ONLINE RETAIL STRATEGY, ANALYSIS AND OPINION

V·S·N
vstorenews®

VStoreNews.com Spring 2000

Broadband Merchants:
When All Retailing is e-Retailing

Beyond multi-channel retailing lies an even higher ideal: One retailer; one customer; one e-Relationship.

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INSIDE FEATURES:

TENSER'S TALK

Pulp! (Not Fiction)

VSN WORLD HEADQUARTERS, WESTPORT, CT – What's this you're reading? A paper edition of Virtual Store News?

The elite group of "thought leaders" who had been exposed to ***VStoreNews*** and ***VSN TopLine*** by e-Mail, Web or fax since we created it in 1998 are now being joined by thousands of new retailing, brand marketing and business technology leaders, who will receive it by post. If you're one of our new readers, welcome. If you are an old friend, welcome back.

For a purely virtual business like ***VStoreNews,*** the shift to a print format may be perceived as retro-radical. After all, who moves an e-Business from bits to pulp? Well, for one, the e-zine Wired did, and that's not bad company. Inversely, increasing numbers of print publications are folding in electronic editions. The idea is to serve each reader, at each moment, in the ways each prefers to be served.

VStoreNews has been reconfigured to match this new paradigm – what I'd like to call "broadband publishing." It combines this printed journal with an informational Web site, http://VStoreNews.com, and our biweekly e-Mail bulletin, VSN TopLine. One knowledge business – multiple channels for users to interact with the content.

This broadband publishing proposition bears more than a metaphoric parallel with the broadband retailing trend that we cover in this edition of ***VStoreNews.*** Our new multi-format mirrors a world where broadband merchants widen business models to permit consumers to interact seamlessly with their businesses through a variety of channels – stores, Web sites, kiosks, catalogs, telesales, and good old-fashioned human-to-human contact.

Make no mistake, the V in ***VStoreNews*** still stands for Virtual. Coverage of strategy, analysis and opinion about Web-enabled retailing is still our raison d'être. Fascinating how, at least for the contents of this issue, form follows nonfiction.

Let's be crystal clear: What I call broadband publishing or broadband business of any kind is not predicated on what the telecommunications, advertising and broadcasting industries calls broadband Internet. The latter is about technology – building a wider electronic "pipe" which permits real-time transmission of rich content over the Internet, such as interactive advertising, full-motion video and other forms of messaging and entertainment.

Why then do I insist on describing as "broadband merchants" what others in this industry prefer to tag as "multichannel retailers"?

Two reasons. First, multichannel retailing implies separate but parallel transactional capabilities. Broadband merchants take deliberate and dramatic steps to integrate the retail business across all its consumer touch points. One business. One customer. One relationship. Everywhere.

"One business. One customer. One relationship. Everywhere."

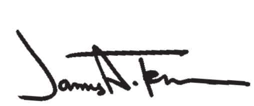
The second reason is about branding. Broadband merchants represent the next step in a continuum of retail development. To identify and discuss a trend you have to assign it a label. So we branded it, self-consciously, to distinguish this new trend from those which preceded it.

While the broadband merchant proposition is about what happens in stores and catalogs too, it requires Internet technology to be realized. It's the connectivity that counts, backed by the business intelligence to cultivate a truly broadband customer relationship.

Will broadband retailers use broadband technology? Absolutely. Streaming media, voice-over-IP telephony, three-dimensional imagery and increasingly dynamic Web-services are all lurking in our digital commerce future. But it's not the size of the image file that really counts, it's what you do with the relationship.

My Advice?

Keep broadening your business bandwidth. But keep hold on the one truth that matters: Earn, re-earn, and re-re-earn each customer relationship at every touch point, every time.



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VSN TOPLINE

News, views and downloads from the ether

The Art of 'Politax'

THE INTERNET SALES TAX BATTLE has finally made the big time. When the national advisory commission established by Congress 14 months ago to explore the issue convened again in Dallas on March 20, the venerable New York Times saw fit to preview the event as the lead story on its business section.

A decision will be required in short order about whether to extend or to end the current moratorium on sales tax for online purchases. But as reporter David Cay Johnston observed, the commission "will almost certainly fail to reach a consensus about what national policy to recommend."

Now the two sides are lined up eyeball-to-eyeball. On the right, so to speak, are mostly anti-big-government Republican senators and representatives who chant the "no new taxes" refrain. On the left are Governors and municipal leaders of both parties worried that their traditional revenue source is being leached away, calling for a "level playing field," in which all consumer purchases are taxed, regardless of the channel in which they are made.

