

Evolving Ecommerce Best Practices in Retail

In the August, 2008 report, *The Mantra for Driving Holiday Business*, Aberdeen research showed that the three most important attributes for any ecommerce site during peak seasons are searchability, scalability, and personalization. As each of these can prove a formidable challenge, many retailers choose to focus on just one of these attributes due to inflexible delivery formats and lack of focus on customer needs. There is a relatively small cadre of retailers that take on and deliver all three to their customers in a seamless manner. But how did ecommerce arrive at this state? This Research Brief will articulate how these three attributes are indicative of an ecommerce maturity model for retailers and growing acceptance of Software-as-a-Service (SaaS)-based e-commerce during the current economic times.

The Dynamic World of Ecommerce

The Internet has indisputably affected all businesses; but arguably, none so more than retail. Despite all the gloom in offline retail, the 2008 holiday season has been the best on record for Amazon.

However, retailers that have both offline and online business models face enormous challenges and pressures from evolving technologies, simultaneously meeting the ever-growing demands and expectations of consumers, and the challenges and profits to be gained by successful multi-channel retailing. And as if figuring out what the correct services and applications to use is not challenge enough, along comes the even more daunting challenge of integrating these disparate functionalities and delivery models in challenging economic times.

In the August, 2008 report, *The Mantra for Driving Holiday Business*, the most powerful pressure expressed by survey respondents was "the need to counter competitive holiday and seasonal selling strategies." This deceptively simple phrase carried with it a whole host of necessary capabilities, namely:

- The ability to predict spikes in traffic
- The ability for assisted (use of in-store web kiosks, online chat) and non-assisted selling online
- The ability for real-time inventory visibility online

The top enabling technologies necessary to support these capabilities include:

- Dynamic web content hosting applications
- Online search and product recommendation tools
- Cross-channel order management
- Inventory virtualization techniques

Research Brief

Aberdeen's Research Briefs provide a detailed exploration of a key finding from a primary research study, including key performance indicators, Best-in-Class insight, and vendor insight.

However, post holiday-season, the need for customer-facing and back-end online capability upgrades are bound to undergo a change, both in terms of timing and budget prioritization.

Shifts in Best-in-Class Online Capabilities Due to Current Pressures

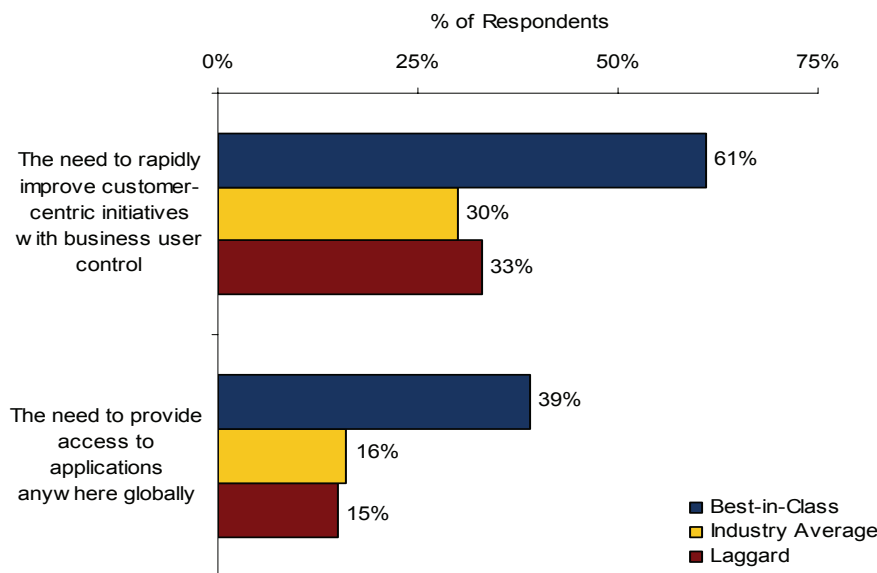
The current online enhancement plans need to be assessed via the two pressures that stand out as the ones felt most by retailers. Survey data of 110 retailers in the report, *Retail SaaS: Which Applications Should the Retailer Consider Hosting*, shows that the foremost business pressure is the overwhelming need to be able to rapidly implement new, improved, customer-centric initiatives (61%). This pressure brings the need for improved personalization of product offers, recommendations and online content.

