



Gerrit Heinemann
Christoph Schwarzl

New Online Retailing

Innovation and Transformation



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This book is dedicated to our families,
without whose support, dedication and love
we would never have been able to write it.

Foreword

All estimates indicate that the Internet boom will continue in the coming years and that brick and mortar retailers in particular can profit from this boom. Ten years ago, scholars and practitioners assumed only certain types of products, such as books or software, would sell well. The development of online retail has taught us something very different, however: Every product category can be sold online, and the more unwieldy the products and the more consultation support they require, the more successful they are on the Web.

The need for current information about online retail is quite high. Yet the number of actual resources providing information about these new Web developments is limited, and many sources are out of date, given the dynamic nature of the Internet.

The German edition of this work resonated equally well with both scholars and practitioners. In the following English edition, the basic figures used have been updated and international best-practice cases were added. Furthermore, in the second chapter, special consideration was given to the aspects of innovation and transformation.

In conclusion, we would like to point out that it was of critical concern for us to provide a bridge between theory and practice with this book, and to make it available to an international readership. If we have failed to satisfy this requirement, we ask for leniency but also for your feedback.

Mönchengladbach

Düsseldorf

Gerrit Heinemann

Christoph Schwarzl

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Abbreviations

2G.....	2nd Generation
2.5G.....	2.5th Generation
3G.....	3rd Generation
3.5G.....	3.5th Generation
B2C.....	Business to Consumer
B2B.....	Business to Business
CAGR.....	Cumulated Average Growth Rate
CBC.....	Customer Buying Cycle
CEO.....	Chief Executive Officer
CIC.....	Customer Interaction Centre
CM.....	Category Management
CNC.....	Costs New Customer
CRM.....	Customer Relationship Management
CS.....	Customer Service
Disc.....	Discount
DSL.....	Digital Subscriber Line
e.....	Electronic
EAN.....	European Article Number
EC.....	Electronic Cash
ECR.....	Efficient Consumer Response
EDGE.....	Enhanced Data Rates for GSM Evolution
EHI.....	Euro Handelsinstitut
FAZ.....	Frankfurter Allgemeine Zeitung
GmbH.....	Gesellschaft mit beschränkter Haftung
GPRS.....	General Packet Radio Service

GSM.....	Global System for Mobile Communications
GTC.....	General Terms and Conditions
HSDPA.....	High Speed Downlink Packet Access
HSPA+.....	High Speed Packet Access+
http.....	Hyper Text Transfer Protocol
IMS.....	IP Multimedia Subsystem
IPTV.....	Internet Protocol Television
ISDN.....	Integrated Services Digital Network
IT.....	Information Technology
KB.....	Kilobyte
kbit/s.....	Kilobit per second
LBS.....	Location Based Services
LTE.....	Long Term Evolution
MB.....	Megabyte
MMS.....	Merchandise Management System
NOS.....	Never Out of Stock
No.....	Number
p.....	Page
PDA.....	Personal Digital Assistant
PDF.....	Portable Document Format
P&L.....	Profit & Loss
POS.....	Point of Sale
ROI.....	Return on Investment
RP.....	Rheinische Post
SKU.....	Stock Keeping Unit
SMS.....	Short Message Service
TV.....	Television
UMTS.....	Universal Mobile Telecommunications System
URL.....	Uniform Resource Locator

USP.....Unique Selling Proposition
vs.....versus
WAMS.....Welt am Sonntag
WAP.....Wireless Application Protocol
WIMAX.....Worldwide Interoperability for Microwave Access
WLAN.....Wireless Local Area Network
WWW.....World Wide Web

1 Online Retailing in Transition - Revolution, not Evolution

1.1 The New Generation of Online Retail

Online retail today is taking place at a higher level of evolution than in the initial years of e-commerce. This is especially evident through the voluntary and active inclusion of customers in the sales process in the form of feedback, friend recommendations and public product ratings, as well as the cultivation of social communities and social interactions on the Internet.

In the third quarter of 2009, around 26 million Germans were active in social networks and they increasingly took into consideration comments left by other users in discussion forums when making a purchase (Höfling 2009, p. 54; Hornig/Müller/Weingarten 2008; FAZ 2008 No. 245, p. 19). In the world of social networking, both positive and negative purchasing experiences are exchanged in an unfiltered manner on the Web and can be dispersed at lightning speed. Users can even talk about companies that aren't yet online. Whether on- or offline, Web 2.0 has thus become the dominant power on the Internet with respect to purchasing decisions and has already had a lasting impact on the new generation of online retail.

With the growing use of the Internet as an information portal and the mass shift of social relationships to the Web, revenue in online retail is growing rapidly (Figure 1-1). According to the German E-Commerce and Distance Selling Trade Association, in 2009, revenues for physically available goods increased by 16 percent from the previous year, reaching 15.5 billion euros, while the total for retail sales in the crisis year 2009 shrank by 2.4 percent to 391 billion euros (Welt Online 2010). Including services such as ticket sales, online retailers garnered a total of 21.7 billion euros (Wilhelm 2010, p. 5). This makes the Web the distribution channel with the highest growth dynamic. In 2011, according to experts, retail growth will occur primarily in the online sector.

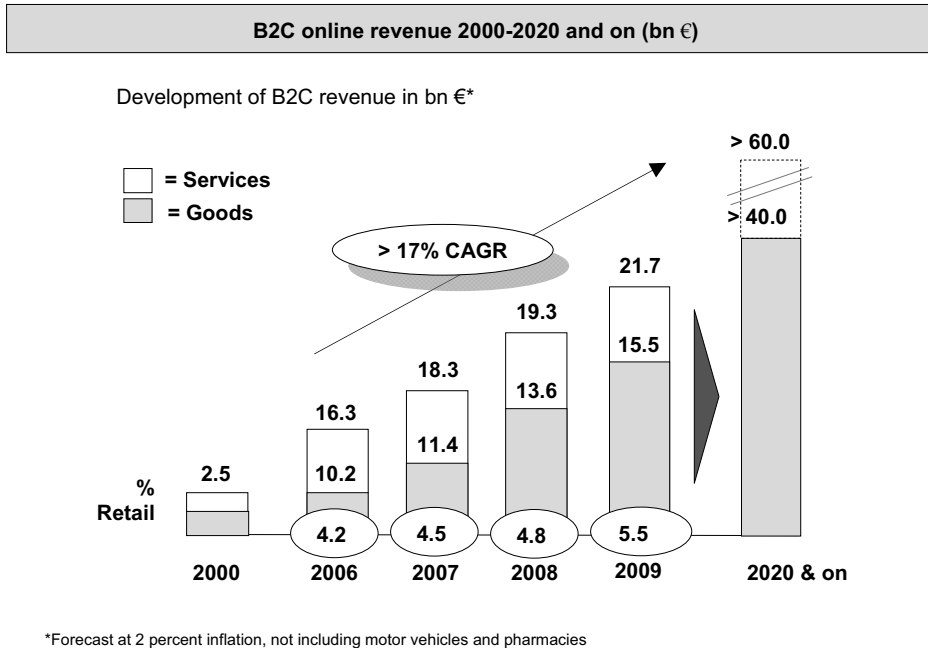
What began in 1995 with amazon.com has become a significant part of retail sales. Online retail has taken on the role of a so-called meta-business in competition with traditional meta-businesses in retail, which include brick and mortar retail, catalogue retail, teleshopping and ambulant retail. Meanwhile, the Internet is transforming into a new mass market with high goals for growth.

This development is reinforced by greatly increasing number of users, but even as user growth levels out, further increases in online revenue are conceivable, since existing

online customers are constantly using the Internet for media networking and making new connections.

Figure 1-1: Revenue developments in online commerce

Source: Personal records/BVH 2010



Furthermore, the exchange of experiences between vendors and users makes more and more improvements and innovations possible, raising the user's comfort level. It is conceivable even today that the existing barriers to Internet shopping can be overcome through the progressive development of the Internet.

The comfort and speed of Internet use has grown in the past few years due to sizeable enhancements in infrastructure on the part of servers and networks, as well as broadband transmission. This will only improve in the coming years.

Above all, the quality of online offers from the sales side has increased significantly through the development of the Internet channel. Website content and design are not only becoming more sophisticated and attractive, but also experiencing actual "innovation boosts" (Boersma 2010, p. 23). This is a fundamental attribute of the new generation of online retail, which means retail businesses need an Internet strategy more than ever, even if this requires improving their image offline first.

The following factors illustrate the necessity for retail businesses to consider "new online retailing" (Hurth 2002, p. 1):

- Online retail continues to grow, offering further opportunities for growth that are no longer possible with traditional retail.
- Regardless of their opinion of the Internet, retail businesses are now forced to address the topic and form an opinion on it, thanks to changing customer desires and the activities of the competition.
- If a retail business has made the decision to begin Internet retailing, the question is then how the new channel should best be integrated into the existing distribution system.

Due to these factors, online retail will continue to play a significant role in the coming years.

Non-Digital Classes of Goods Are Winners in Online Retail

The subject of industry suitability on the Internet is a constant source of discussion. Specifically, the theory is that different industries are variably suitable for Internet sales. The most important criteria for specifications in these industries are transaction cost reduction potential and the autonomy of the buyer (Meffert 2001, p. 167).

Industry suitability tends to work better the larger the possible savings through the Internet transaction and the larger the buyer's autonomy and his self-service potential. Even if digital services prove to be the best for industry suitability, which has become a strategic necessity in online retail banking, the number of industries using the Internet is still growing.

Classic product lines and above all textiles and clothing have found the greatest acceptance in online retail. Sales of textiles and clothing amounted to over 5.2 billion euros in 2009, an increase of about 11.7 percent compared to 2008 (BVH 2010; Wilhelm 2010 p. 4).

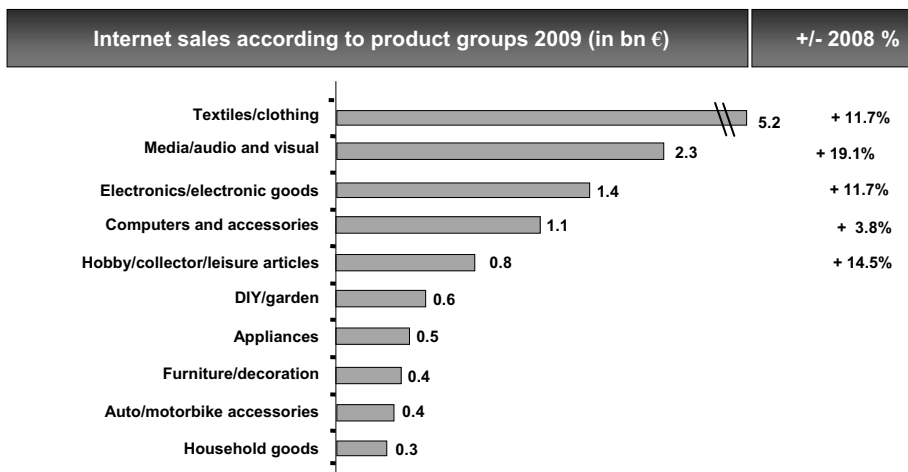
Designer fashions sell especially well online. Whether at a concept store (www.openingceremony.us), a shop for organic fabrics (www.unique-nature.com or www.glore.de), an online boutique for German designers (www.style-server.de) or an online shop for Scandinavian fashion (www.tresien-shop.net), the online shopping boom offers diverse possibilities.

After textiles and clothing, the media/picture and sound industries follow with 2.3 billion euros (growth of 19.1 percent), which is still a few paces ahead, but increasingly being overtaken by e-contacts. Entertainment electronics/electronic items and computers/computer accessories are among the top four, with over 1.4 and 1.1 billion euros in revenue respectively (Figure 1-2).

Not listed is the largest retail category – food, with 120 million euros in revenue. So far, the German food industry has occupied itself with matters other than developing online shops. Still, it has at least realised that it does not suffice to offer customers just one shopping channel. The growing number of convenience shops at petrol stations and factory outlets, for example, typifies this development away from traditional brick and mortar retail with set opening times and traditional product lines and services.

