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IN THIS ISSUE:

TENSER'S TIRADE:

Take Your Web Portal And Stick It!

VSN WORLD HEADQUARTERS, WESTPORT, CT — Somebody explain to me again how "stickiness" is a good thing? Sorry, I just don't get it.

I mean, how is the *consumer* served by a Web site that's designed to prevent visitors from leaving? The point of having an Internet (I've read and been told so many times that I believe it), is to promote communications and to make information quickly and efficiently available to everyone. You've got questions; the Web's got 10 billion answers.

-continued-

That was the beauty of the original “search engines.” The developers of Alta Vista, Yahoo! and Excite set their ‘bots to crawl all over the World Wide Web indexing and cataloging sites, so that hapless, Mosaic-browsing, 14.4 modem-using Internauts like myself could actually locate things of interest before our shaky dial-up connections timed out.

Best of all, it was all free! The prevailing ethic of the time held that Web content was accessible to all, ownable by none. The mere whiff of commercial speech set the cyber-libertarians a-flamin’ the online bulletin boards. Search engines were immediately popular because they *saved time*. They added value to the Web-surfing experience

Well that was back in the dim mists of Web history — about 1995 — when content was supposedly king. This business has apparently wised up since then. In the past two years the search engines have given way to “portals,” vast, multi-purpose web sites whose stated purpose is the gathering of vast quantities of eyeballs into a mass audience that has an attraction to advertisers.

While this model has some serious flaws, we must concede that media advertising has been an important driver of continued commercial development on the World Wide Web. The sale of online content is profitable for only a tiny number of sites. Many “dot-com” business plans cite advertising revenues as a primary source of revenues — and that includes a good number of Vstores.

The trouble is that once you focus a Web site on maximizing value for your advertisers (and by extension, your venture capital backers), the consumer proposition winds up taking the back seat. Instead of helping you get *elsewhere* quickly and efficiently, the portals devise ways of keeping you *here*, so their advertisers (who usually pay in proportion to page views and/or click-throughs) stand a better chance of accumulating lots of viewers.

How did the model get inverted? It stems, I think, from the wishful application of mass-media advertising models to a medium that is the opposite of mass. The nature of the Web-surfing experience (lean forward, assertively select and interact with the content) is the inverse of television (sit back, absorb content passively). The only similarity is the glowing screen.

Mass models don’t apply. Individualized message delivery is the real promise of the Internet. Give me relevance or give me death! And don’t clutter up my Web experience with excess services and don’t slow my already snail-like download times with rich-media banners and pop-ups that were designed with one objective in mind: To convince the advertiser that his online media spending is justified.

The good news is that these revelations are not lost on many industry leaders.

“We as an industry have done a bad job in allowing the term ‘stickiness’ to proliferate. It’s really about relevance and utility,” said Charles Moldow, vice president of sales and marketing for @Home Network at the Harvard Business School Cyberposium ’99 [more about Cyberposium in story below].

“No one ever really gets stuck in the Internet. Sometimes the best thing for us to do is pass the person along to elsewhere,” said David Risher, senior vice president of Amazon.com at the same parley. “It would be shortsighted to think only of keeping people on your site. This is a balance.”

Well stated, gentlemen. The bloated portals are coming to a moment of destiny as many of their high-priced advertiser deals come up for renewal this year. The bean-counters are licking their pencils and calculating their ROIs. Yahoo!, Excite, et al, are all rushing to expand their online shopping centers, in the hope that longer online times and sales commissions will offset the inevitable flattening of ad rates.

From this cranky surfer’s perspective, a sticky web site has all the appeal of a glob of bubble gum on your shoe.

My Advice?

Un-stick your thinking. Put the consumer first.

***JAMES TENSER*, Editor & Publisher**

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

On Persistence:

"To open a shop is easy. To keep it open is an art."
— *Confucius*

"Reality is merely an illusion, albeit a very persistent one."
— *Albert Einstein*

VSTORENEWS NEWS:

New Look, New Outlook, New Owner, New Value

PHILADELPHIA – The National Retail Federation's NRF.com retail technology trade show this week is also the occasion of several important announcements regarding ***VStoreNews***.