Our qualitative data shows that currently online personalization has become a critical component of the online retail strategy. Customers expect the same level of recognition for their preferences and custom service in online retail as they do in the other aspects of their lives. Precision customer offerings have become increasingly important as topline sales have steadily declined over the course of the last few months. Personalization, in terms of product recommendations, content, search, and product offers that support cross-selling and up-selling programs, has become a norm for Best-in-Class retailers. Our results show that 43% of retailers plan to implement online personalization tools within the next two years.

"We use a SaaS-based web commerce platform. In 2009, our focus is to improve web order management and personalized shopping capabilities so that we can serve our customers better. Irrespective of the current economic conditions, we will go ahead with our planned online improvements in 2009.

~ VP-Technology, Large Fashion Apparel Retailer, North America

Figure 1: The Top Two Pressures Forcing Retailers to Develop Online SaaS Models



Source: Aberdeen Group, December 2008

"Our IT budget has not been cut. In fact, we are pursuing growth opportunities aggressively. Our top priorities on the technology side of things include: better integration of our e-commerce website with our in-store process, introducing 21st century technology in our stores, more streamlined IT processes in our warehouse, and third-party vendor communications."

~ Director, IT, SMB Retailer (Hardlines), North America

The second compelling pressure, as shown in Figure 1 is the need to be able to provide applications anywhere, even globally (39%). As long as there is browser availability, SaaS is a completely viable deployment option for online and offline applications. To illustrate the online SaaS option, the following are some of the most prominent areas of current use of SaaS in the online world:

- Dynamic web content management
- Digital asset management
- Product recommendations
- Comparison shopping tools
- Online analytics
- Email marketing
- Web order management
- Hosted web platform capabilities
- Online community (blogs, other social networking tools)

Retailers' Use of Online Enabling Technologies

Realizing early on that the retail battlefield was shifting more towards the web since 2005, these forward-thinking companies recognized which tools and content the customer wanted, as well as the supporting infrastructure necessary to keep them up and running, even during peak traffic times.

Currently, the innovators are paying more attention to their online IT investments today and are contemplating ways to create faster ROI, personalized customer delivery of product and offers, and optimized IT operations in order to control costs. Identifying and developing the enabling technologies that are needed to support their online infrastructure in 2009 and 2010 is really where Best-in-Class retailers set themselves apart.

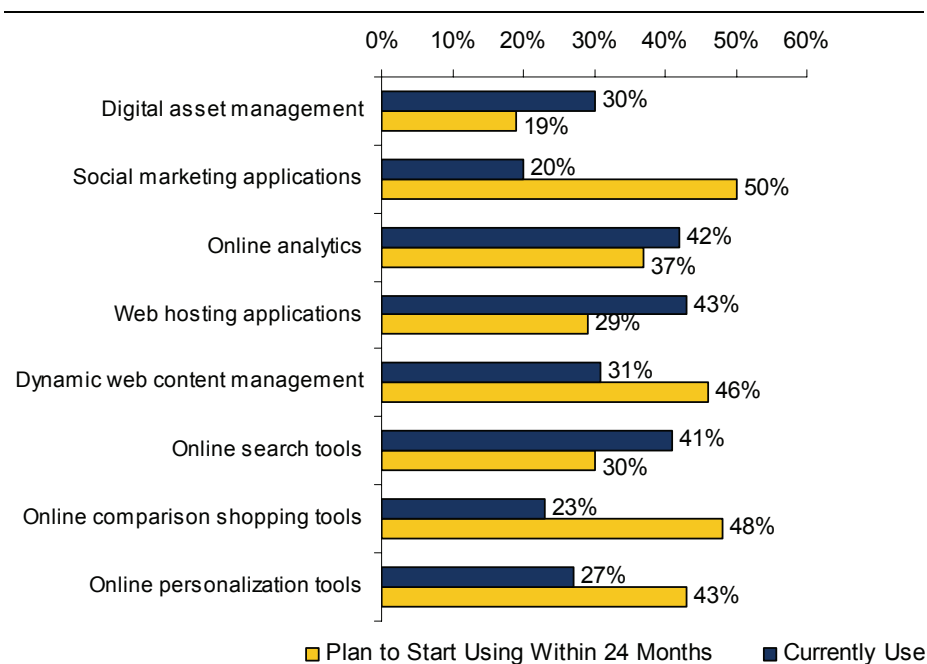
The Best-in-Class pull their strategy and action plan together by determining what online technologies synch up with and support their existing on-premise capabilities so that changes to the delivery model, maintenance, and support functions may be implemented. Figure 3 illustrates the enabling online technologies that retailers currently use or plan to acquire or build within the next two years.