Figure 1-2: Internet sales according to product groups (merchandise categories)

Source: BVH 2010



This kind of retail format diversification and/or multi-channel strategy makes use of the Internet mostly as an informational medium but not an aggressive sales channel as with Tesco, Europe's most successful online food retailer.

1.2 Private Consumption Growing Online

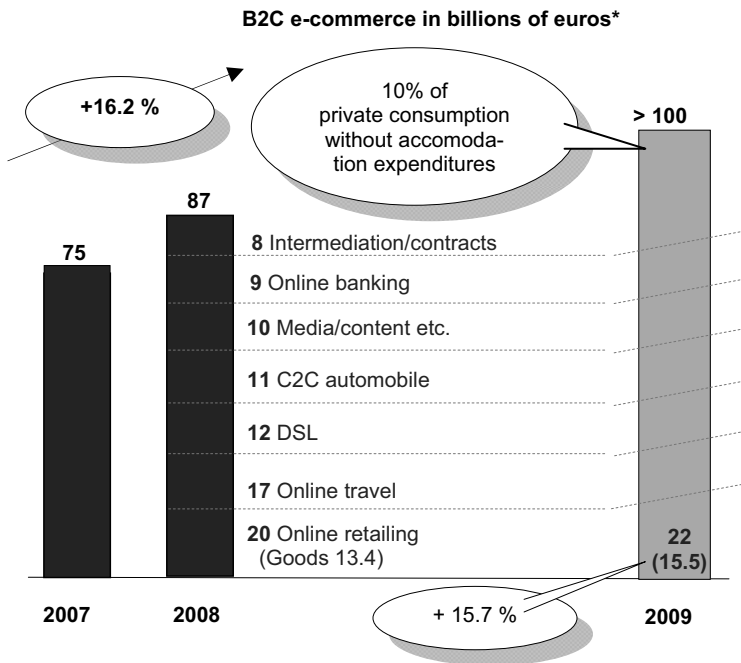
No other branch of industry is as affected by the Internet as retail sales. In 2009 alone, a revenue volume of over 100 billion euros was earned in private e-commerce, including DSL (FAZ 2010 No. 101, p. 12). When products and services such as online travel, releases for DSL contracts, automobiles or used cars, media content and downloads, online banking and other e-services such as online pharmacies or dating are included along with pure online retail, the number rises slightly, according to the Monitoring-Report Deutschland Digital 2009 (Monitoring-Report Deutschland Digital 2009, p. 64).

This includes around 10 percent of all private consumption in Germany, excluding housing (Figure 1-3).

Private spending is increasingly passing by the already shrinking brick and mortar retailers. This will hold true especially if such retailers continue to resist entering into the online market on a broad front, although the outlook for brick and mortar retailers is actually quite good. All signs indicate that the Internet boom will level off in the coming years and that traditional retailers will be particularly well-positioned to profit from this development (Heinemann 2010c, p.12).

Figure 1-3: B2C e-commerce sales in Germany

Source: BVH 2010/ Monitoring Report 2009/own estimation



*B2C e-commerce incl. C2C

Ten years ago, the belief was that certain typical goods, such as books and software, were better suited for sale on the Web. In practice, this has turned out quite differently, as currently almost anything can be bought and sold online.

The more unwieldy and complicated the product, the more successful it has been on the Web. Home improvement chain Hagebau, for example, sells large numbers of chimneys through its online shop, including more than 20,000 last Christmas season.

Car tyres provide another example, with around 10 percent of the German aftermarket tyre business taking place online. Online tire dealer Delticom.com, based in Hanover, is an example of an international success story in the industry, posting 300 million euros in revenue in 2009.

Bicycles, a very intensive line of products, are also being purchased over the Internet in increased numbers and fahrrad.de has become one of the largest bicycle retailers in Germany. Clothing is also a particularly difficult-to-buy good, but makes up by far the most successful product segment on the Web, with over 5 billion euros in online revenue.

Astoundingly, though, only a few textile chains have been able to tap into this success. The same is true of other retail industries such as food retailers, who achieved less than 0.1 percent of their sales online. In comparison, Tesco International earns 5 percent of its revenue over the Internet.

Although online retail in the German food industry is still in its infancy and is one of the more slowly growing segments, market researchers expect a revival in this area. Even traditional stationary food retailers have found themselves challenged by the new technology. Nearly every large German grocery has begun to concern itself with the topic of Internet-supported ordering and delivery to private consumers, although very few so far are taking full advantage of their online potential (Heinemann 2008g, p. 12).

Although the online food retailing business in the German-speaking countries is growing slowly, some companies have taken advantage of these first mover challenges. Amazon, for example, launched an online food and beverage shop in July 2010, offering approximately 42,000 items online, selling and distributing these grocery goods through partners such as froodies, saymo, food-shop-24 and natur.com.

Similarly, Gourmondo offers delicatessen products via iPhone, Starbucks accepts payments via iPhone and Billa in Austria has an iPhone application available for consumers to decode e-numbers for clarification of ingredients.

1.3 Untapped Potential in Online Retailing

Foreign retailers are taking far greater advantage of their online potential. Compared to the German food industry, instances and revenue of online grocery stores are booming, especially in the English-speaking world.

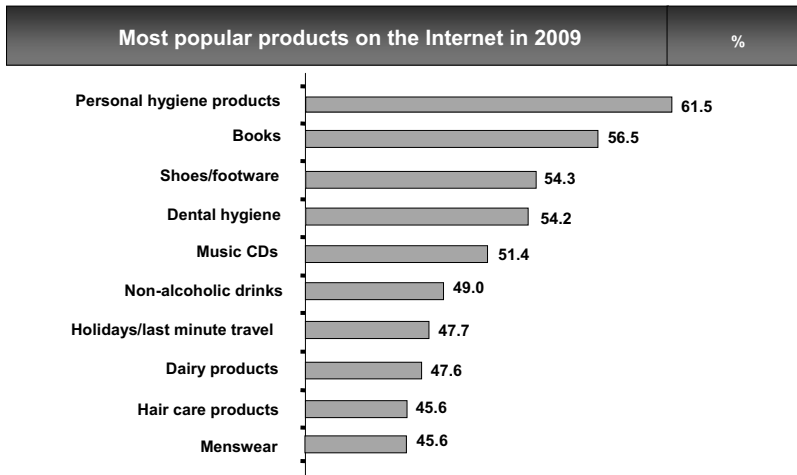
One quarter of U.S. household purchases food online, making up at least 10 billion dollars worth of food ordered on the Web, according to the market researcher PHAYDON.

In Great Britain, online food revenues exceeded the 3 billion pound mark in 2009. Together with its non-food articles, U.K. retail business Tesco alone garnered 3 billion pounds in revenue. The online food retailers' best concepts are multi-channel systems, which is a primary reason for Tesco's success. The company displays a high degree of integration among its distribution channels and the value to the customer among channels is nearly identical in terms of pricing, product range and service level. At the same time, specific advantages of different kinds of sales are displayed, as with Web 2.0 in the online channel. The online channel generally grows much faster than the other channels, in many cases by more than 40 percent per year.

These opportunities for growth are lying fallow not only in the German retail food industry. Other top brands as well seem neither to have taken the online age seriously nor to have used the Internet as an instrument for verticalisation, as other industries have done.

Figure 1-4: Most popular products on the Internet

Source: AGOF 2009



Example: 61.5% of Internet user interviewees were interested in buying personal hygiene products over the Internet.

* Products requested online in the past 12 months (in percent)

Based on a current trend study in the magazine Shopaffairs in August 2009, Internet users are highly interested in cosmetics or food-related products on the Web. The Top 10 most requested products in online retail were body care products (61.5 percent), dental care products (54.2 percent), alcohol-free drinks (49 percent) such as dairy products (47.6 percent), and hair care products (45.6 percent) (Figure 1-4).

Such customer desires cannot be fulfilled online in Germany, as there is a lack of well-known food retailers on the Web. It is thus also unremarkable that the food industry's online share in the country is only around 10 percent of the total distance trade revenue of 1.2 billion euros. This class of business doesn't reach the magnitude of other groups of products, which generally garner over 50 percent of their distance revenue online.

The goal for larger companies has been to seek out personal contact with consumers in order to get a clear picture of their desires and needs. At the same time, for brands in larger flagship stores and brand-name stores, direct interaction with customers has yet to be realised.

Entertainment value during a purchase is, however, no longer purely a brick and mortar topic: – e-commerce and its related communities now offer customers expressive and interactive experiences.

Besides founding Internet communities in which customers can trade buying experiences, the use of external Internet communities for market research, advertising and customer acquisition is increasingly becoming a focus. The voluntary and active inclusion of customers in the buying process, for example in the form of buyer feedback, recommendations to friends and public product ratings, as well as the creation of social networks and social interactions on the Web, without a doubt displays the fine art of the new generation of online marketing.

Untapped Online Potential in Brick and Mortar Retail

A survey of German retail chains by the Niederrhein University of Applied Sciences revealed that the majority don't have online shops. This is true not only of the food industry, but also of all retail branches.

Even in cases where these channels do exist, they are generally used as "rigid" online channels either to sell old goods at a loss or to offer a marked down selection of extra stock.

Many sites torture online customers with websites that are difficult and slow to load, offer a low level of user-friendliness and lack functionalities. Long loading times are risky because speed is the deciding criterion in online retail and a customer who has to wait too long for a site will simply seek out a different one.

Online retail is the fastest form of retail, and this applies to handling and shipping times as well. This may be difficult for retailers who are not used to this speed in their seasonal and routinised processes. Very few German retailers' online shops reach an acceptable level of service and they are nowhere near the best international sites.

Such a level of online business is seldom found in the German-speaking world. Even so-called multi-channel retailers, who offer channel hopping between on- and offline

sites and possess the greatest online potential, have not managed to achieve an international standard of online retail.

German retail offers no examples of fully integrated multi-channel concepts, aside from a very few, who have let go of traditional retail as their lead channel and taken advantage of the online channel as a means for growth. Only Globetrotter can possibly be viewed as a true multi-channel retailer. However, no DAX firms can claim to have achieved online shares in the double-digits.

This hesitation toward the Internet is of great concern. Real, fully integrated multi-channel systems that include a brick and mortar location and in which all channels operate as one can practically be found only in the English-speaking world. It is interesting to note that these businesses have garnered fantastic revenues of which German retailers could only dream.

The best concepts in multi-channel retail, which include those of British businesses Argos, Next and Topshop, display a high degree of integration among distribution channels. Customer value is nearly identical across channels in regard to pricing, product range and service level. At the same time, specific advantages of the different forms of sales can be seen, such as the modern Web 2.0 in the online channel (customer forums, communities, linking to social networks, etc.).

The quantity of goods moved in the online channel therefore generally grows faster than in other channels, in many cases by more than 50 percent per year. These success stories make it clear that the entertainment aspect at the point of purchase is no longer a purely "brick and mortar" subject, as many traditional retailers in Germany still believe. Meaningful and interactive experiences are also available to e-commerce customers and their related communities.

Additionally, as soon as customers are able to view products in 3-D format on touch-screen monitors, a new dimension of buying experience will be possible. This will refute the typical objection of German retailers – that "investments cannot be regained".

The most successful online retailers are "agile companies", or extremely lean businesses that concentrate less on building infrastructure and rely more on professional fulfilment providers. They can generally work faster and for less, which means that their starting time is cheaper, as seen in the following sections.

1.4 Efficient Starting Time for Online Retailing

In combination with new technology, timing market entrance and having the right entry strategy are essential criteria. Pioneers pay high prices for their intrepid spirit

and must invest a great deal before making any returns, while latecomers may find it difficult to win over market shares from successful predecessors who have already staked their claims.

These established rules of management must also hold true for Internet technologies. When it comes to starting in online retail, however, the normal decision-making criteria have lost their effectiveness.