In an interesting reversal of this line-up, Republican presidential candidate, Governor George W. Bush avows sympathy for the phrase made immortal by his father after the famous, "read my lips." Meanwhile, Democratic candidate Vice President Al Gore has stood up for the level playing field principle.

Eerily quiet in this debate over public policy to date have been the major retail trade associations, such as the National Retail Federation, the National Mass Retail Institute and the Food Marketing Institute, which represent department and specialty stores, discounters and mass merchants, and grocery stores respectively. The two former groups finally made their first position statements in favor of the level playing field this Winter, more than a year after the commission's ruling, and more than two years after the U.S. Department of Commerce held public hearings on the topic.

A few observations about the current sales tax moratorium:

One:
It's regressive. Since Internet access is a privilege available primarily to computer owners and to people who use Web-enabled PCs in their jobs, a whole cadre of Americans – lower middle class and working poor – have not enjoyed access to the online tax dodge.

Two:
Due to the abdication by the traditional retail community, the current policy has been influenced primarily by companies in the telecommunications and dot-com world, not by the retailers and brand marketers whose interests are most deeply affected.

Three:
This debate is troubling news for the traditional direct marketing and catalog sales industry, which has enjoyed a free ride for many years with respect to not charging sales tax to its out-of-state customers. Sorry guys, a level playing field will include you too.

Four:
The only righteous principle for determining which sales tax calculation to use for a purchase is that the law of the ship-to-address must apply.

Any other scheme will cause all the online retailers and catalogers to relocate to the Cayman Islands.

The number one myth in the dot-tax debate is the silly assertion that the task of collecting the sales tax will be unfairly onerous for the many small dot-com operators. To this we offer the following rebuttal: Considering the pace of innovation in software development today, how long would it take for ten new competitors to arise offering cheap, fast Web site plug-ins that seamlessly handle the calculation, collection and payment of sales tax to all 350 municipal jurisdictions?

Sounds like a dot-com opportunity in the making. – J.A.T.

Coffee Clutch

THE STARBUCKS-KOZMO DEAL looks like a precursor to other unusual partnerships.

Just as the Internet is rewriting all the other rules of business, here's evidence of how changing bricks-and-mortar retailers think about partnerships with other companies. They're growing savvier about how to leverage their foremost asset – physical space and accessibility – to enhance their online profiles and their bottom lines, and inventing some novel business models as a result.

That's certainly the case with Starbucks, the coffee chain, and urban-delivery specialist Kozmo.com, which is positioning itself as virtual convenience store. The two companies just arranged for Starbucks to place boxes in its stores for returns to Kozmo such as rental videos, games and DVDs and, eventually, for other products like disposable cameras ready for processing. Starbucks will promote Kozmo and train its sales staff to answer questions about Kozmo, while Kozmo's fleet-footed delivery agents will deliver Starbucks coffee – initially, dry by the pound, but perhaps eventually in hot and liquid form.

It'll cost Kozmo $150 million over five years and boost its customer-acquisition costs, but the exposure in Starbucks could be well worth it. And for Starbucks – whose CEO, Howard Schulz, aspires to make Starbucks an omnibus "lifestyle brand" – maybe the Kozmo deal is the beginning of a broader effort to turn the neighborhood Starbucks into a true cybercafe that serves as communities' real-world nerve centers for activities related to e-Commerce. – D.D.B.

Muscular Marketing

ALL THE BREATHLESS ATTENTION has been focused on Reflect.com as Procter & Gamble's initial foray into a semi-autonomous, dot-com-only brand. But if you'd like a peek

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VSN TOPLINE *(continued from page 3)*

into the future of P&G's use of Internet branding, take a look at Physique.com instead.

Physique is another new P&G concept, a hair-care line that became available last fall at outlets ranging from salons to Wal-Mart stores. It's very much a traditional real-world, mass-market product, albeit clad in white-and-metallic packaging and pricing that's foreign to most P&G brands. But because Physique was launched during a period of intense fiddling with the Internet at P&G, the company considers it practically a Web brand anyway.

It offered full-size Physique samples online before the in-store launch; included the URL on bar napkins and other tchochkes handed out in big-city test marketing last fall. It uses viral-marketing techniques such as asking visitors to e-Mail friends about the brand; and offers chats with "Dr. Antonio," Physique's creator and head scientist.