Our data indicates that the current online technology landscape shows that the top three enabling technologies that retailers are currently using include: online search, web hosting applications, and online analytics. However, within the next 24 months, as companies evaluate their online IT investments further, the capability to deliver a richer and more personalized experience to shoppers emerges as the main driver behind online improvements. The top four choices for online enabling technologies include social marketing applications, online comparison shopping tools,

dynamic web content management, and online personalization tools. These enabling technologies ensure two deliverables for retailers:

- Improved competitive positioning for the retailer when a customer has a plethora of choices
- Fewer peak traffic page load time delays due to dynamic content management
- Affinity-based delivery of merchandize that drives user experience and loyalty

Figure 2: Top Online Enabling Technologies



Source: Aberdeen Group, December 2008

Recommended Actions

Retailers are strongly advised to refresh themselves of the astonishing rise of both the importance and sophistication of today's ecommerce, and take whatever steps are necessary to garner site searchability, scalability, and personalization. Customers will expect you to provide them with these site attributes. Without them, they will quite simply flock to your competitors who do, with no motivation to return.

The following actions will help spur the necessary performance online improvements:

- **Intensify focus on the most profitable customers.** Avenues must be created for retailers to develop segmented customer profiles for seamless loyalty campaign creation and delivery. These customer profiles would ensure that field channel teams address the

value proposition of the retail brand effectively in terms of product offering, promotion information, assisted selling, and other service functions. A segmented customer profile also ensures that offers are personalized and customized to the needs of the customer. One of the top customer management strategies used by 58% of Best-in-Class retailers is the use of personalized product offers. The innovators are using product recommendations for up-selling and cross-selling online and offline, loyalty elements, or tools that are personalized to suit specific customer segments based on product affinity and lifestyle preferences.

- **Develop acceptance for lean retail IT techniques (on-demand, SaaS, and hosted application delivery models).** Lean retail IT techniques would ultimately support lean initiatives that are currently implemented in retail to ensure lower infrastructure and operating costs. However, retailers need not adopt SaaS-based models without adequate pilot programs. Moreover, untested SaaS delivery models for mission-critical customer-facing and retail optimization applications are a risky strategy due to un-tested delivery models and integration methodologies. Retailers can start by adopting lean retail IT initiatives in the areas of dynamic web content management, digital imaging, order management, fulfillment, and data centers that support data capacity optimization for large, mid-size, and small retail networks. For example, dynamic web content management capabilities can be used within the hosted content management process causing fewer peak traffic page load time delays. Retailers must ensure that SaaS delivery models are consistent on application delivery performance.
- **Focus on mission-critical applications.** Depending on the health of your business, do not issue blanket moratorium on mission-critical customer and employee-facing application improvement or new acquisitions. For example, CRM, cross-channel, online search, personalization, or promotion or pricing management application improvement could be instrumental in supporting the recession plan. In addition, search and comparison shopping capabilities enable improved competitive positioning for the retailer when a customer has a plethora of choices. Retailers must prioritize IT projects based on the question: “what IT applications are most vital for business continuity and sustenance?” Create deployment plans in multiple phases that can stretch the extent of scalability, extensibility, and optimum utilization of resources.
- **Instill a higher focus on demonstrable ROI justification.** In order to remain competitive in a tough retail environment, Industry Average retailers must instill a focus on demonstrable ROI justification for every new critical application deployment rather than anecdotal evidence. Rather than the standard one to three

year ROI on customer-facing and other key retail enterprise applications, Industry Average companies must insist on attaining a faster six to 12 month ROI through daily measurement, tracking, and corrective action for application performance. Companies can start with general purpose OLAP tools that are typically used within the IT organizations to build reports and analytics, as well as custom reports, on top of existing applications.

For more information on this or other research topics, please visit www.aberdeen.com.

Related Research	
Technology Strategies for Multi-Channel Integration ; April, 2008	Are the Barriers to SaaS ERP Breaking Down? ; June, 2008
The Mantra for Driving Holiday Business in 2008, 2009 and Beyond ; August, 2008	Responsive Customer Loyalty ; June, 2008
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