked out at the exits to New York's Port Authority Bus Terminal and other transportation hubs, handing out packets of those very same postcards. For reaching jaded commuters, the combination seemed an effective one. Call this promotion "half in the bag," but fully thought out.

In the midst of what looks like a comeback, smarter, leaner Kmart, Troy, Mich. unveiled "That Perfect Gift," an online shopping site which offers a limited selection of holiday-oriented items. Categories include books, electronics, fitness, health & beauty, home, toys, floral, recorded music, greeting cards and gift certificates. The entry represents another incremental step back to health for the once-troubled discounter (www.kmart.com).

But perhaps more innovative is its new Kmart Solutions *in-store* online shopping experiment, which makes clever use of electronic kiosks to extend electronic shopping to its massive customer base. The system allows the retailer to stock a broader selection of items, including products that are better delivered than carried home.

While the service is in some ways comparable to catalog shopping, it reflects an important insight about retailing in the Vstore era: Give the customer the information he or she needs in the format they find most comfortable. Let them buy the products by whatever process they find most convenient.

Warner-Lambert has opened an online store, but the pharmaceuticals, personal care and confectionery giant is taking pains not to offend its major chain customers by selling only hard-to-find items consumer direct. Called "I Finally Found It!" the site is dedicated to helping consumers locate the company's rarer brands, like Beeman's chewing gum, Lubriderm Bath & Shower Oil, and Three Flowers Brilliantine hair pomade. The site, at www.warner-lambert.com, accepts credit card orders within the USA and its territories only. Many of these brands have small, loyal followings, but enjoy turn rates that are too slow to gain them shelf space at big chain retailers. This is an elegant solution to a knotty issue.

.....
VStoreNews is Published Monthly by VSN Publishing

James Tenser, Editor & Publisher

Judy Corcoran, Maurice Sternman, Correspondents

Suite 20, 361 Post Road West, Westport, CT 06880

Phone: 203-847-1115; Fax: 203-847-1105

Email: editor@VStoreNews.com

For more information about VSN Publishing, Visit our Website: <http://VStoreNews.com>

-
- **VStoreNews** is a trademark of James Tenser and **VSN** Publishing.
 - **VStoreNews** is a journal of news, analysis and opinion. As a matter of editorial policy, we take all due professional care to ensure accuracy of the facts collected and presented, and to be responsible in our point of view. The opinions herein are our own, unless explicitly attributed.
 - **VSN** does not assume, and hereby disclaims, any liability for any loss or damage caused by errors or omissions, whether such errors or omissions resulted from negligence, accident or other causes.
-

Subscription Price: \$330 per year world wide, delivered via email.

Additional charges may apply for foreign fax recipients.

Multiple site licenses are available — contact the publisher.

.....
Copyright © 1998 VSN Publishing. All Rights Reserved. Reproduction or retransmission of content in whole or in part is prohibited without explicit written permission.