"We know we're P&G, and TV and print is important to Physique, but we need to utilize the Web site to help drive consumers to the brand," says Bryan Emrich, a beauty-care advertising manager for P&G. "People are spending an average of 11 and a half minutes on the Web site, which is a tremendous amount of time, just learning more about the brand."

So far, so good for Physique: The brand posted $1 million in sales for January, which J.P. Morgan Securities analyst Sally Dessloch called "a good start."

And Physique television ads have started airing as well – evidence that even a P&G "online" brand needs a spot or two of media help to get into shape. – D.D.B.

VStat – Cyber Grocers Have A Long Way To Grow

EVER PARTICIPATED IN ACTIVITY	PERCENT
Price shopped	58%
Accessed coupons	30%
Researched weekly specials	29%
Looked up store locations	22%
Read new product information	20%
Purchased groceries for delivery	16%
Read store news	16%
Retrieved recipes	15%
Purchased groceries for pickup	2%

A recent Greenfield Online study of 1,708 Internet users found that 3 in 10 have visited one or more online grocery sites. 58% of the respondents who have ever visited grocery store Web sites did so to price shop. Only 16% are actually making purchases for home delivery, and 2% purchased groceries for pickup.

Among the total respondents, 23% said they were sure there wasn't any online grocery delivery service offered in their area, while 30% said they were aware of such a service. The remainder (47%) did not know.

Source: "Ordering Groceries Online" Greenfield Online Digital Consumer Study

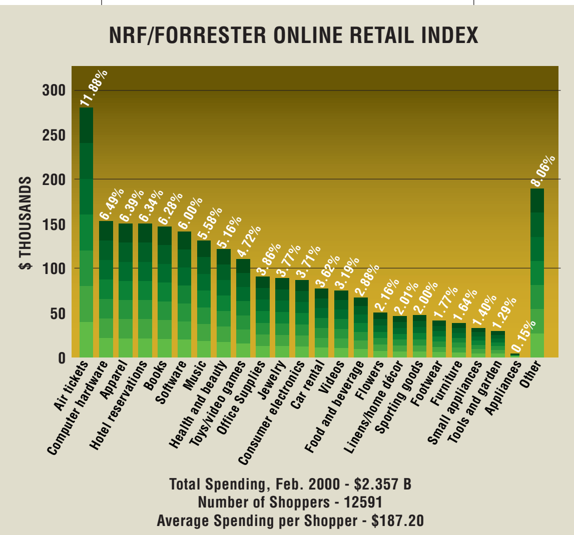
Finally, Reliable Online Indices

THE PUNDITS KEEP INSISTING that e-Retailing remains but a sliver of overall consumer product sales, but thanks to some newly emerging statistical instruments, we'll all be able to watch virtual stores take more and more of America's retailing pie.

The newest measuring stick is a new Online Retail Index being compiled by the National Retail Federation and Forrester Research, with help from Greenfield Online. It'll be a help, because the wide variance in estimates of online sales last holiday season – though all were multiples of 1998's activity – continued to leave businesses and consumers in the dark as to exactly how powerful the engine of e-Commerce had become. The bigger the force, the more e-Commerce needs these kinds gauges as companies make online investments, economists try to gauge how the Internet is changing the marketplace and policy-makers grapple with issues like online-sales taxes.

The NRF/Forrester index for February 2000 showed expenditures of $2.4 billion online by U.S. consumers, lower than the $2.8 billion in January (the Index's first month).

The Index shows airline tickets as the leading category in online dollar sales, followed by computer hardware and books "in a dead heat," then software and apparel. Combined air, hotel and car-rental business booked online in February was $506 million, or 21% of all online purchases, while media products (books, music, videos and software) accounted for another 21%, or $496 million.



Not to be outdone, the Census Bureau of the U.S. Department of Commerce in March released its first-ever retail e-Commerce sales figures for the U.S., covering the fourth quarter of 1999. The tally came to $5.3 billion for the period of October through December 1999. Margin for error is plus or minus $0.3 billion.

That tidy sum came to 0.64 percent of the total estimated retail sales of $821.2 billion for the quarter. These estimates are not adjusted for seasonal variations, holiday or trading-day differences.

The government statisticians offer a handy definition: "e-Commerce sales are sales of goods and services over the Internet, an extranet, Electronic Data Interchange (EDI), or other online system. Payment may or may not be made online."