As the new logo graphic above hints, our companion Web site, **VStoreNews.com** (www.vstorenews.com) has been re-launched with new graphics, enhanced design and functionality, including a new free weekly email bulletin, ***VSN TopLine***.

These service enhancements — and others planned — are made possible by the commitment of new owners: Nexgenix, Inc., of Irvine, CA, a leading e-Business solutions consultancy. Nexgenix™ (http://www.nexgenix.com) has acquired the entire ***VStoreNews*** family of knowledge services and products, which include three additional Web sites which are under development and other assets. Terms of the acquisition were not disclosed.

Founded in July, 1998 by editor and publisher, James Tenser, the publication/Web site's goal is to provide retail business leaders with analysis and strategic insight into virtual (online) retailing.

Tenser will remain editor and publisher of ***VStoreNews***, **VStoreNews.com** and ***VSN TopLine***, all of which will be enhanced in coming weeks with financial backing from Nexgenix. He is also assuming the duties of principal retail strategist in Nexgenix's newly-created Internet Retail Practice.

Nexgenix Re-Branding

Also at NRF.com, Nexgenix has announced the launch of its Internet Retail Practice, which will extend the company's broad experience in developing end-to-end e-business solutions. Privately-held, Nexgenix was formerly known as NexGen SI, and has accrued a 9-year record of profitability and growth in the technology consulting business.

The extremely rapid growth of its e-business in the past 18 months has prompted Nexgenix to make these strategic moves.

The Internet Retail Practice will focus on developing e-business solutions specifically for retail companies. Based on its innovative 360° e-Relationship™ solutions, Nexgenix offers e-business strategy, web site development, interactive marketing and branding, transaction capability and enterprise integration.

Because e-business is a fledgling industry, traditions are few on which to model retailing e-businesses. Nexgenix brings cross-disciplinary expertise from various business sectors that bridge clients needs and enables them to meet e-business challenges and successfully take their business to the Internet. The objective of the Internet Retail Practice is to help clients develop e-relationships with their customers that are anticipated, personal and relevant, leading to increased customer loyalty and faster revenue growth from online sales.

New Managing Editor

VStoreNews is also pleased to announce that Dale Buss, a seasoned business journalist and editor, with a long track record covering retailing for major business magazines and newspapers, has joined VStoreNews as its managing editor.

In WebHouse Club, Priceline Invokes a Namesake

NEW YORK — Is there a mystical link between the Price/Costco membership warehouse chain and Priceline.com's "Name Your Own Price" brand of online retailing?

Priceline.com chairman Jay Walker certainly tried to invoke the spirit of retailing pioneer Sol Price when he announced the planned launch of the new WebHouse Club online service before the Grocery Manufacturers of America (www.gmabrands.com) Internet Marketing & Promotions Seminar here on Sept. 21.

Maybe the link is more linguistical than mystical. Sol Price may well have been the most fortuitously-moniker'd retail executive ever. Twenty-five years ago he transformed retailing by changing the cost-of-selling rules, lowering gross margins, and charging Price Club shoppers an up-front membership fee for the privilege of pushing flat-bed carts around a concrete floor.

Now Walker, who is worth several $billions in equity as a result of his success with Priceline.com, is proposing to "reinvent retailing" on new terms. The Priceline WebHouse Club, a new privately-held company, will allow registered customers to "name their own price" for common grocery products over the Internet, pre-pay for them at discounted prices, then pick them up at local grocery stores. (A link to the WebHouse Club home page is accessible from www.priceline.com.)

But is it really retailing that Walker is reinventing? Based on his description and the few web pages that can be seen, WebHouse Club feels more like an online vehicle for delivering manufacturer-funded deals to consumers than a vehicle for selling goods.

WebHouse Club will be operated as a separate corporate entity, allied with Priceline.com. Both employ the patented "name your own price" business process, licensed by Walker's technology development firm, Walker Digital.