In a sense, this is a historical opportunity, with a strategic window open to retailers. On the one hand, Internet pioneers' start-up money was paid through the collapse of the first wave of Internet hype and today's successful online retailers were essentially just being born as the "second on the scene" after the beginning of the "new economy", just as the Internet bubble burst in 2000.

This second wave was put under stricter controls than the many "banned founding startups" by investors who had been burned by the experience. These companies learned the lessons of the Internet pioneers.

On the other hand, the windfalls of the online market have not changed in a long time and now is a good time to establish an Internet presence. According to experts, a large-scale boom in online retail is imminent and there are currently no barriers to starting an online presence. While other industries, such as travel services, make a third of their revenue online, for retail sales the figure is only around 5 percent. Even the banking world, with its generally more conservative views, holds the opposite perspective from that of retailers, and has more than 42 percent of all spending accounts online.

The most important argument in favour of online entry comes from the customer's perspective: More and more consumers are gathering information about products online before buying. More than a quarter of all brick and mortar purchases originated online and therefore demand a "channel hopping" possibility from retailers (Heinemann 2010c, p. 12).

Cautious estimates project that by 2015, more than 40 percent of all brick and mortar retail customers will research their purchases on the Web first. Studies show that these customers are especially valuable and loyal, since they jump between channels and make purchases in all of them.

Crisis-ridden brick and mortar retailers can profit from this reciprocity. The winners in e-commerce will be the multi-channel retailers who can offer their customers a channel hopping capability through a combination of physical store and online retail, thus raising customer value.

This is also a reason why more online retailers are entering into the brick and mortar business, for example Lascaña, BonPrix or Argos, which has a longer history with e-commerce in Great Britain. Above all, brick and mortar retailers can no longer deny that even customers who frequent their store locations are increasingly using the Internet to make purchases.

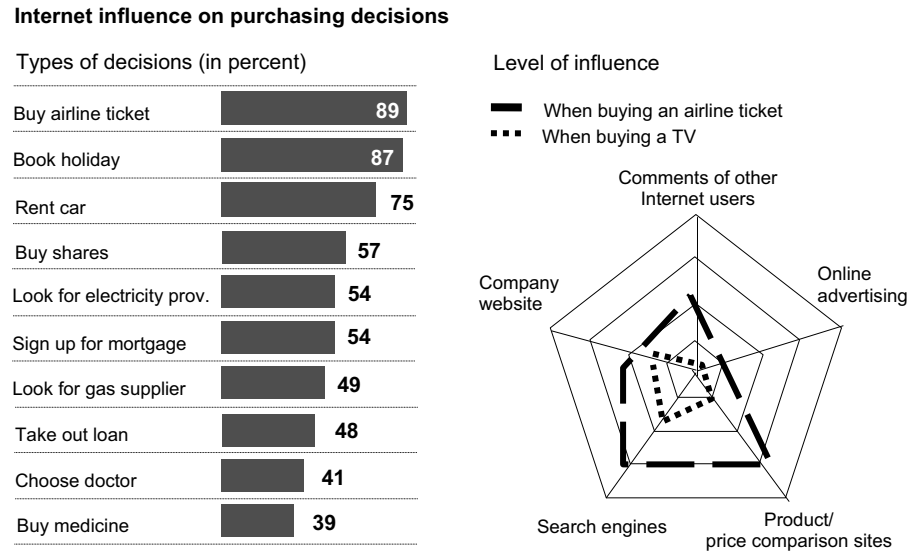
1.5 The Internet's Underlying Influence on Buyer Behaviour

Information on the Web increasingly influences buyers' decisions about a product. "Decisions to buy are made on the Internet" (FAZ 2008 No. 245, p. 19). Search engines, comparison sites and the comments of other users all have great importance, while advertising influences purchase decisions at a minimal level (FAZ 2008, No. 144, p. 21).

As the market research group Harris Interactive discovered in a survey of 5,000 Europeans, no other medium so strongly influences consumers' decisions as the Internet. The purchase of a camera, the search for the cheapest electrical utility, the question of finding the best hotel, the choice of doctor – in all these decisions, the influence of the Internet has become greater than expected and much greater than that of classical media (FAZ 2008, No. 138, p. 19).

Figure 1-5: Internet influence on purchasing decisions

Source: FAZ 2008, No. 144, p. 21



According to this survey, search engines, provider pages, comments from other users, product comparison pages and online ads have twice the importance of television for German customers' purchase decisions. It is unsurprising that purchase decisions for

travel and technical products are made largely with the help of the Internet, but 65 percent of German consumers use the Internet even to find automobile insurance. For the selection of electrical utilities, the number remains at around 63 percent, while 48 percent have used the Internet to research loan possibilities (FAZ 2008, No. 144, p. 21).

The use of online information sources shifts depending on the type of product, with the Internet becoming less relevant the more established a brand and its corresponding websites are. Customers also tend to read reviews from other users for more technical and complex products.

Harris Interactive created a digital decision index composed of the time a consumer spends using a medium and the influence of the medium on his or her decision. From the same study, the market research group concluded that the Internet has a share of 40 percent. This is significantly more than television with 22 percent, followed by newspapers with 14 percent, radio with 13 percent and magazines with 11 percent (FAZ 2008, No. 144, p. 21).

It can be expected that companies will also rearrange their marketing budgets in reaction to the great influence the Internet has on purchases. "Advertising is yesterday's model. Online conversations, SEO and strong websites are becoming more important," says Fleischman Hillard (FAZ 2008, No. 138, p. 19).

Figure 1-5 displays the influence of the Internet on buyers' decisions. On the left hand side, this influence is quantified according to type of decision, which is highest with airline tickets at 89 percent and lowest for medications at 39 percent. On the right hand side, the purchase of an airline ticket and a television are displayed according to how strongly each is influenced.

Search engines and product or price comparison sites have the greatest influence on decisions when it comes to purchasing a television, according to the table. The comments of other users and the website of the manufacturer have a mid-range influence, while online advertising has almost no influence anymore.

The important factors in buying a plane ticket are similar, although the company's page and the search engine play the most important roles here. Online advertising and comments from other users are, however, of little importance to customers when buying plane tickets. "How much does the plane ticket cost? How is the weather going to be? What is the current exchange rate? The Internet has all the answers. Not only can flights, rental cars and package tours be booked around the clock, the Web also has information about important topics" (Warnholz 2008, p. 91).

Whether for hotel ratings (www.holidaycheck.de), flight security (www.luftfahrt-bundesamt.de), travel rights (www.adac.de), holiday weather (www.earthcam.com or www.wetter.de), cheap ticket prices (www.swoodoo.de), Internet connections (www.worldofinternetcafes.de) or value calculators (www.bdb.de/html/reisekasse/

waehrungsrechner.de), all purchase-relevant information is available online at any time.

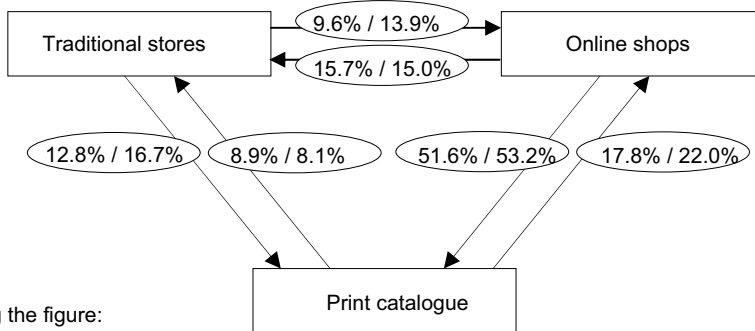
Even in retail sales itself, the influence of the Internet on purchase decisions is becoming more apparent. This can be seen not only in the importance of the Internet in preparing for a purchase, but also in its role as a sales channel, which was researched in a recent study by the E-Commerce Center Handel at the University of Cologne (ECC).

The study consisted of a survey, carried out in September 2009, of 1,000 Internet users in Germany classified according to socio-demographic criteria for online users 14 and older. Participants were asked about their last order on the Web, their last purchase in a brick and mortar store and their last order from a print catalogue. Physical products were the focus, excluding food goods. Purchases via electronic marketplaces such as eBay were also excluded (van Baal/Hudetz 2008, p. 12).

This was done to discern the influence of the Internet channel on a retail company's revenue, whether online and offline channels influence each other reciprocally and in what way channel revenues generate extra earnings that wouldn't have been possible through a single channel. Because the customer determines the extent of the transaction effect, participants were also asked whether they would have made their purchase from channel A in another channel B belonging to the same retailer if channel A hadn't existed.

Figure 1-6: The impact of the Internet on transactions in other channels

Source: Van Baal/Hudetz 2008, p. 80



Reading the figure:

Some 9.6 percent of transactions in online shops of multi-channel providers represent a cannibalisation of sales from traditional outlets; these sales are worth 13.9 percent of the sales in online shops. Some 15.7 percent of sales in traditional stores of multi-channel providers are cannibalisations of online shops; these sales are 15 percent of sales in regular stores.

These transaction effects between the survey distribution channels are pictured in Figure 1-6 (van Baal/Hudetz 2008, p. 80). The starkest transaction effects occur be-

tween the B2C distance channels online and in print catalogues. This explains, for example, the fact that 51.6 percent of the orders from print catalogues would be made on the Internet channel of the same retailer if the company didn't have a print catalogue, although these revenues account for 53.2 percent of the print catalogue revenue.

Less drastic, but still quite high, were the transaction effects between distance channels and brick and mortar stores. Brick and mortar stores would bring in 9.6 percent of their online orders and 13.9 percent of their Internet revenue if there were no Internet channel.

In the reverse, it should not be overlooked that the rest of the purchases and therefore the revenue of a distribution channel can be gained through other channels. In this respect, 86.1 percent of the online revenue is real extra income that would not be earned through brick and mortar stores alone. (van Baal/Hudetz 2008, p. 80).

Additionally, it should be noted that online retail, despite previous cannibalisation effects, is of great value for brick and mortar retailers in every case when the impact of information is included in the calculation from the customer's point of view.

The results of the ECC study show how customers inform themselves before a purchase using one channel. For example, 27.2 percent of orders from online shops were preceded by visits to physical locations and 29.1 percent of the purchases were based on catalogue browsing. Before purchasing from a brick and mortar location, 15.2 percent of customers first consult a print catalogue and 23.4 percent visit the online shop. Here the information effects are fewer, but still considerable.

The amount of information gathered through the online shop when customers bought solely from print catalogues was a considerable 38.2 percent. This supports the original thesis that the search for information and the purchase of a product can take place in very different distribution channels within the same company. This reciprocity is understandably strongest between the online shop and the print catalogue and explains the Internet success of classic mail-order retailers, as "pure substitution" occurs.

Additionally, 29.9 percent of orders from print catalogues were based on research in the same company's online shop. In the opposite direction, online buyers in 21.6 percent of cases used a print catalogue to help them make their purchases.

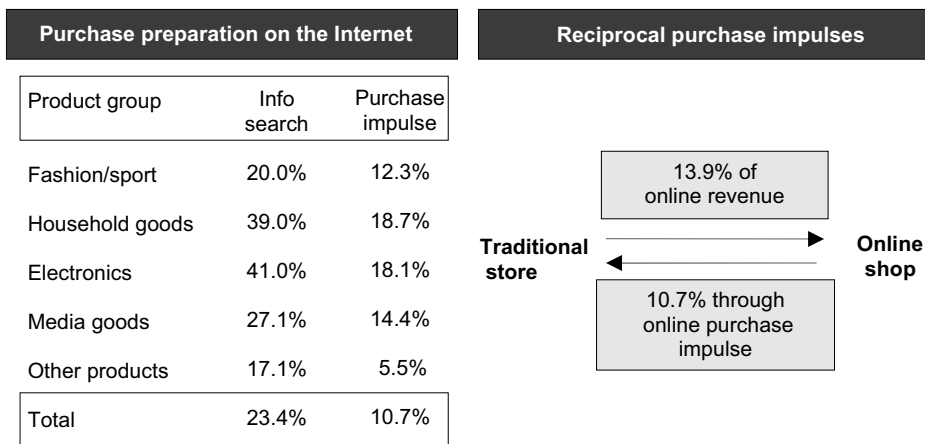
Such interplays are without a doubt less frequent at the brick and mortar level, although still palpable. Here, customers inform themselves via the online shop in 9.3 percent of in-store purchase cases (van Baal/Hudetz 2008, p. 34).