The Census Bureau plans to release quarterly retail e-Commerce sales, with figures for the first quarter of 2000 planned for May. More granular measurements, including business-to-business transactions are planned for the 1999 annual surveys of manufacturing, wholesale trade, retail trade, food services and accommodations, and information, transportation, business, professional and personal services. – D.D.B. and J.A.T.

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Broadband Merchan

When All Retailing

By James Tenser

Photos courtesy Office Depot. Used by permission.

Forget logging onto the dot-coms. For a clear vision of the future of retailing you need only turn on your television. The latest commercial for Office Depot offers a quiet revelation for retailers of all stripes – store-based, Web-based, catalog and direct. "Buy from our stores, from our catalog or from our Web site," urges the voice-over, above the bouncy jingle, "Taking Care of Business."

The promise of this ad seems so normal, so ordinary, that it's easy to overlook how revolutionary it is within the present retail environment.

With few exceptions, online merchants, traditional retailers and analysts have been unable to move beyond the primitive view of online retailing as a new, competitive channel of trade. But online selling and consumer relationship management are in fact new and broadly useful business techniques, which cut across existing retail channels, and which will change them in fundamental ways.

The inheritors of the future will not be the e-Retailing upstarts of the late 1990s. They will be today's visionary traditional retailers, who apply online business technique to establish new and higher standards for customer care atop their already formidable branding and merchandising foundations. Stores will never become extinct. But make no mistake. In a few short years, all retailing will be e-Retailing.

The repeated references to something called "multichannel retailing" at this Winter's National Retail Federation convention in New York, suggest there are emerging alternatives to the channel-specific, stovepipe-thinking exhibited by the majority of brick-and-mortar and click-to-buy retailers we have observed to date.

ts:

g is e-Retailing

"There is very clear evidence that customers don't make a single choice of channels to shop in. We think it's very important to build both channels as one Office Depot," declared David I. Fuente, chairman of the board and CEO of Office Depot, before an NRF audience.

Advised Edward Carey, global director of Deloitte Consulting's consumer business practice in a separate presentation, "Retailers must provide multiple shopping channels, with seamless service across all of those channels."

Clearly these retail thought leaders are thinking in broad terms about the integral way that e-Retailing will change traditional business models.

Nevertheless, as widely executed so far by pure dot-coms and even most progressive-minded traditional retailers, the notion of multichannel retailing implies instituting separate and parallel business processes. Witness the unlinked nature of the early Barnes & Noble efforts. Or the surprisingly clumsy attempts by Wal-Mart and Kmart to tackle online selling. Even grocery powerhouse Albertsons has moved sluggishly to integrate its 18-month old online grocery pilot in Dallas-Ft. Worth with its store business, owing perhaps to the sheer magnitude of the fulfillment challenge in that merchandise sector.

But brick-to-click integration is gathering momentum. For the past year or so, ***VStoreNews*** has been tracking an advanced breed of multi-channel retailers which we label "broadband merchants," because their integrated, Web-enabled business practices allow them to broaden their relationship bandwidth with consumers across multiple touch points.

Broadband Best Practices

Office Depot is among the standout broadband merchants because it has integrated its Internet, catalog, retail store, in-store kiosk, telesales operations, and even its advertising to play off a single version of the merchandising truth. Not far behind is Eddie Bauer, whose smooth linkages between catalog, online and store sales enable a buy-anywhere, return-anywhere customer service that sets a benchmark for the industry.

There are others – 1-800-Flowers, Lands End, J. Crew, KBKids, Nordstrom, Gateway to name a few – which have mastered some key elements of the broadband merchant proposition. Lands End, for example, now inserts a postcard in its recent catalogs which describes how online shoppers may use its "Catalog Quick Order" feature by entering the printed item numbers in a space on the site's home page.

A bit farther down the broadband merchant continuum is Toys "R" Us, which is certainly multi-channel, but which has only partially linked its store and online businesses. The company progressed this year with its policy of accepting returns of goods purchased on line in its stores, but it has a way to go. A harbinger of further online-in store integration, however, is evident on a recent Toys "R" Us ad circular, which urges shoppers to look for a tiny icon of a computer below each listed items alongside its "online item number" to facilitate easy online ordering.