Set for a Nov. 1 launch in metropolitan New York, the program has already signed up 600 participating chain retail outlets operated by ShopRite, King Kullen, A&P, Waldbaum's, D'Agostino, Gristede's and others. He aggressively forecast 25,000 participating stores nationwide within 15 months.

Walker, who clearly enjoys the podium, shrewdly chose the GMA forum for this announcement. The audience was populated by senior executives from Procter & Gamble, Nabisco, McNeil Consumer Healthcare, Ralston Purina and Nestle, among others, who had gathered in Manhattan for a day-long briefing on Internet marketing.

The WebHouse Club announcement was apparently unsettling to some manufacturers in the room, if for no other reason than Walker's continual repetition of the mantra of Price/price. You could read margin erosion in their eyes. The concept apparently depends upon manufacturers to fund the discounts, which can range as high as 50% off normal retails.

Is this for real? One indication may lie in the assembly of seasoned retail talent on board: President and CEO Jon Otto was the former founder and owner of RockBottom, a deep-discount drug store chain. Head of merchandising Rob Voss was the man selected by Wal-Mart founder Sam Walton to found Sam's Wholesale Club.

Another indication may be the $65 million in initial venture financing expected from Walker Digital, Wit Capital, Vulcan Ventures, Goldman Sachs and several other private investors. A third may be the $25 million planned ad campaign starring actor William Shatner.

The message for grocery retailers and their suppliers is that this novel concept must be taken seriously, even if its business concepts seem far outside the box.

Like the Price Club 25 years ago, WebHouse Club is aimed toward driving down consumer prices. Manufacturer margins may go along with them. Whoever claimed that profit levels would be higher on the Web because its consumers are less price sensitive was looking at a very narrow consumer group, to say the least.

As Jay Walker put it, "Time is only more important than money for people who have no time and lots of money." The late Sol Price was probably cheering him on from retail heaven.

Auto Makers Face Retooling for Web Race

By DALE BUSS

DETROIT — It only stood to reason that, as the world's largest industry, the automotive business eventually would try to harness the onrushing impact of the Internet instead of being torpedoed by it.

Especially since a group of newcomers to the car business was brazenly attempting to take over the wheels trade online. But so far, vehicle manufacturers largely have begun utilizing the Net only as a corollary to their traditional marketing efforts. And they have continued to skirt what remains, over the long term, an incredibly tantalizing prospect to GM, Ford, DaimlerChrysler and their global competitors: Using the Internet to dismantle their expensive network of dealers once and for all and deal directly with consumers.

For now, state-by-state franchise laws — and dealers' political clout in many places —prohibit that. But once they inevitably address those obstacles head-on, expect the industry-wide earthquake that the industry has been building toward, month by month.

"We're only beginning to see what they're going to do online, just dibbling and dabbling so far," says Jim Mateyka, automotive consultant for A.T. Kearney Inc., (www.atkearney.com) which happens to be owned by Electronic Data Systems Inc., whose former parent is GM. "Every one of the OEMs so far has a fairly uncoordinated response to what they're going to do about the Internet. But everybody, including their dealers themselves, expects that they're going to end up using the Net to run around their dealers. We're just starting to go through a really dynamic, messy period with this."

That's why auto manufacturers' apparent sluggishness in addressing the Net may be more guile than guardedness. "They've got to be careful not to get in too early in a way because they don't want to end up riding the wrong horse," says David Cole, executive director of the Office for the Study of Automotive Transportation at the University of Michigan. "They understand that the Internet will be a strong part of the future, but where it's going ultimately hasn't been defined yet."

Microsoft Corp. with its CarPoint (www.carpoint.com) service, and pioneers such as Autobytel.com (www.autobytel.com) and AutoWeb Inc. (www.autoweb.com) have been doing their best to redefine the car-buying business. They offer consumers access to the inventories of a network of dealers spread all over the country, pass on the best pricing information and allow them to handle the entire, often-painful process of purchasing a vehicle without ever leaving their home-office chair.