The question of whether it is worth having an online channel must absolutely take into account the informational value of the Internet medium and its significance in the buying process. From this thesis, it can be concluded that the information search in one channel leads to the buying impulse in another channel of the same company.

The ECC study pursued this aspect and came to the conclusion that the interplay between print catalogue and online shop is the strongest. In 14.9 percent of Internet shop orders, the choice of retailer stems from the print catalogue. The other way around, the number of orders is 19 percent. The importance of buying impulses across channels is especially clear, as 4.5 percent of purchases are made through the print catalogue of the same company and a further 6.4 percent of buying impulses are initiated in the online channel (van Baal/Hudetz 2008, p. 36).

Figure 1-7: Influence of the Internet on brick and mortar buying decisions

Source: ECC 2008, p. 94 ff.



The impact on sales is more pronounced, since volumes are significantly higher for purchases made with cross-channel information searches than for those made in a single channel.

- 24.7 percent of the revenue from Internet shops is tied to previous purchases made from print catalogues.
- 10.7 percent of the revenue in brick and mortar shops is garnered through purchases in the same vendor's online shop.
- 21.9 percent of the revenue from print catalogues can be traced back to purchases made in the vendor's online shop.

In most cases, the channel hopper's search for pricing information is responsible for the change of channels. Furthermore, demands for convenience are of primary importance (for example detailed information, round-the-clock ordering, delivery, etc.). The Internet's influence on purchasing decisions is therefore constantly growing (Figure 1-7), while revenues in Internet channels themselves are increasing rapidly.

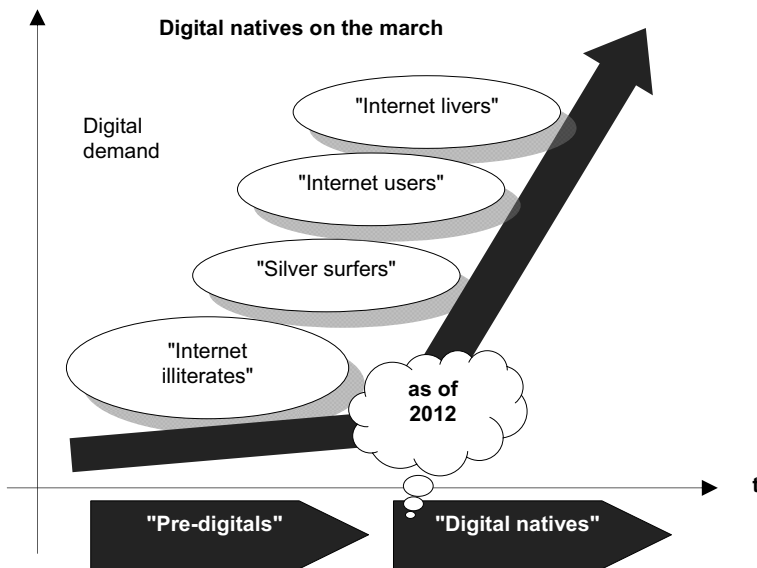
1.6 Digital Natives on the March

Retail businesses must quickly rethink their strategy so as not to be left behind as a result of demographic developments. In the coming years, the number of Internet-savvy "pre-digitals" will greatly increase. These are people who can still remember a time without the Internet, but have begun using it more and more. They are gradually overtaking the older target group of "Internet illiterates", who have never used the Internet.

Along with this middle age group of "pre-digitals", however, the flood of "digital natives" is growing. These are people who grew up with the Web. With their primarily Internet-based purchasing behaviour, this group may give rise to a real revolution in information retrieval (Figure 1-8).

Figure 1-8: Digital natives on the march

Source: Based on Backhaus 2009, p. 11



In only a couple of years, these young people will be old enough to work. The first online retailer, Amazon, turns 15 in 2010. The "digital natives", who were much younger then and who grew up with Amazon, will increasingly punish those retailers who continue to ignore the online age. Due especially to the growing flood of digital natives, the spread of e-commerce unstoppable. Brick and mortar retailers must addi-

tionally begin to consider the following: If they have in-store customers who want to prepare for their purchase online – but still on the homepage of the retailer – retailers shouldn't let these customers simply run out the door without offering them other products. A Web presence should not simply be a fixed image, but should be a path to immediate business. To that end, there is no longer even a question of whether or not to engage in online retail.

1.7 Fast Broadband Networks Drive Online Growth

With regard to future online potential, it often goes overlooked that Germany is exhausting its development opportunities and has fallen behind. The country's e-commerce growth reached 16.2 percent according to the most recent numbers from GIA Global Industry Analysis (Monitoring-Report Deutschland Digital 2009, p. 64). In contrast, e-commerce revenues in 15 E.U. countries averaged 20 percent, worldwide 33 percent.

At around 65 percent, the Internet penetration rate in Germany is acceptable at first glance. However, according to the German Card Services' E-Commerce Report 2009, Germany's rate of broadband connections amounted to only 27 percent that year, a number confirmed by the Münchener-Kreis (Deutsche Bank Card Services 2009, p. 14; FAZ 2009 No. 295, p. 14). In comparison, smaller countries such as Denmark or the Netherlands reached over 36 percent.

The fast VDSL connections of the network monopoly Deutsche Telekom reach ten million households in Germany's 50 largest cities, but the rest of the country is left out in the cold. Thus the German broadband network reaches only an average transmission rate of less than one Mb/s for stationary use. This is extremely low when compared to international levels.

Long transmission times mean long waiting times, which should also be considered, since speed is the decisive factor in online business. Germany must catch up considerably to keep from falling behind other economically advanced economies. The federal government has recognised this and set a goal of having at least 75 percent of all households equipped with 50 Mb/s Internet connections by 2014 (Kovakewsky 2010a, p. B1).

Sadly, reality has often shown different results. Experts estimate 40 billion euros must be invested for the turbo networking necessary in Germany, but so far the federal government has invested only 150 million euros (FAZ 2009, No. 295, p. 14). The government has calculated that turbo broadband in the country would cost just two euros per inhabitant.

Other E.U. countries, meanwhile, spend an average of three euros per person. The USA spends 17 euros per capita annually for state-sponsored turbo network construction, while Australia spends even more at 1,100 euros.

It is possible that Germany is suffering from a unique burden: Few other countries have political and economic spheres still so frighteningly full of "Internet illiterates". These decision-makers often still have their secretaries print out their e-mails, while they themselves have never used the Internet.

Only this lack of understanding can explain why the Web was ignored in the country's last major subsidy allocation. In the first economic stimulus package, with its 31 billion euros, as well as the second, with a further 50 billion euros, and finally the Economic Growth Acceleration Act (8.5 billion euros), further work on the turbo broadband network was completely disregarded and the money flowed into other channels instead. A value added tax reduction for hotels is supposed to stimulate more growth than a completed turbo network, which would have cost less than half of both stimulus packages (Heinemann 2010b, p. C6).

Increasingly, experts are taking notice of this situation and identifying Germany as a country of Web development, and so it can be assumed that pressure on politicians will increase, bringing a growth in infrastructure. Mobile Internet enthusiasts especially can expect improvement in the construction of a broadband mobile network.

Long-term evolution is a paradigm shift and "it is the fourth mobile generation that can make everything better: more capacity, higher bandwidths, better network coverage – and all that for low costs" (Spehr/Jörn 2010, p. T1). From this perspective, it can also be assumed that the further growth of e-commerce in Germany will not be held back.

2 New Online Retailing – What Does It Mean?

2.1 Basic Principles of New Online Retailing

A new generation of Internet shops has arrived (Wieschowski 2008, p. 47). The Internet has entered a new phase with a combination of networking, high Internet penetration, technology development, mobility, speed, media use, communication changes, interaction (Web 2.0) and business model innovation. The FAZ newspaper called the trend "from Web 2.0 to Web NG", or Web New Generation (FAZ 2008, No. 93, p. 25). Along with this new generation of Internet, online retailing has also advanced into a new era, what we are calling "new online retailing". New online retailing is supported by media-specific and business-specific principles based on technology.

2.1.1 Technological Principles of Online Retailing

Exponential growth in computer performance, along with falling hardware prices and an increase in the miniaturisation of hardware, is further supporting the Internet boom, since information can be transferred on the go, without limits on time or space (Kollmann 2007, p. 14).

In addition, the increasing capacity of memory chips and faster and more powerful processors, as well as increasing rates for these processors, promote more digitalisation and allow larger data transfers. The key technological factors for Internet growth are described in Figure 2-1 (Rayport/Jaworski 2002, p. 52).

Standards are based on the Hypertext Transfer Protocol (http) and the page definition language HTML (Hypertext Markup Language). HTTP and HTML have made it possible to navigate easily while seeing graphic interfaces (browsers) and multimedia content with a mouse click, despite very limited broadband speeds early on.

Standards and browsers are the key technological pillars of Internet growth. Without question, the Internet owes its great importance to the development of the World Wide Web (WWW), whose global use would not have been possible without standards (TCP/IP). These in turn depend on global agreements made by the World Wide Web Consortium (W3C).

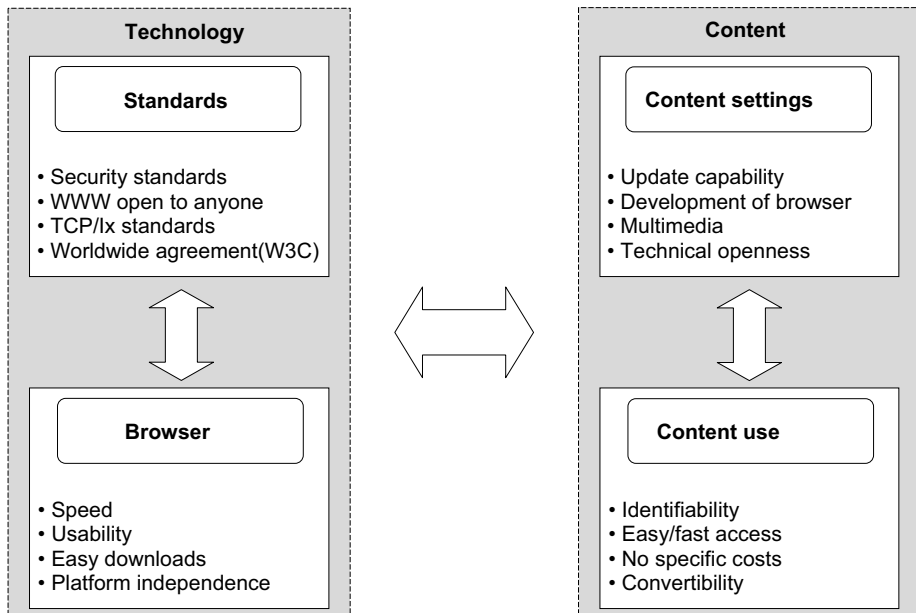
The breakthrough in browser technology allows speed, uncomplicated downloads and platform independence. Based on common standards, designers were able to make it

simple to retrieve and place content, while at the same time giving the user high levels of comfort with mouse control.

In regard to content, Internet growth was spurred by the development of the browser, as well as by multimedia function and technological openness. Content use depends on easy access and the disappearance of specific costs, as well as convertibility.

Figure 2-1: Key factors in Internet growth

Source: Based on Rayport/Jaworski 2002, p. 52



Mobile commerce (m-commerce) reflects a fusion of the Internet and mobile communications. While mobile devices increasingly resemble PCs and perform like miniature PCs with telephones, the transmission routes differ.

The UMTS (Universal Mobile Telecommunication System) in Europe has established a cellular phone network that is increasingly achieving a capability close to broadband speeds. It is called the third cellular phone generation (3G). Despite this, the number of mobile applications is still very small, because they do not currently offer any precise value in the scenario in which they are used.