The Lands End and the Toys "R" Us innovations suggest a unification trend within the merchandising strategies of each company. While the total offerings in the store or catalog and on line may not be identical in scope or specifics, clearly these companies are viewing their assortments through a single lens. The result is a more consistent presentation to the consumer – a first step in quality customer care.

On the consumer relationship side, Lands End is the more successful of the two. Here the company's catalog experience is an asset, for it can recognize a returning shopper via a phone, fax, catalog or Internet order. Toys "R" Us at present has no visible means for observing, much less measuring the total value of a customer relationship.

Admittedly, seamless integration of branding, merchandising, service and relationships across multiple consumer touch points is a considerable feat, but we can anticipate that such capability will be the price of entry in the retail competition of the next few years.

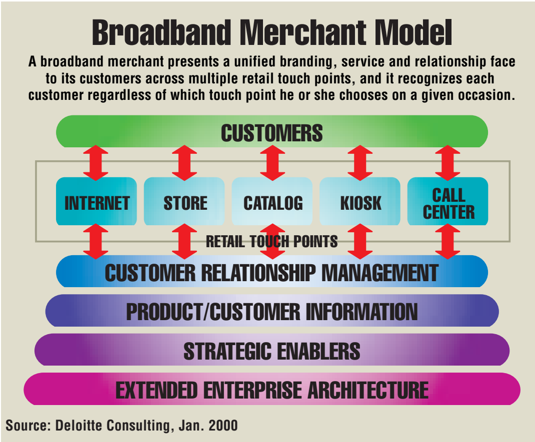
Petsmart: Marketing Consistency

SOME RETAILERS are underscoring their commitment to a broadband approach with bold new gambits that send a clear message to consumers. That's the case with Petsmart Inc.'s new catch-all merchandise-return program, under which the Phoenix-based pet chain will provide full refunds on food and supplies that have been purchased from its stores, from its Web site and catalog – or even from a competitor.

"We felt we needed to simplify complicated return programs for our customers," says Ken Banks, senior vice president of marketing and branding for Petsmart (http://www.petsmart.com). "It also is consistent with our branding program, and it helps draw together our Web site and our stores in consumers' minds."

Petsmart.com is about to be spun off into an IPO. And while Petsmart wants its Web business to enjoy the benefits of autonomy, even more important is for Petsmart.com to pull in the same direction as the company's 500 stores under its broadband approach.

To that end, for example, Petsmart tries to keep pricing between e-Commerce and bricks-and-mortar as consistent as possible, under an everyday-low-pricing approach. "We may have some grand-opening specials in our stores, or whatever," Banks concedes. "But the idea is that we don't want to have the store being EDLP, for instance, and online having higher prices. Customers aren't expecting any differentiation in terms of online and store pricing." – D.D.B.



Source: Deloitte Consulting, Jan. 2000

In the future of "multichannel retailing," Ed Carey of Deloitte predicted, "Consumer expectations will raise the bar for all retailers. They will expect 24 x 7 availability; rich product information and offerings; sharp pricing; and an easy shopping experience."

"E-ENGINEERING" THE CORPORATION.

True broadband merchants understand how online retailing and its associated e-Business tools present a great opportunity for retailers to encourage, enhance and expand their customer relationships. For retailers who persist in separating their virtual and physical retailing operations, the penalty will be discontinuity in their consumer relationships – a perceived lower level of service – resulting in competitive disadvantage.

That's why Paul Hoedeman, vice president information services of The Home Depot expressed this sentiment at the NRF: "We are not going to have a separate, stand-alone Internet strategy," he stated. "It's going to be integrated into our business."

Broadband merchants clearly will leverage a clear advantage in branding, continuity across multiple consumer touch points, and ultimately in establishing and maintaining what the industry is beginning to call "e-Relationships."

Hoedeman added a few more advantages to this list. "All our stores are warehouses and we have a great delivery infrastructure," he said. "Every day we do more volume delivery than Amazon.com – and we make money at it. We've tried and tested in ways the dot-coms have never even imagined."

Talk about leveraging the inherent advantages of an entrenched traditional retailer. Can the venture capital-backed dot-coms, most of whom have barely progressed past the decision to spend half their cash on Super Bowl ads, ever hope to match these skills before their investors run out of patience?

American Girl: Mattel's Place

AMERICAN GIRL is that rare concept that can actually begin as a catalog and then flourish into a full-on broadband play. Now, not only is the maker of historically oriented dolls an e-Commerce player, but the company also has just erected a 35,000-square-foot "shopper-tainment" showplace on Chicago's Miracle Mile.