"They're doing what Amazon did to Barnes & Noble: Taking a relatively fragmented industry and going in as an independent distributor and shaking it up," notes Abishek Gami, Internet-stock analyst for William Blair & Co. (www.wmblair.com). Well, maybe. By now, the OEMs have countered with their own sites that do pretty much everything that the Autobytels of the world do. And Ford Motor Co. just signed on with Microsoft to search existing stocks of vehicles or even to accept customer orders through CarPoint, though sales will still be completed through existing dealerships.

Having matched the newcomers' ante in that way, the manufacturers also quickly are moving on to take advantage of the Net in ways that even Microsoft can't: as a promotional tool to sell cars and trucks. So we have Buick (www.buick.com) offering an e-coupon for $500 off the purchase of a Buick

Regal earlier this year and selling more than 3,000 cars that way within a three-month period, more than 25% of sales. DaimlerChrysler (www.daimlerchrysler.com) sent a Swiss Army knife premium to some potential customers who asked via the Web for more information about the company's AG PT Cruiser, which hasn't even available for another year yet.

And 40% of the leads generated during the launch of the new Nissan Xterra sports-utility vehicle originated at the car's Web site, www.xterra.com. But all of that is really just a warm-up for the big donnybrook to come: the OEMs' finally using the friction-eliminating capacity of the Internet to strip the cumbersome essence out of the traditional bricks-and-mortar dealer system. That system by some estimates currently accounts for about 25% of the price of a typical vehicle — and causes the majority of Americans' considerable frustrations with the car-buying process.

Car makers have taken whacks at The System over the years with attempts at widespread no-haggle pricing and, most recently, as Ford has done by getting dealers to give up their independent outlets and, instead, forming a streamlined, communally-owned distribution system in certain metro areas such as San Diego.

When the manufacturers do finally muster the guts and the economic and legal arguments to circumvent their dealers and the state laws, watch out, Autobytel and even CarPoint. "Eventually," says Mateyka, "the traditional players will figure it out and start leveraging what they have. Just not quite yet."

Vstore Report Card Documents Service Gaps

PALO ALTO, CA — Just when online retailers are feeling quite pleased with themselves about the stunning growth of online retailing, along comes a simple but credible research study which reminds us how amateurish is the state of virtual store art.

Called "Click-Here Commerce," the survey took a careful look at 50 of the best-known and most successful virtual stores across seven major merchandise categories. The researchers, from Shelley Taylor & Associates (www.infofarm.com), evaluated the sites against 175 content, usability, features and service criteria.

While a handful of Vstore players — notably CDNow (www.cdnow.com), Barnes and Noble (barnesandnoble.com), Brainplay (www.brainplay.com), Lands' End (www.landsend.com) and Blockbuster (www.blockbuster.com) — stood out from the pack in terms of delivering on many of the cited consumer values, the report card indicates a rather sorry state of affairs overall.

"Even the most successful commercial sites fail to translate the lessons learned from centuries of land-based retailing into a successful online shopping experience for consumers," said Shelley Taylor, managing director and author of the study.

"Why?" she continued, "Because technology and infrastructure — rather than consumer needs — are driving the development of e-commerce."

If Taylor's evaluation stings a bit, Vstore operators should be grateful nonetheless to hear it from her, rather than from a irritated buying public or (perhaps worse yet!) from impatient shareholders. There may still be time to eliminate the unintended barriers that send consumers clicking off to friendlier URLs.

Brick and mortar retailers who are contemplating entry into the online sector may take heart from these results that the oft-invoked "first mover advantage" is being squandered by many .COM retailers, who have put investor-dazzling slick technology ahead of shopper-friendly policies and practices.

"Click-Here Commerce" looked at online retailers in the consumer technology, entertainment, books & music, apparel, sports goods, travel and leisure categories. Although the examined Vstores represented some of the best-known names on line, the report found some glaring shortcomings:

- Shipping charges were clearly stated by 86% of the sites. The other 14% didn't bother;
- Global site navigation aids were missing or lacking in one fourth (24%) of online stores studied;
- Only 70% of the sites studied posted a return and exchange policy;
- Shipping policy was available for review at only 58% of studied Vstores;
- Just 40% of the sites provided an estimate of delivery date;
- An equal minority (40%) provided contact information for post-sale follow up;
- Post-transaction order confirmation was available at just 38% of the retailers;
- A tracking number was provided by only 18%; and
- Post sale product support was offered by just 12% of studied Vstores.