Considering the trend in society toward increased mobility, Google in particular wants to make itself indispensable by offering new functions that allow it to be "a helper in everyday life at all times and in all places". Searching the Internet using a cellular

phone still isn't fun because of the long waiting time involved, but with Android, Google has already developed a platform for mobile software, to which cellular phone manufacturers (HTC, LG, Motorola and Samsung) as well as telecommunications companies (T-Mobile, Telefonica, Telecom Italia und China Mobile) have access. Members of the platform also include eBay and Skype, as well as chip manufacturer Intel, Texas Instruments, Qualcomm and Broadcom.

The aim is to create an operating system for mobile devices that all manufacturers can use (Jüngling 2008, p. 62). Google also wants to further develop WiMAX cellular technology (Worldwide Interoperability for Microwave Access), which can transfer data considerably faster than can be done with UMTS.

In the future, m-commerce will be considered the new Internet channel, since users can connect to websites from both the Internet and mobile devices and both forms of access are converging. In addition, since PCs are increasingly portable and "wireless", with people working in this fashion, a purchase from one of these devices would also be categorised as m-commerce.

Whether fixed line or mobile, there are no boundaries to further technical development. The world's largest computer and technology trade fair in Hanover summarised the innovations in 2008 as "Fast Internet For Everybody" (Fredrich 2008, p. C2). The developments for private users are described as follows (Fredrich 2008, p. C2/estimate):

- **Trend 1 – Mobile super network and flat rate in all (super) networks:** "The Mobile Super Network is Coming" (Fredrich 2008, p. B3). According to Fredrich, the reality in the next years will be that surfing the Internet will be as fast with a cellular phone as with a home PC. The scenario depends on telecommunications operators implementing LTE (long term evolution), a new turbo data transfer system. The new technology should be able to transfer data at a rate of 100 MB per second, although higher bandwidths may be possible. This will mean that wireless broadband will be much faster than DSL. Worldwide, some 600 million customers will use mobile broadband in the near future (FAZ 2008, No. 156, p. 19).
- **Trend 2 – Broadband everywhere:** Over the next three years, more growth is forecasted in the DSL business segment, but prices won't drop at the same rate. Complete packages with telephone and Internet service already cost less than 30 euros a month. The fact that DSL is not available everywhere, particularly in rural areas, is an issue on the agenda, and large operators are expected to solve the problem through investment.
- **Trend 3 – IPTV and mobile TV:** TV via the Internet (Internet Protocol TV or IPTV) is the telecommunications industry's great hope for the future. The industry wants to attract customers with traditional cable and satellite reception to the Internet. Deutsche Telekom plans to reach around 20 million households with its

offer and acceptance of the service will depend on how easy to use the controls are. In the future, it will be possible to program video recorders via the Internet, while with the use of new technology, it will be possible to use applications independent of devices (mobile phone, PC and TV).

- **Trend 4 – New applications:** Mobile data transfers especially will further increase. Network operators and mobile phone manufacturers are focusing on direct-link buttons on the phone's display, which will route directly to e-mail applications, photo portals or communities. Yahoo's new mobile search function, in cooperation with T-Mobile, yields pictures, podcasts, news and links for each search, instead of using the classic link list (still) in use by Google.
- **Trend 5 – New digitalised products:** "The music industry did it, the book industry is on the verge of implementing it: the digitalisation of content" (Der Spiegel 11/2009, p. 102) or "The book of the future is digital" (Schröder 2008, p. A8). Amazon currently has 150,000 titles available for download for its electronic reader "Kindle", each costing an average of 9.90 dollars. During the Leipzig Book Fair in 2009, Sony also presented its "Reader". The new "E Ink" or "Electronic Paper" device does not require backlighting, making it easy to use for reading in the sun, and it can store up to 200 books. After initial success in the United States, industry experts believe that such products could be made available in larger quantities for prices under 200 euros. Newspaper archives are also going digital, with Google planning a program that would digitise newspapers and make them available to users at no cost (FAZ 2008 No. 212, p. 17; FAZ 2009 No. 60, p. 22).
- **Trend 6 – New browser technology:** Google recently began offering a new browser, "Chrome", as a free download. Whereas until now browsers were merely programs used for viewing Internet pages, the new Google browser can act as a substitute for all typical computer applications. Google is also planning to build virtual Internet platforms featuring popular software, which can be used in the new Chrome browser. The new browser is meant to be faster, safer and more user-friendly than other browsers, and allows users to surf simultaneously on different pages. Chrome is supposed to be available as an open source program so that programmers can further develop the browser to suit their needs (RP from 3 September 2008, p. B1).

Today, from a technical standpoint, any computer can be connected worldwide and data transfer happens via standardised data protocols, whose job it is to make sure that browsers and servers on different computers communicate using the same language.

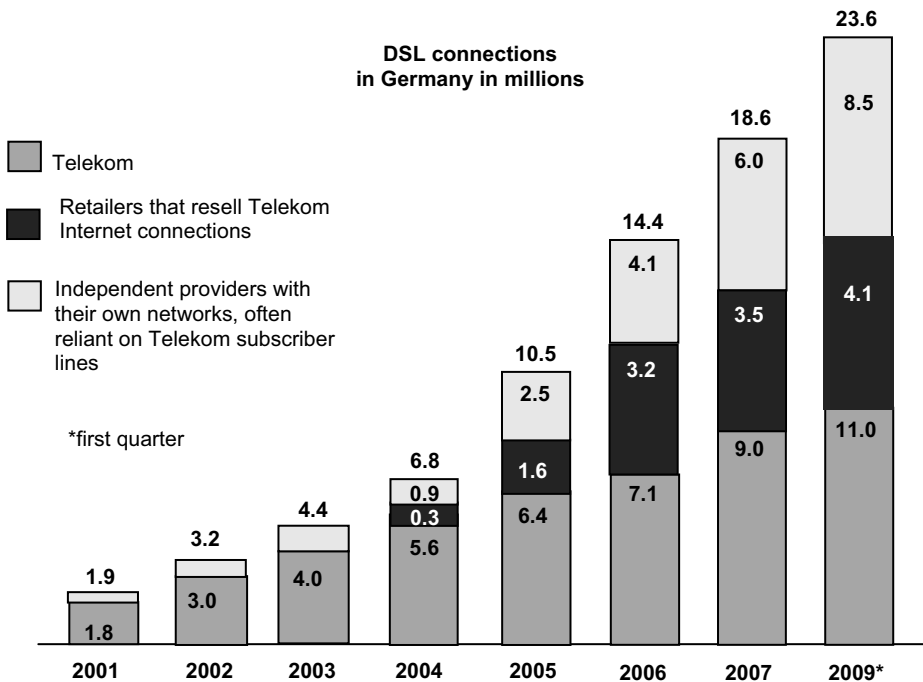
In the process, free access to electronic mail has made communication quick and instant on a global level, with approximately 200 submarine fibre optic cables enabling worldwide online connections. The 13,000-kilometer Apollo cable, which connects Europe and North America at up to 400 gigabytes per second, is one of the most mod-

ern connections in operation. Interestingly, Egypt plays a central role in the Internet, since cables from Europe to India travel through the Suez Canal.

As with many new technologies, the Internet is not immune to problems. Service interruptions are constant challenges, as seen in the Mediterranean in February 2008, when part of the worldwide network affecting the Arabian Peninsula and India was cut off from the Internet (Jovanovic 2008, p. A7).

Figure 2-2: DSL Connections in Germany

Source: FAZ 2009, No. 125, p. 20; Schmundt 2008, p. 170; FAZ 2009 No. 82, p. 19



In Germany, such a data grid failure would have fewer consequences because of the telephone network infrastructure that existed long before the Internet, on which modern online connections can be built. Besides, e-mail and data transfers are shifting to mobile phones and therefore mobile communications networks.

Indeed, a current topic is the insufficient availability of faster DSL connections. Especially in low population areas, but also in inconveniently located suburban areas, there is often no DSL technology available. Therefore, many private households, businesses and public authorities are still forced to rely on slow analogue modems or marginally

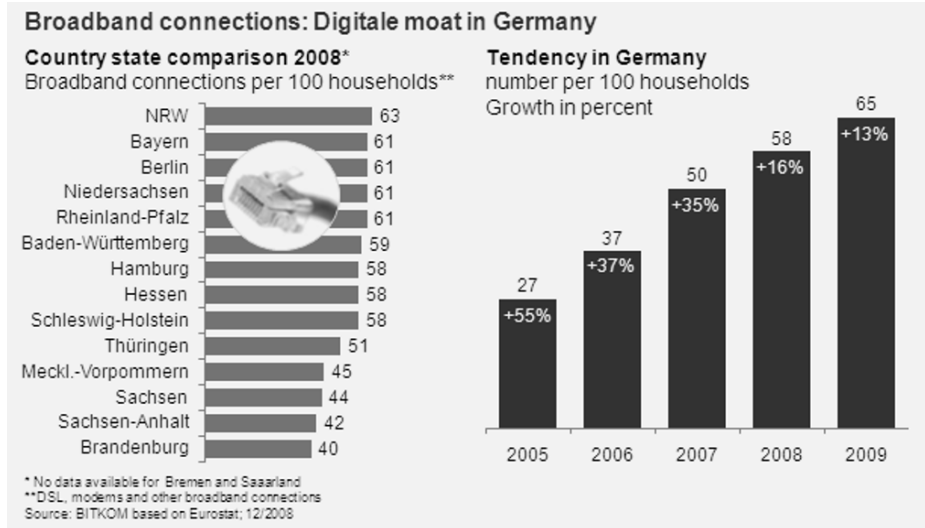
faster ISDN lines (Heinemann 2010b, p. C6).

In the meantime, the company Ericsson offers an interim solution to the lack of fibre optic cables with a system in which signals are sent from radio towers, then captured by the antennas of associated regional partners and in turn passed on to users. Alternately, the signal can be fed over available telephone cables, where transfer speeds can reach 500 Mbits per second (Fredrich 2008, p. C3).

DSL connections still have their problems as well and many DSL Internet connections are not nearly as fast as providers claim. It can be assumed, however, that these technical problems will be remedied in the near future. As of the fourth quarter of 2008, the number of DSL connections in Germany had just barely reached the 23 million mark, as shown in Figure 2-2.

Figure 2-3: Broadband connections by federal state

Source: BITKOM based on Eurostat/Eito: As of 12/2008



As shown in Figure 2-3, some 58 percent of all households in Germany had fast Internet connections by 2008. There is a clear difference in percentage between western and eastern Germany, with the exception of Berlin at 61 percent. It was estimated at the time that 65 percent of all German households would be wired for Internet by the end of 2009.

Experts talk of a proper broadband boom (BITKOM 19 May 2008). The number of broadband connections has quadrupled and for the first time, Germany's numbers are above the European average of 42 percent (as of 2007). This is still, however, much

lower than in Scandinavian countries (between 60 and 70 percent) or in the Netherlands (over 74 percent).

Network operators are currently investing billions of euros in infrastructure, and fast Internet connections are increasingly being implemented in mobile phone networks. According to BITKOM's estimates, there were more than 10 million UMTS connections in Germany at the end of 2007 and this number was expected to have increased by 60 percent to 16 million in 2008. The basis for further Internet growth is therefore established. The EU was also in the process of deciding at that time "whether the Internet counts as a basic service, just like water and electricity" (Der Spiegel 2008, No. 10, p. 170).

2.1.2 Media-Specific Fundamentals

The special qualities of the Internet have led to a change in the way communication between individuals in digital data networks is designed (Kollmann 2007, p. 32). This includes virtuality, multimediality and interactivity.

With virtuality, physical presence in the communication process becomes redundant, while with multimediality, information can be transferred in entirely new ways by integrating different media. Interactivity allows for mutual communication and therefore facilitates dialogue between individual commerce partners.