The Middleton, Wis.-based unit of Mattel Inc. began as an inspiration of Pleasant Rowland, a former TV anchorwoman who wanted to create a line of high-quality, educational dolls for girls. The mail-order business took off, and Felicity, Samantha and other period dolls became such a big hit with six- to 11-year-old girls that Mattel bought out Rowland in 1998 for $700 million.

The relatively easy part has been slapping American Girl's URL (http://www.americangirl.com) on its catalogs and taking other simple steps toward becoming a broadband merchant, such as initiating a newsletter that gives advice on raising daughters that soon will be available online as well as in print. The store was a much bigger gamble when it opened in November 1998. But it already clearly has paid off for Mattel – it has drawn 750,000 visitors and has raked in $25 million in revenues, more than twice the original projection. – D.D.B.

BROADBAND PIONEERS

So it seems the distinction we now obsess over – between click-to-buy and brick-and-mortar merchants – certainly seems profound in the present moment, but will soon be revealed as trivial.

For successful merchants and their suppliers, Web-enabled merchandising, selling, consumer relationships and supply-chain operations will permeate business practices in the next decade. The pioneers described on these pages are merely the first to attempt to develop new best practices for the new millennium.

They seek to present an integrated merchandising and brand personality. They seek to recognize each customer regardless of which channel he or she chooses to use on a given occasion. They seek to serve the customer whenever and wherever and however the customer demands to be served.

They are the first broadband merchants. But not the last.

Borders: Counting on Kiosks

IT SEEMS APPROPRIATE that one of the businesses that legitimized the potential of e-Commerce – selling books – now offers one of the purest comparisons of the different ways that retailers can approach the broadband question.

There's Amazon, which almost single-handedly proved that e-Commerce works but which continues to resist the temptation to put up real-world stores. There's Barnes & Noble, which seems to be perpetually conflicted about how much it wants to combine its formidable bricks-and-mortar chain with its mostly autonomous Barnesandnoble.com site.

And then there is Borders Group, which has embraced the broadband concept from the start and still doesn't have any plans to spin off Borders.com (http://www.borders.com).

Borders is moving forward with in-store kiosks, which it believes will be the most important vehicle for broadband integration. By the end of the year, the company plans to have half a dozen or more of its Title Sleuth kiosks in all 300 of its stores nationwide. "Powered by the Borders.com backbone," as Rich Fahle, Borders.com site editor, puts it, Title Sleuth will be "basically a less-sticky version of Borders.com that includes all the rich editorial content that's synonymous with the Net."

TitleSleuth will tell users if a title is in stock and use a map to show them where the book sits in the store. It will pull up staff reviews of books and other features. It will help find titles at other metro-area Borders stores, and a feature in development will allow customers to swipe a credit card and special-order any title for delivery direct to their homes. "Eventually we'll get into same-day delivery with TitleSleuth," Fahle says.

But Title Sleuth clearly won't be simply an in-store version of Borders.com and won't be connected to the site per se – at least not right away. "We wanted to create something that enhanced the in-store shopping experience, and something as sticky and time-consuming and as designed for heavy browsing as Borders.com wasn't necessarily the perfect tool for in-store look-up," Fahle says. – D.D.B.

e-Captains: Brand Marketers Jack In

When it comes to relationships between retailers and their major suppliers, e-Commerce is beginning to look more and more like old commerce. As they move online, more and more bricks-and-mortar retailers are leaning on principal vendors for help in doing so – just as they have via "category management," ECR and other burden-sharing trends in the physical-store aisles over the last decade or so.


Mark Schar

"It's absolutely happening more now," says Mark Schar, vice president of the iVentures group for Procter & Gamble, the Cincinnati-based packaged-goods giant. "And it's clearly the future."

Schar, the primary figure in P&G's efforts to harness e-Commerce, says that the company already has "a whole team of people" working on how to collaborate with Wal-Mart.com, Bluelight.com (Kmart Corp.'s e-Commerce site) and other big retailers to provide e-Commerce solutions. The P&G team is developing tools that "we would like to make available to our retailers" in areas such as acquiring Net shoppers and retaining their loyalty.


Burt Flickinger III

Retailers are asking for help in a variety of ways, from joint strategizing over how better to gather and exploit consumer data in e-Commerce, to asking vendors to establish "micro-sites" on the Web for handling entire categories of merchandise, to simply seeking trade-relations allowances from the same funds that packaged-goods companies have been trickling out to some dot-com concerns.