In addition, only two of the 50 companies provided a reduced bandwidth or text-only purchasing option and only one site specified on its home page the minimum browser required for viewing the site.

"Even though technology has changed, the way we humans process purchasing decisions has remained the same," Taylor said.

In the absence of live shopkeepers, she observed, "web-based stores must make every effort to help customers make purchase decisions and buy products." Yet, 24% of stores studied offered no pre-sale assistance, and 32% failed to provide purchase instructions.

Online shopping-cart technology drew even poorer marks from the study authors. Only 8% of sites provided a current list of cart contents on each page, forcing shoppers to click away from their transactions for a status check.

And despite the purported advantages of Internet-linked inventory management, only 30% of sites offered information about product availability prior to submitting the order.

Taylor said she believed the survey results reflect a considerable gap between tried-and-true retailing common knowledge and technical developers of virtual stores.

"We shops currently fall way behind established successful business practices of the traditional retail enterprise," she said. "In order to take advantage of this new medium, we must incorporate lessons from the past."

CYBERPOSIUM '99:

Hotbed for Entrepreneurs

CAMBRIDGE, MA — If brash, youthful confidence, sheer brainpower, and access to embarrassing quantities of investment capital are the key nutrients for success of dot-com entrepreneurs, then Harvard

Business School's Cyberposium '99 (http://www.cyberposium.com) was surely a fertile breeding ground for the next millennium's hot startups.

The Cyberposium conference series is an annual production of the High Tech & New Media Club at Harvard Business School (http://wasat.hbs.edu/hitech/). Club members deserve praise for organizing such a strongly-programmed, well-attended event.

The full sub-title of this year's confab, "Digital Junctions — Bridging Business and Technology" said a great deal about the beliefs and expectations of the current crop of B-school graduates. They don't aspire to jobs with large, powerful companies or consulting firms. They want to create the future from their own technology and business visions, and they expect the world's investors to pay for it.

Some 1,000 aspiring MBAs from top schools across the nation and beyond crammed the mid-winter event here. Each harbored a dream of creating the next astonishing Internet business success story. Each was certain of the inherent rightness of his or her idea. Some of them — it's impossible to say which ones — are right.

Which is probably why these students were joined by several hundred more business leaders, venture capitalists and members of the media — the people who control the magic ingredients: money and public exposure. They were trolling for the next Yahoo!, the next Geocities, the next eToys, the next Amazon.com.

Inspiration and Investment

The students heard from presenters whose dual missions were to provide inspiration and investment. Garage.com (www.garage.com) founder and former chief evangelist of Apple Computer Guy Kawasaki, who enumerated his "Rules for Revolutionaries" (which happens to be the title of his latest book) in a keynote address.

"There is so much information today, that managing that information is the next great challenge," he told a rapt audience.

Kawasaki also predicted that Web-generated revenues would reach $1 trillion by the year 2001, a factoid that no doubt caused further visions of dot-com sugarplums to dance in the heads of the assembly.

The three categories of "killer apps" for the next decade, he asserted, would be those that: (1) foster consumer control of information and access by fighting information overload and mining its value; (2) foster improved quality of service and allow customers to define desired service levels; and (3) foster enhanced consumer-to-business relationships using the World Wide Web.

Amazon, AOL Move First

John Hagel, III, McKinsey & Company (www.mckinsey.com) consultant and author of "Net Worth: Shaping Markets Where Customers Make the Rules," deftly handled a panel of Internet executives that was titled, "Attackers vs. Defenders: The New Media Wars."

"Where is the money in e-commerce?" Hagel queried in a rhetorical introduction. "At the end of the day, 'faster and cheaper' is essential. But, at the end of the day, the ones who create the most value will be the ones who creatively re-think their businesses."