In Figure 2-4, the Internet medium is integrated into the communication process. Through the Internet, it becomes possible for the receiver of a message to (simultaneously) be the sender of a message as well, partly changing or completely dissolving the original roles of the communication partners.

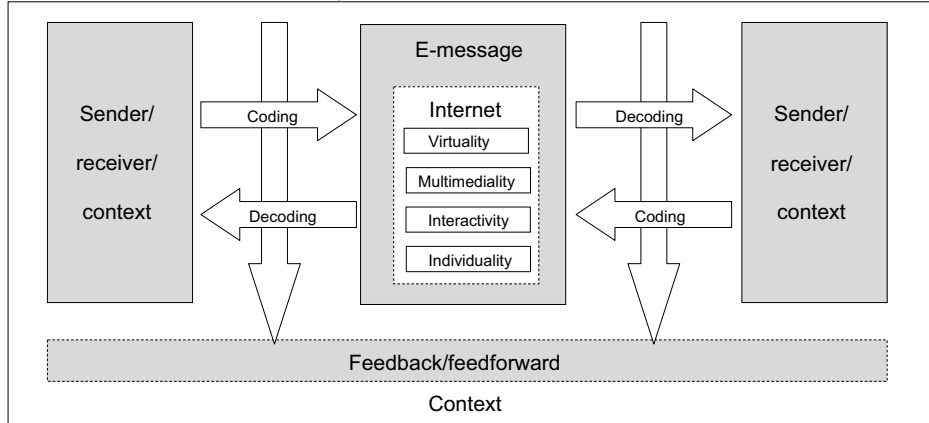
This simultaneous nature of the sender/receiver role has come about through the special characteristics of the Internet medium, which are manifested in its virtuality, multidimensionality and interactivity.

Virtuality arises from an association with digital information that is not real, but is composed of a combination of data flows and information channels. Digital information can correspond to both digitalised services (rights, downloads, etc.) and real goods (the physical world).

In either case, besides the physical world, there exists a complementary virtual business world that is characterised by networked information and means of communication. Both planes complement each other (ordering real products over the Internet), but can also function separately (paying a fee to download software from the Internet). Virtuality at the sales level helps to dissociate space and time.

Figure 2-4: The Internet as a medium in the communication process

Source: Based on Kollmann 2007, p. 33



A typical function of online retailers such as buch.de is that they are accessible (on the Web) from anywhere and at any time. Vendors and customers must not necessarily be online at the same time, since the exchange of information happens via databases. As a result, the Internet has become a ubiquitous medium (anywhere/anytime). While products can be sold worldwide over the Internet, anytime and anywhere, the physical delivery takes place outside of the electronic sphere.

Various forms of media are available to aid in designing virtual contacts (photo, video, sound, text, etc.), and these can be combined and used in a multimedia format. These make it possible for the communication partner to have access to complex content, facilitating an exchange of information that is understandable and easily accessible.

Additionally, the content in digital information draws more attention and is more attractive and usable when it is displayed in a multimedia fashion. This is also a substantial reason why the Internet could develop into a mass medium.

Music retailers in particular make use of multimedia displays. As an example, musicload.com offers pictures in the form of the record cover, a short textual description of the title, a sound sample of the music, and moving pictures in the form of video clips (Kollmann 2007, p. 37).

A distinguishing factor of online commerce is the active component of information exchange, since participants must log onto the digital data network individually (through an IP address).

In either case, the level of interactivity and this "reciprocal communication" result from software-dependent interactions. Through this process, the active, single transaction distinguishes itself from the passive, mass transaction. Information is not only distrib-

uted from one market participant to another ("one-way"), but participants must also obtain information themselves ("two-way").

In contrast to classical forms of communication and commerce, in which the customer is more or less continually confronted with stimuli without having to take action, the Internet customer must take the first step by logging on and then opening a seller's webpage. This is where customer acquisition and customer ties, or customer relationship management, take on a more prominent role. Interactive communication is then also used for individualisation and personalisation (one-to-one marketing).

2.1.3 Company-Specific Groundwork for Online Commerce

Three online platforms for carrying out electronic business processes can be distinguished: e-procurement, e-shop and e-marketplace. While e-procurement is based on the purchase of products and services, e-shop and e-marketplace stand for electronic sales and commerce and are therefore relevant platforms for online commerce.

As explained in Chapter 1, this book looks primarily at "business-to-consumer" (B2C) and retail trade. The crucial question in this case is: "How can the seller earn revenue?" Here it is necessary to discuss the basic options in electronic business concepts. These concepts concern the online exchange of goods for money.

With "e-content", "e-commerce", "e-context" and "e-connection", four typical ideals of business concept options emerge (Kollmann 2007, p. 49 ff.). Figure 2-5 provides an overview of these e-business concepts.

- The business concept "**e-content**" is based on content marketed on the business' own platform within a network. Primarily, the goal is to make the content available or manageable online as well as easy to understand, comfortable to read, and visually appealing. Information can be informative, entertaining or instructive, and sales are either direct (purchase of content) or indirect (advertising sold because of the content). For example, the provider LZ-net.de receives a direct revenue stream, offering downloads of professional articles only after the user has paid a fee, whereas all news items are available for free on t-online.de and income is generated via advertising (banners).
- In the business concept "**e-commerce**", "real" online commerce occurs, since the concept is concerned with the initiation, negotiation, and carrying out of business transactions using networks. The transaction phases are not distinguishable from "traditional providers" and are generally electronically supported, complemented or substituted in individual phases. The goal of the concept is to simplify purchase and business processes and to make transactions faster and more comfortable. In most cases, turnover is gained directly (through the sale of real products and services). Indirect revenue can also be generated using advertisements or ad-cost par-

ticipation. Typical examples of these business models are buch.de, Amazon or the travel company expedia.de. All three purchase products and/or services in order to sell them to their own customers at a marginally higher price.

Figure 2-5: Business concepts on the Internet

Source: Based on Kollmann 2006, p. 138

	E-content	E-commerce	E-context	E-connection
Definition	Collection, selection, systematisation, compilation and preparation of content via Internet	Initiation, negotiation and/or carrying out of business transactions via Internet	Classification, systematisation and consolidation of available information via Internet	Creation of possibility for information exchange via Internet
Goal	Preparation of consumer-oriented, personalised content via Internet	Supplement/substitute traditional transaction phases using Internet	Complexity reduction and preparation of navigation aids and matching functions via Internet	Creation of technological, commercial or pure communicative connections on the Internet
Sales model	Direct (premium content) and indirect sales models (advertising)	Transaction-dependent direct and indirect delivery models	Direct (content recording) and indirect sales model (advertising)	Direct (object acquisition connection fee) and indirect delivery model (advertising)
Platforms	E-shop, e-community, e-company	E-shop, e-procurement, e-marketplace	E-community, e-marketplace	E-marketplace, e-company e-community
Examples	genios.de, sueddeutsche.de, manager-magazin.de, guenstiger.de	hutshopping.de, amazon.com, buch.de, gourmondo.de	google.de, yahoo.de, msn.de, Chiao.com	immoscout24.de, travelchannel.de, t-online.de, web.de
Added value	Overview, selection, cooperation, processing	Overview, selection, processing	Overview, selection, agency, exchange	Overview, selection, agency, processing, exchange

- With the business concept "e-context", emphasis is placed on the classification, systematisation and aggregation of information and services that are already available within networks. The goal is to make the market more transparent for the customer and to reduce time spent searching. Here, revenue is either gained directly through fees (for collecting and/or placing content) or indirectly (through advertising, statistics, content, etc.). Search engines such as Google and Yahoo practice this business concept by searching for and cataloguing Web content. To name another example, Web catalogues also make qualitative website evaluations.

- The fourth business concept, "**e-connection**", organises users' interactions in data networks, which can happen not only at a commercial level, but also on a communicative or technological level. Revenue is generated directly (via object acquisition/integration or via connection fees). Indirect revenue models such as advertising, statistics or cross-selling are also common. The technological link occurs on AOL or T-Online, as they offer general access to the Internet for a fee. Examples of commercial integration are the Scout24 marketplaces, such as Immobilien-Scout24.de, which brings together real estate agents and database connections for the purpose of selling property in an e-marketplace. Social networks, communities or e-mail service providers such as gmx.de are examples of communicative integration.

2.2 Special Features of New Online Retail

According to the contact principle, or the way in which the retail business and its customers contact each other, online commerce clearly follows the distance principle: Retailers and customers do not have physical contact. Their spatial separation is bridged by media, either a catalogue or the Internet. To that end, online commerce represents one of the most important retail formats in distance trade, besides mail-order (Heinemann 2008g, p. 16).

2.2.1 Online Commerce as a Form of Distance Trade

The limits of mail-order trade lie in marketing concepts and their underlying contact medium: a catalogue, which is either printed or available electronically, or the use of electronic media, either the Internet, mobile phones or television (Heinemann 2008g, p. 21):

- **Traditional mail-order retail** includes offers made to end customers using a catalogue, pamphlet, advertisement, electronic media (such as CD-ROM) or a door-to-door sales representative. Orders are made in writing, verbally or by telephone. Shipments go to the customer's or another specified address. Depends on the product range available, whether specialised for trade or general merchandising. Examples: Otto, Neckermann and Lands' End.
- **Online selling** (commerce) includes offers made to end customers over the Web and ordering is interactive, by Internet or telephone. Delivery and processing are as in mail-order. Wider and broader product range with personalised offers. Use of new e-marketing techniques. Examples: Amazon.com, eBay, Asos, Spreadshirt.

- **Tele-shop:** Special TV channel with 24-hour product shows and interactive ordering. No special product line. Delivery and processing are as in mail-order. Examples: QVC, RTL-Shop.
- **M-shop:** Use of mobile phones as PC platforms for online commerce. Orders placed via mobile network or text message. Otherwise similar to online selling. Example: Vodafone 3G.

Tele-shops are not a form of online selling but the m-shop is seen as a variant of online commerce. Online selling is a typical form of B2C distance trade. The retail formats of distance trade are not enacted within a physical place where goods are sold to customers. The customer orders the product from an individual retailer and has it delivered at home, work or at a package pick-up station.

The primary difference, then, to brick and mortar retail is that personal contact does not apply to distance trade and contact takes place instead via a medium. The location of the distance trader does not affect demand, all the more so since the product is not physically present.

The result is that not all product information can be relayed and communication is restricted to pictures and text. Collecting customer data is indispensable for the transaction and the delivery of the product, which is why those who are successful in B2C distance trade are experts at address management.

The following summary of features classifies distance trade comprehensively (Zaharia 2006, p. 18):

- **Media offers:** Use of print or electronic media.
- **Distance purchase:** Space between vendor and buyer is bridged by written, telephone or other electronic means. Time differences exist between when the order is placed and when the goods are available.
- **Delivery of goods to customer or returns** using the company's own or outsourced delivery service.

2.2.2 Core Competencies and Capabilities in Online Commerce

Few experiences in classic over-the-counter trade can be transferred to online commerce. The main reason for this is that online trade does not represent a new sales channel in the traditional sense, but a completely new business with new requirements for operators.

In online selling, location, employees and store inventory control processes are meaningless. Global price transparency, which goes hand in hand with the Internet, is in

conflict with local pricing as it is known by brick and mortar retailers.

Retailers must likewise handle new tasks, since in traditional retail, only three to four vendors are compared to each other. Because products can't be pegged to target markets in electronic trade, traditional product range concepts are no longer usable.

Companies must completely rethink their approach to retail branding, brand profiles and advertising, as the considerable complexity of online commerce demands new Internet-oriented branding strategies.

Given the multiplicity of brand names and shops, sellers must draw attention and create brand recognition first and foremost, as online shoppers will otherwise take advantage of more familiar offers.

Traditional store merchandising is also no longer applicable on the Internet. Instead, businesses must redesign their online shops completely. And last but not least, effective, customer-oriented business processes in online trade must take the place of closed inventory management systems and fast, efficient and lean business methods (Heinemann 2008, p. 28 ff., Schnetkamp 2001, p. 35 ff.).