Says consultant Burt Flickinger III, managing director of Reach Marketing, Westport, Conn., retailers also are "asking for the best and most proficient online managers within the supplier community to create and build up bridge sites between suppliers' sites and databases so they can invisibly link with e-Tailers."

Angling for Infrastructure

Suppliers are going along for several reasons. "They're lemmings," offers marketing guru Chris Hoyt, president of Hoyt & Co., Stamford, Conn. "Why would retailers build [online] infrastructure themselves when they've got P&G or Ralston-Purina or Nestle willing to pander to them?"

Manufacturers obviously don't want to frustrate the retailers on whom they remain dependent, for now at least, to move products either in their stores or through their Web sites. "There's lots of ways for a Wal-Mart to put pressure on manufacturers, such as taking items out of distribution," says Paul Kelly, principal of Silvermine Consulting Group, Westport, Conn.


Chris Hoyt

And besides, Kelly adds, "it's not like the trade is asking for a major diversion of spending from bricks and mortar to Web sites yet. [Vendors] are doing it almost as a goodwill gesture. And I haven't seen them come up with really outstanding responses at this point."

Nestle USA Inc.'s vice president of consumer direct operations, Don Sokolnicki, confirms the fact that – while dot-coms such as Webvan and Streamline may tout the trade spending they're getting from big vendors – it amounts to very little compared with vendors' allowances to traditional retail partners. And he says that all Nestle "is really doing is relaying what we learn" from working with dot-com retailers to bricks-and-mortar chains that are going online.

> "It's absolutely happening more now... And it's clearly the future."

Yet, vendors are getting some substantial things out of these arrangements too. "It's very time- and cost-intensive to get meaningful consumer-purchase data" from outside sources, Flickinger notes. Packaged-goods

companies "can get much better information – possibly even names and households – directly from retailers, and vice versa. It's a winning partnership for both parties."

Watching Wal-Mart

This phenomenon is only in its formative stages, just as the movement of traditional retailers to the Internet is still taking shape. But already some vendors are proving themselves responsive to retailers' calls for help – and reaping some pretty substantial rewards.

Wal-Mart Stores Inc., for example, "supported the full slate of products" offered by S.C. Johnson & Co., the Racine, Wis.-based parent of well-known household-goods brands such as Pledge and Glade, when it re-launched its Wal-Mart.com site in January, says Flickinger. "While it had only a modest offering of P&G and Colgate-Palmolive products."

"Johnson was much better prepared to support dot-com consumer and B2B initiatives," says Flickinger, "They were ready with the means to ship directly to the consumer."

Virtual Solutions

It's all part of a continued tug-of-war between retailers and vendors over control of consumer attention and dollars. Retailers are asking for solutions in the virtual space similar to how they spent much of the last 20 years prodding packaged-goods suppliers into taking over more and more responsibility for category management – and, therefore, more influence on ultimate purchases. Yet these days, store chains increasingly are trying to take back some of that control so that they can effectively differentiate themselves to consumers; the same impulse is behind the rising popularity of private labels.

"Initially, retailers will leverage as much supplier expertise as they can," says Hoyt. "Then they'll take over those [e-Commerce] functions as part of the unique retailing and marketing mixes they're trying to achieve."

At the same time, however, vendors are far from helpless before retailers' strategic strokes: The Net also continues to present possibilities for selling direct to consumers, which would give suppliers back some of their dwindling leverage. P&G and other major concerns say they aren't interested in getting into the direct-fulfillment business right now – that they're happy plying their goods on the Web via retailer partners.

> "The real challenge to both sides is to accept that we no longer control the consumer."

But within a few years, the burgeoning of Net commerce and experiences gained along the way could well prompt P&G and its rivals to reconsider and to pursue consumer-direct sales aggressively. "P&G was 'slow to the game' in the formative phases of the warehouse-club channel and vowed not to repeat the mistake," says Andrew Shore, securities analyst for Paine Webber. And the company believes the Internet is "transformative," he says, "not additive in terms of the customer shopping experience and resulting buying habits."

Kelly suggests that a compromise approach might eventually see packaged-goods companies "taking a warehouse-club kind of strategy where they create a size or something that's only available from them online, which would be unique and maybe wouldn't cannibalize existing channels as much."