He too, called for more user involvement in online content and or the use of the web to foster consumer relationships. Hagel also postulated an "infomediary" business model for online retailers and markets.

"The early wisdom was about disintermediation," he said. "That may be true in certain markets, but we've seen a host of new intermediaries emerging. That may be where the value is created."

A member of Hagel's panel, David Risher, senior vice president of product development at Amazon.com, reminded the audience how early in the game it still is for online retailers. "In many senses, it is day one for all of us," he said, adding, "Market share will never be as inexpensive as it is today."

So, what of the "first-mover advantage" so often cited in dot-com business plans?

"Most folks visit the same four or five sites each day," Risher observed, making a valid point about the value of capturing consumer habits early on.

Chris Hill of America Online was in succinct agreement. "You wait, you die," he said. "The first mover advantage is stronger on the Internet because it moves so fast. Brands do win. Building a brand quickly is an advantage."

As for the hazards of being first in? “We all have arrows in our backs,” said Hill. “You have to be willing to take risks.”

“The only way to win is to focus on what the customers want,” said Risher, who addressed his role in developing Amazon’s fast-broadening “Shop The Web” offerings.

“All I have to think about is how do I create a great online shopping experience,” added. “Constant changes can establish an enduring competitive advantage over time.”

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OUTSIDE INSIGHT:

History Lessons For Online Retailers

By WILLIAM NOWACKI

Bell. Best. Sears Catalog Centers. Service Merchandise.

Once, these catalog showroom chains were retail icons. Today, with the exception of Service Merchandise, all have faded from the landscape. While many theories have been offered describing their failings, it is inarguable that all suffered from a common malaise: anemic store traffic. Customers infrequently visited the stores, were largely promotion-driven, tended to purchase a handful of destination items and tended to have two or fewer items in their baskets.

Electronic stores have the potential to suffer a similar fate. The early experiences of online merchants like Dell.com (www.dell.com) suggest that shoppers are only marginally loyal, infrequently visiting the site and shopping within a very narrow product range. To put it another way, early Internet shoppers are extremely value-driven. They use search engines and services like Yahoo! Shopping (www.shopping.yahoo.com), MSN’s Compare.net (www.comparenet.com) or Excite’s Jango (www.jango.com/xsh/index.dcg) to research products and prices.

The nature of electronic trading can make the process of price shopping inconsequential, timely and easy. Loyalty is subjugated to value. Rather than visit a single electronic merchant in order to buy an entire basket of goods, shoppers can visit a multitude of merchants and accumulate the same basket.

Virtual shopping carts like those available from ECDirect (www.ecdirect.com/) facilitate seamless selection and purchase of items from several independent virtual stores. In an instant, a shopper can be buying a computer from Dell in Texas, a monitor from Gateway, Inc. (www.gateway.com) in North Dakota and a printer from CDW (www.cdw.com/) in Illinois.

Like the catalog outlets of the past, virtual stores must work to foster loyalty and increase the breath and value of each shopping transaction if they are to prosper. While continuity programs will become fundamental as instruments in cultivating loyalty, electronic retailers will discover the need to merchandise Vstores as if they are brick and mortar stores. In other words, online merchants need to hone their merchandising mixes in order to maximize the sell-through of their finite space.

In case the concept of “finite space” seems counter-intuitive to web aficionados:

Cyberspace does afford the Vstore the opportunity to present an infinite number of items on a multitude of pages. However, site-specific search facilities allow shoppers to usurp the intended page hierarchy and move directly to a specific, desired product. Once the shopper has located his destination item, the e-retailer is limited to the finite real estate represented within the scrollable window containing the item.

In this all too typical scenario, the retailer’s long term profitability depends on its ability to cross-sell, up-sell and “push” merchandise to the electronic shopper, as well as to prompt a near term follow-up visit. The key will remain their ability to drive a higher number of items in each transaction, and to improve each customer’s recency-frequency/monetary (RFM) ratio.