The decisive factor here is that customer-oriented practices are an important condition for successful online selling. Speed, transparency and service orientation are indeed subjects that largely still need to be learned in the "service desert" that is Germany.

In order to meet current challenges in a changing market environment, as well as customer expectations in terms of time and cost, online retailers have come under pressure to increase their effectiveness and to create lasting gains in efficiency.

In this regard, speed and internal decision-making and workflow take on a key role. Efficiency and "reducing processing time" are important means for success in the third e-commerce generation (Der Versandhandelsberater 2007, p. 7). This requirement can only be fulfilled through a process-oriented reorganisation that makes the retailer faster and more effective.

Furthermore, uncompromising customer orientation is necessary, given the drastically reduced reaction times of customers. This is essential for a competitive, dynamically growing business, and demands customer-oriented, comprehensive process handling.

Therefore, it is necessary, if possible, to design continuous processes between the procurement and sales markets in order to create a "window to the customer" in every step. Only in this way is it possible to achieve real "customer orientation", which characterises online commerce and allows for instantaneous feedback from the customer (Osterloh/Frost 2003, p. 31).

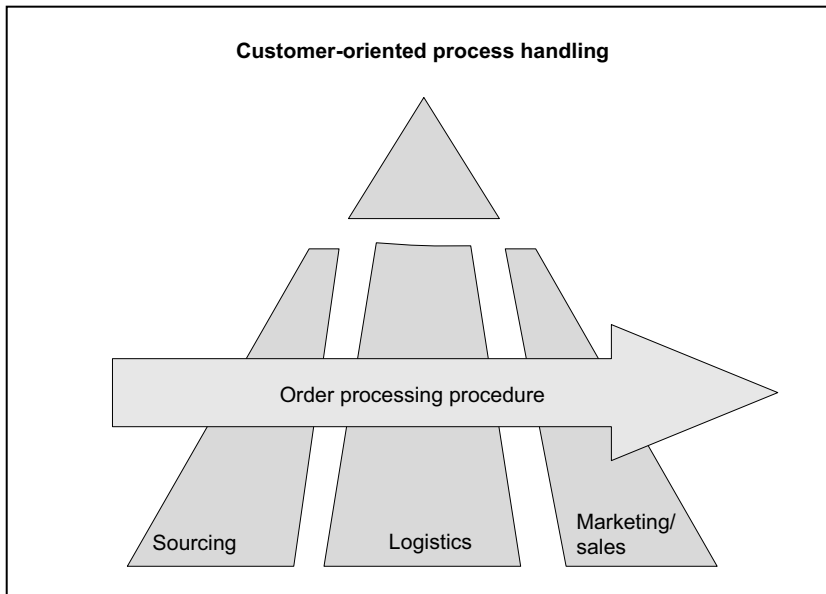
For every action, a process owner and a case worker must be present and responsible for progress. Depending on the amount of work, it is also possible to make an entire team responsible for a process (case team) so that members can coordinate the process and organise themselves. This calls, however, for well-developed teamwork skills as

well as the ability to take decisions independently. Team members must have the authorisation to satisfy the customer's needs at every step (empowerment). In general, this is associated with larger management areas and flat hierarchies.

The result is customer-oriented process handling with a minimum number of interfaces (Figure 2-6). This demands an Internet-specific business structure that follows the principles of business process reengineering (Osterloh/Frost 2003, p. 31).

Figure 2-6: Ability to manage customer-oriented process handling

Source: Osterloh/Frost 2003, p. 32



Conventional view

- Sales and service department
- Shipping department
- Customer service department

Process-oriented view

- Fulfilment of customer orders

2.2.3 Business Systems in New Online Retail

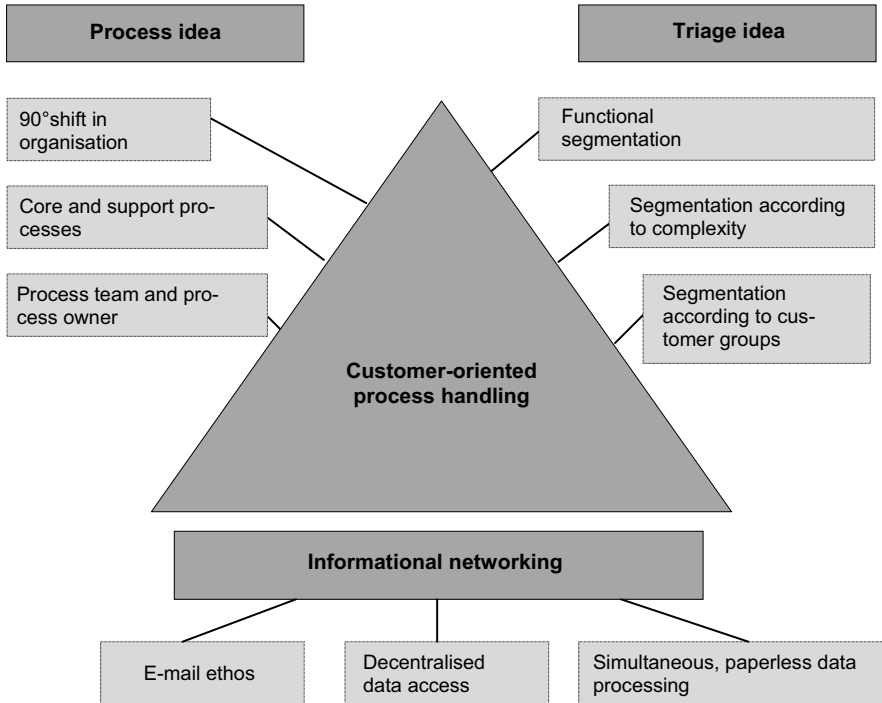
The online retail business should organise itself as a "bundle of core processes" so that integrated processes can occur from supplier to customer without interruption, generating a holistic customer-oriented handling process. As shown in Figure 2-7, this involves three "innovative ideas", namely the "process idea", the "triage idea" and the idea of "informational networking" (Osterloh/Frost 2003, p. 27 ff.).

- **The "process idea"** encompasses a 90° shift in organisation, a breakdown into core and support processes, as well as the proper process team and process owners. The 90° shift denotes a restructuring of the traditional vertically-aligned organisation that is based on a division of labour to a horizontal, cross-functional view (Figure 2-6). The distinction between core and support processes makes it possible to differentiate between customer-relevant (user-supportive) and less customer-relevant (not user-supportive) activities. Customer-relevant processes (e.g. fulfilling the customer's requests) are a vast source for gaining a competitive edge (for example in processing speed) and should not be outsourced, while less customer-relevant processes (e.g. cafeteria catering) may indeed be outsourced. The selection of process teams, as well as the choice of process owners, should happen according to the general principles for team building and project management.
- **The "triage idea"** involves a horizontal segmentation of processes, as defined by functions, complexity areas and customer groups. Functional segmentation takes into account that certain courses of action within the framework of core processes must be taken no matter what, such as purchasing, logistics and sales. However, it also attempts to minimise discontinuity via process management (with the help of the process owner). Segmentation, meanwhile, differentiates between complexity, activities and problematic areas (such as complex cases, cases of medium difficulty and routine cases). To make the process more automatic, it organises these according to their ability to be handled in a routine fashion. When it comes to segmentation within customer groups, the point is to differentiate between customers' significance in order to give priority to "premium customers". This fundamental principle is mirrored in customer relationship management as well, which is also an important base for Internet retailers.
- **The idea of "informational networking"** is to reduce paper-based communication as much as possible, as this is very limited and goes against the basic principle of digitalisation in online trade. The important points it involves are the e-mail ethos, decentralised data access and simultaneous, paperless data editing. It requires intelligent networks that allow for a decentralised network structure (client-server solutions), as well as hypermedia structures to access the content available on networks. The decentralised construction of networks makes navigation decisions redundant, for example because individual departments work on their own servers.

In contrast, hypermedia makes it possible to jump between or within documents without having to search, retrieve or completely read them.

Figure 2-7: Business principles of new online retailing

Source: Based on Osterloh/Frost 2003, p. 27



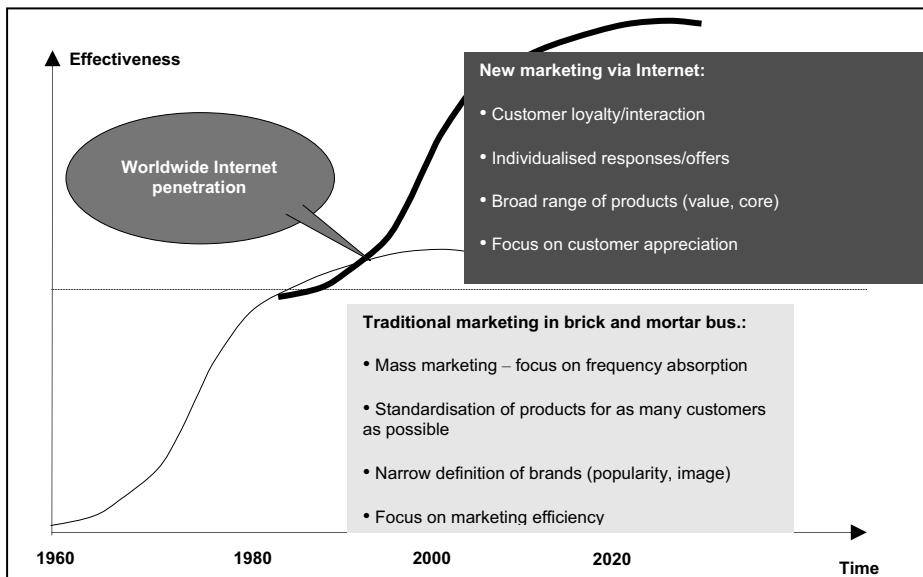
Following the principles of the online trade business model, online retailers should be structured as process organisations, in which core processes represent the strategically relevant practice of value creation (for example, sales). Ideally, these always have external contact to the market, as they serve to fill the requests of customers. They are helped by support processes that have no contact to the market and function purely as suppliers to the core processes. The support processes should be quarantined from the core processes in such a way that they can be run independently or outsourced at any time. However, this is not possible in centralised departments that offer specific expertise and function primarily as service providers transferring knowledge among processes (e.g. brand expertise in the marketing department).

2.3 Marketing and Sales Policy in New Online Retail

A fundamental paradigm shift in marketing has occurred with the advent of online trading. The goal of e-commerce marketing is to prepare an appropriate product range to appeal to customers. New CRM systems, customer databases and intelligent one-to-one marketing have come into focus and are built on long-term customer relations. Brand definition is becoming broader and now includes more of the entire service offering, as well as customer loyalty and corporate culture. All marketing tools orient themselves toward this goal. This paradigm shift within marketing is presented in Figure 2-8.

Figure 2-8: Paradigm shift in marketing

Source: Based on Schneider 2001, p. 12



2.3.1 Product Line Policy in Online Selling

The product line represents the "heart" of a business, even in online trade. In contrast to brick and mortar, as well as mail-order trade, online commerce distinguishes itself

through its "unlimited" variety of products, which results from the omission of time and space restrictions.

Many new possibilities for category management (CM) arise from this. Online CM varies from conventional CM knowledge, which is built on traditional needs and brick and mortar retail models. This is represented in Figure 2-9, in which the "offer" system, on the one hand, and the "request" system, on the other, are differentiated.

In the "offer" system, the system background can be seller-dominant or manufacturer-dominant, depending on the ECR approach (Heinemann 2008, p. 102). The "request" system makes a distinction between traditional or innovative needs, standardised products or problem solving complexes (for example, PC configurations) and conventional or digital channels (Ahlert 2002, p. 22 ff.).

It is absolutely possible with new groupings for products that new ways of serving consumers or new CRM approaches will be developed. The consumer-oriented approach of CM allows for the specific needs of the customer to be addressed, although it is not yet possible to pull these together for individual for customers.