In any event, says Nestle's Sokolnicki, "The real challenge to both sides is to accept that we no longer control the consumer."

OUTSIDE INSIGHT

Online Groceries: 2003

A Future Vision for Home Grocery Shopping

By Jonathan B. Green

1999 WAS a year of momentum for the online grocery shopping industry.

The market has seen many new entrants, the first indications of business model success, and substantial capital investment in technology infrastructure and marketing by both traditional retailers and e-Commerce startups.

The number of consumers regularly buying grocery online in major markets continued to grow and the past year's online sales totals for food and wine are estimated at $450 million (*eRetailing World,* Oct., 1999). With the market gaining ground, let us consider what key elements will determine the ultimate success for food retailers pursuing this opportunity.

The Industry

Currently, observers predict broad adoption of online grocery shopping in top tier markets within the next 18-24 months. By 2003, it is likely that online grocery shopping will infiltrate both mid-size and "beltway" markets surrounding major cities.

Merger and acquisition activity between traditional grocers and e-Commerce startups will result in large national and international retailers that offer groceries and other consumer goods, as well as personal services, such as dry cleaning and video rentals.

The retailers who will emerge as market leaders will have invested early in technology infrastructure, focused on customer service and convenience, and "cracked the code" on how best to integrate the customer into the business-to-consumer e-Commerce process.

Customer Relationships

By 2003, the typical relationship between a consumer and food retailer will have evolved from the arm's length, transaction-oriented one of today to a more personal one. Technology enhancements, including sophisticated data collection and real-time processing, will make "personalization" and "one-to-one marketing" e-Relationships a reality in the online grocery industry. Retailers will develop a shopping experience that is reminiscent of the old neighborhood markets – shopkeepers who remember your weekly orders and provide friendly delivery service to your door.


Jonathan B. Green

Retailers who invest in new technologies to capture order data and understand customer-buying patterns will reap a number of benefits, from providing greater order accuracy, to offering customized point-of-sale promotions. A personal, accurate and reliable online shopping experience will build trust between the customer and food retailer, increase repeat orders and boost sales.

Despite its convenience, online shopping will never entirely replace the physical experience of going to a store or ordering from a catalog. The emergence and then widespread use of multiple "selling channels" will help retailers enhance customer reach and company revenues alike.

Customer experiences from in-store retailing, paper catalogs, and electronic forums such as the Web will need to be integrated to form a full customer profile in order to maintain the personalized shopping experience. Successful retailers will know that their valued customer, "Mrs. Jones", orders canned goods from their catalog, but gets produce from their store downtown.

And customers will expect to track their catalog order status and delivery through the company's Web site. Successful home grocers will be considering these infrastructure challenges now.

The Ordering Experience

In addition to the personalization of the shopping experience, speed and convenience will play major roles in broad scale adoption of online grocery shopping. By 2003, there will likely be multiple hardware devices employed for online shopping – each tailored to different demographics, lifestyles and purchase occasions. Because of its ubiquity and all-purpose nature, the personal computer will retain its importance, but in addition, portable hand-held devices comparable to today's Palm Pilot, as well as other easy-to-use electronic shopping appliances, will be available.

Successful retailers will need to support the many options available for order entry in 2003, and will rely on technology solutions that offer seamless integration across hardware devices and back-end processing systems. Retailers who offer this flexibility and who can accommodate future technology changes over time will gain significant market advantage.

New Infrastructure

The complexities of designing, implementing and maintaining a home shopping infrastructure have deterred many traditional grocers to date from investing in this business opportunity. As competitive pressures mount from startups like Webvan and others, traditional food retailers understand they must "get into the game" or lose market share.

Still, the challenge to build this infrastructure remains.

In the next 1-3 years, the technology required to support warehouse automation, order fulfillment, logistics and customer information systems will have migrated from in-house suppliers to third party providers. These specialists will provide efficient, cost-effective, home shopping technology infrastructures that will allow food retailers to capitalize on the growing "shop-from-home" trend, without requiring specialized in-house expertise or management of "best-of-breed" solution integration.

HighPoint

Conclusion

The leading players in 2003 will be those grocers who have invested early in solutions to support customer convenience, personalization, and the automation of home shopping infrastructures. More than offering groceries, online retailers will become "household assistants," offering dry cleaning pick up, shoe repair, drug store items, and flower delivery. With present-day forethought, planning, and investment, retailers will be well prepared to capitalize on the new home shopping opportunities of the future.

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