The E-retailers’ concept of push needs to fundamentally change in order to affect these desired increases in consumer spending. Today, push is largely considered to be banner ads and spam — unwanted, unsolicited e-mail advertisements. Tomorrow, effective push will involve dynamic page creation — now available from the likes of BroadVision (www.broadvision.com) — that considers customer segmentation, product propensity scoring, product affinity analysis and paring, product adjacency analysis, price elasticity modeling, promotional elasticity modeling, product display elasticity modeling and Vstore traffic modeling. It is important to note that each customer — or customer behavior segment — will have different product, price and promotion propensities, therefore, the merchandising mix presented to each will vary.

The science of Vstore merchandising is in its infancy. Data mining tools and collaborative filters will be leveraged against click-stream, demographic and customer purchase data. Yet, as awesome as the undertaking might seem, in the end a retailer need only apply the disciplines of its brick and mortar merchandising to its Vstore initiatives to be successful.

Guest columnist William Nowacki is vice president of sales for Armature (www.armature.com/), an international software company supplying information technology solutions that integrate and automate the retail supply chain, based in Lisle, IL. The opinions expressed are his own.

Comments? Queries? Tell us at: feedback@VStoreNews.com**.**

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Check Out A New VStat Every Monday!

At http://VStoreNews.com, **Column One**.

New statistical data are excerpted every Monday from the best Internet, retail and product marketing research reports available. Past **VStats** are archived too! Page back through 15 weeks of prior installments in a browsable archive. It's free. It's value-added. It's another quality service from the producers of **VStoreNews.com**.

ONLINE RETAIL '99:

Share of Audience Yields to Share of Wallet

By VAHE KATROS

SAN FRANCISCO — The land grab is ending. Now the Wallet Grab has begun.

That was the general consensus of the presenters at Online Retail '99, a conference sponsored by World Research Group, New York (www.worldrg.com), held here recently.

Participants made clear that the virtual store business is entering a new phase, one where getting the greatest share of wallet is the preeminent strategy. Attracting new customers is costly, keeping customers coming back is the key to profitable selling.

This goal may be met by providing value-added services such as helpful email reminders, customized presentation of product offerings, and responsive delivery services. Many favored using email to support relationship building. Others advocated a shift in design focus to present products in the context of their usage.

From several speakers came agreement that site design was shifting from the current generation of hierarchical design. The cutting edge is moving toward design around lifestyle and content — and to dynamically generated pages that reflect each consumer's individual interests.

In a business climate where the mere *expectation* of customer acquisition appears to elevate the share prices of .COM startups, established players were showing off how big their customer files were. Macy's.com (www.macys.com) reported 60 million names on the strength of its credit card files. Columbia House (www.columbiahouse.com) reported 12 million, derived from its mail-order club business.

There was general a wave or negative mood toward portals and the cost of portal deals. Detractors cited poor effectiveness and the high price of visitors as causes of a general disenchantment. In the mean time the audience heard hints by Macy's that its department store (in light of the wide range of merchandise that it carries) was positioning itself as a portal, with a lifestyle / life-stage orientation.

Catalog/Web retailer J Crew (www.jcrew.com) announced the circulation of a request for proposals from outside vendors completely scrap its entire highly successful virtual store. Said Brian

Sugar, director of new media, “We are in the business of selling merchandise, not building software.” JCrew.com, Sugar reported, posted a 550% increase in sales for the 1998 holiday selling season versus the equivalent period in 1997.

Where share of wallet is the objective, virtual store operators should be wary of basing their marketing strategies on portal deals. Several presenters stressed that based on performance so far, online advertisers of all kinds should assertively renegotiate CPM-based rates. “Go for conversion-based pricing,” said one.

John Suh, managing director of Castling Group (www.castling.com), a Los Angeles-based strategic consulting firm specializing in online retailing, discussed results of a recent survey of 1,000 Web users by Zona/Intelliquest. When asked about their gift-buying last holiday season, 88% of respondents said they shopped at brand name stores. Allowing for multiple responses, 70% said they shopped at discount retailers, while 53% said they made purchases on the Web.

When Internet-using consumers could not find the desired gift online, 34% chose not to buy anything, Suh added.

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DOWNLOADS FROM THE ETHER :

Govt. Work; P&G’s Weight; Quix’ From the Gate

Quixtar is coming quick from the gate. Amway Corp. (www.amway.com) always has been a maverick of the U.S. packaged-goods business because it is a successful — although sometimes controversial — multi-level marketers whose often-aggressive independent distributors rub some people the wrong way. With its traditional business slowing, however, Amway leaped onto the Web in September with Quixtar (www.quixtar.com) , a site that offers a broad variety of other-brand merchandise as well as perks for good customers like frequent-flier miles. Most important of all is that Quixtar distributors — many of whom are Amway distributors as well — get a cut of all the business they’re responsible for bringing in. Forgoing much advertising, Ada, Mich.-based Amway and Quixtar are counting on the strong word-of-mouth generated by these folks to drive traffic to the site. Initially, it seems to be working: Quixtar was the fifth-most-visited e-commerce site for the second week of September, according to PC Data Online, and its servers couldn’t handle all the traffic.

P&G Begins to Throw Web Weight Around. Consumer-packaged-goods companies have been among the last major segments of American business to leap aggressively into e-commerce, partly because of their conservative nature and also because of concerns over channel conflicts with their existing distributors. But watch Procter & Gamble Co.: The Cincinnati-based giant (www.pg.com) is getting more active on the Web, and quickly. Its latest gambit falls nicely into a business arena with which it’s comfortably familiar and yet, because it involves a new product line, doesn’t give room to bricks-and-mortar retailers to complain that they’re being bypassed. P&G-backed Reflect.com (www.reflect.com) will be launching this fall in time for the holidays, promising “an interactive, personalized women’s beauty experience” and products based on more than 50,000 possible packaging and product combinations. Together with Institutional Venture Partners, P&G plunked an initial $50 million into Reflect.com, forming it as a standalone, Internet-only company in part so it could better learn the ways of Silicon Valley.

The U.S. Government will handle it. Just when you thought that maybe we’ve got enough analysts trying to quantify just how much e-commerce is growing, word comes that the U.S. Commerce Department will begin adding its own official data stream next month. Moving faster than its traditional bent might allow, the federal government has decided to get into the business of tracking e-commerce simply because of how rapidly it is growing and how much it is contributing to the U.S. economy. “We’re committed to getting out there and asking questions" about e-commerce sales as part of its regularly monthly survey of retailers, Lee Price, chief economist for the Commerce Department, told Reuters.

Nabisco and NetUSA cook up a sweet deal. Nabisco (www.nabisco.com), one of the nation's largest diversified snack companies, inked a deal with NetUSA's (www.netusa.com) online subsidiary CandyCenter.com (www.candycenter.com). Under the agreement, the Internet-based candy store will market Nabisco's products on its web site. "We will develop our brands through this channel with our customers by leveraging our superior brand, organizational and technology equities," says Rick Brindle, Nabisco's director of new business development. CandyCenter.com currently is featured on America Online, Inc.'s (www.aol.com) shopping channel, Mindspring's sites (www.mindspring.net), DogPile's site (www.dogpile.com) and GTE's site (www.gte.com).

***VStoreNews* founder James Tenser** commented on retail rivalry in a recent *Wall Street Journal* article. The piece, headlined, "As Web Retailing Surges, Where's Wal-Mart?" examined the oft-repeated cliché that Amazon.com is angling to become "the Wal-Mart of the Internet." Reporter Emily Nelson focused on how Wal-Mart is responding to this challenge.

The Bentonville, AR-based retail giant has said it is preparing a significant revamp of its virtual retailing effort, details of which are being kept well under wraps. A company spokesperson told VStoreNews that as of Sept. 22, Wal-Mart had not yet set a launch date for this new effort

"Amazon will never be the Wal-Mart of the Internet," said Tenser, who was identified in the May 17 article as president of VSN Strategies, Inc., ***VStoreNews'*** former parent company. In time, he added, "Wal-Mart will be the Wal-Mart of the Internet." The article spawned a flurry of similar examinations in business publications across the nation.

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