Figure 2-9: Classification of conventional and digital CM

Source: Based on Ahlert 2002, p. 23

Request system	Needs	Traditional		Innovati-	
	Products	Standard products		Problem-solving complexes	
Offer system	Channel	Conventional	Digital	Digital	Conventional
System background					
Trade dominance					
<div style="border: 1px solid black; padding: 5px; display: inline-block;"> ECR team </div>		Conventional category management	Digital category management		
Manufacturer dominance					

In conventional business terms (brick and mortar or mail-order), the problem cannot be solved because of the spatial limitations of the "100,000 x 100,000 combination". This

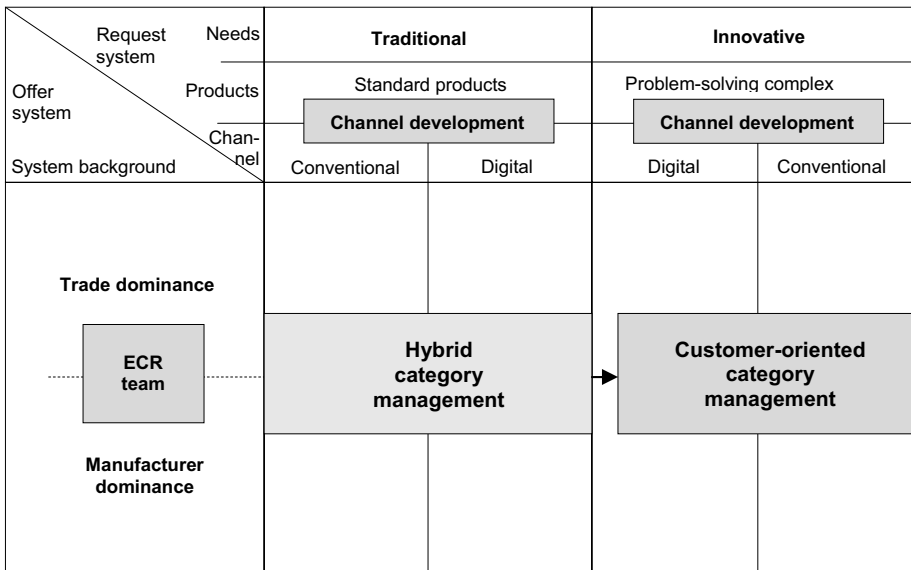
is where digital category management comes in, since categories can be assembled in individualised ways if goods can be displayed digitally. In the virtual world, neither spatial limitations, temporal restraints, nor combination or display problems play a role.

As shown in Figure 2-10, the position of digital CM is assigned to the conventional role of needs satisfaction via digital distribution channels. By combining brick and mortar and digital distribution channels, retail businesses are able to combine digital options with conventional options. These different distribution channels can thus further develop customer loyalty.

In the case of an Internet order, the company receives detailed customer data, which it can use within the framework of CM to consider the individual needs of its customers. This paves the way for innovative, customer-driven CM that can, in this case, be used to create a completely new value chain. Innovative solutions for complex consumer problems can then be marketed efficiently and relationship qualities can be built in terms of CRM.

Figure 2-10: Classification of innovation and customer-driven CM

Source: Ahlert 2002, p. 27



Complex consumption problems can arise from the combination of different product offerings and services. The need for an adequate multimedia infrastructure can itself

be a complex consumer problem, considering the various parts required. When it comes to combining different parts and delivering them to customers "as a whole and in one go", examples that come to mind include combining everything required to set up a home entertainment system, such as a TV, DVD player, stereo system, computer, software, mood lighting, and the assistance necessary to make them work (Ahlerl 2002, p. 27).

Product lines and products that can be made digital and those that have a distinctive character of self-service are especially well-suited for online selling. This includes products such as music downloads, news, software or books and not, in contrast, products that must be viewed by the customer prior to purchasing.

The online retailer must therefore bring goods into its product range that would not be problematic to sell to a mail-order clientele. It can be assumed that, besides pure e-products, all of the earlier mail-order product lines will also transfer well into online retail.

2.3.2 Price Policy in Online Selling

On the World Wide Web, price comparison websites make it quick and easy to evaluate prices from different vendors. In this respect, price comparisons play an extremely important role in online selling. This has not only contributed to the increase in price transparency, but also impacted buying behaviour significantly. Internet users place value on affordable prices and have begun to employ more and more price comparisons or pricing search engines such as *ciao.de*, *geizkragen.de*, *guenstiger.de*, *kelkoo.de*, *billiger.de*, *rockbottom.de*, or *wowowo.de*.

Online power shopping is moving in this direction as well, with consumers collectively putting pressure on pricing as the number of users continues to grow. This encourages the price war in online selling, with the advantage going to the consumer (Fredrich 2008, p. D6; Kollmann 2007, p. 131 ff.).

Due to growing market transparency and the resulting pressure on competition, the customer expects that seller's price margins allow for further discounts. Customers have learned that price calculations in these new channels are much lower than in others. This is also encouraged by the fact that customers take on a portion of the buying process themselves, such as self-service, order processing, etc. Experience shows that price levels of comparable products are lower in online trade than in brick and mortar retail. However, the trade-off for lower prices is that the customer does not receive personal consultations.

Because of this growing price transparency on the Internet, vendors are experiencing price pressure that can only be confronted by offering individualised and personalised products and services. To that end, one suggestion is to sell in-house brands on the

Web. A retail business can also offer packages or bundle products at reduced prices to make a comparison with competitors more difficult.

Fundamentally, price calculations in electronic outlets follow the same methods and principles as in non-electronic trade. Dynamic price strategies that follow the online request principle, or online auction principle, provide one exception. Following the online request principle, consumers are aggregated in a list in terms of their preferred products and price ranges, which is then sent to an intermediary (such as a marketplace provider). This intermediary analyses the data anonymously (which also functions as a credit check) and forwards it to an appropriate transaction partner on the seller-side (request for proposal). That partner decides whether to formulate an offer that matches the consumer's request. A similar online request principle is used by the travel marketplace provider *askerus.de* (Kollmann 2007, p. 124).

With the online auction principle, Internet retailers use various auction platforms to quantify individual user benefits and the willingness of users to pay. In this open pricing system, after the seller has entered a starting price, the selling price of a product develops through higher and higher customer bids on a single product (one-sided dynamic pricing). The running time of an auction is usually limited (Kollmann 2007, p. 127). The online auction principle follows that of the electronic marketplace *eBay*, for example, and has even been used by *Deutsche Bahn AG* to sell train tickets.

Designing a form of fee collection is also part of pricing policy, and should be explained in the general terms and conditions (Heinemann 2008g, p. 174). Online retailers have, in principle, every imaginable payment option at hand. They therefore could offer different payment options to customers, depending on the channel, with credit cards being the most important method of online payment.

Secure payment is the basic condition for many customers to even consider buying online, so entering payment data (credit card number, etc.) must not be seen as a risk. To that end, security systems and encryption processes have improved drastically in the last few years (Kollmann 2007, p. 90).

2.3.3 Selling and Distribution Policy in Online Trade

Selling and sales processes are very channel-specific in Internet trade. At the start of an order process, it is important for the system to collect information about the products, services, delivery and payment methods, as well as the customer, be it via internal databases or in communication with the buyer.

The customer must always be able to add or remove products from the order list. The same is true for delivery and payment methods, which must be amendable at any time, and regular customers should be able to access saved data.

Order archives listing previously-viewed products and their prices have become standard. Similarly, order confirmations and instant receipts have also become established processes after the order is placed. During the delivery process, customers should be kept abreast of the order's status (Schobesberger 2007, p. 47).

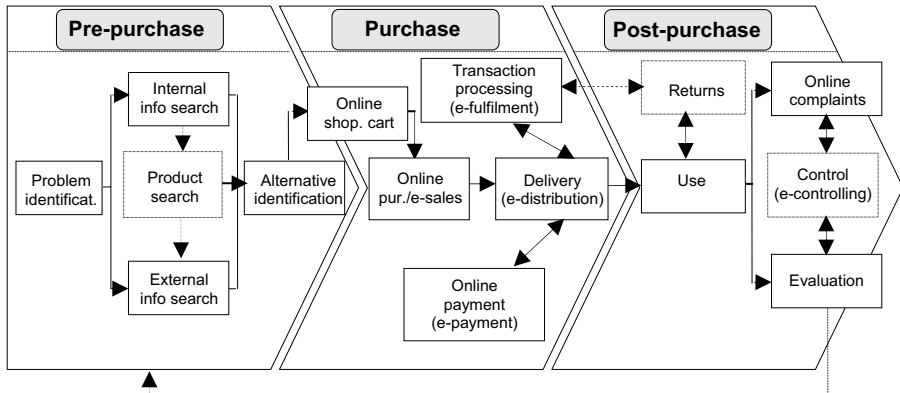
Processes before, during and after the purchase can be organised in online retail (see Figure 2-11). In the pre-purchase phase, the retailer tries to attract potential customers and confront them with product offers. A key function in this phase is the product search (e-search), in which a product is sought out and possibly found.

The transfer to the purchase phase begins with the click of the "order" button, after the product has been selected and placed in the customer's shopping basket. This phase (e-sales) concerns contractual business agreements between buyer and seller, as well as transaction processing (e-fulfilment). Online payment (e-payment) and product delivery (e-distribution) happen during this phase as well.

Following the sale and processing of the order, the post-purchase phase begins, in which the vendor makes support and service offers, as well as a request for customer feedback. This phase also encompasses return processing, online complaints and controlling (e-controlling) for optimising efficiency and verifying activities relevant to the business (Kollmann 2007, p. 148 ff.).

Figure 2-11: Process areas for online purchases

Source: Kollmann 2007, p. 149; Refers to Foscht/Swoboda 2004, p. 162



Customer assessments should provide information about customer satisfaction, which in turn is crucial to the business' relationship with the customer, and thereby to customer loyalty. Online purchase order processing plays a central role in customer satisfaction, and in general is an aspect of customer service.

Product availability is the most important prerequisite for a purchase order processing system to be functional in the eyes of the customer. If the product itself is not in the warehouse, the delivery time will be longer. But delivery within 24 hours, and at the latest within 48 hours, is already practically standard.

The customer should by all means be informed about possible delays before reaching the point of purchase. This helps to avoid misunderstandings on the customer side, but requires technical capabilities that allow for the desired product to be located and for the exact delivery time to be estimated and relayed to the customer. In any case, it is now also standard to inform the customer how long to expect delivery to take.

Even more importantly, a product return policy that is easy and usually free of charge, as well as a professional customer complaint management system, are also "state of the art". Precisely because of the lack of "face-to-face" contact online, customer complaints should never be handled completely automatically. Instead, a telephone hotline should always be available for customers. "Call back" functions are also increasingly being used. With this option, customers click a button indicating they would like to be called and receive a telephone call within a few minutes.

Just as in traditional business, the friendliness and competence of personnel plays a key role, and must be considered if customer service is "completely" outsourced. The same is true for the delivery service provider, who, as a rule, has the last contact with the customer and therefore also has a decisive stake in forming the image of the online business.

Generally speaking, call centres are responsible for customer service. Negative experiences with call centres leave customers livid and result in damage to the image of scores of online retailers. Automated telephone menus that force customers to choose from multiple options certainly help to reduce costs, but they do very little to achieve any kind of personal relationship with the customer.

Particularly when it comes to working with call centre partners in an outsourcing solution, online retailers need to be highly aware of the potential danger to their image presented by customer mishandling. For example, if a customer with a problem speaks with an untrained temporary worker, who can't even pronounce the name of the company properly, it makes a very bad impression.

Additionally, many call centres are incapable of properly working with the multi-channel communications now necessary in retailing due to the proliferation of media used by customers (telephone, e-mail, fax, Internet and text message). When a conventional call centre is hired, certain propositions are sometimes rendered obsolete. These include the idea that personal communication is the goal of a high-quality customer relationship and that it is paramount to present "one face to the customer". When this happens, the result is dissatisfaction and frustration on the part of the customer.

Increasingly, relief can be found in Customer Interaction Centres (CIC), whose importance to online retailing has increased sharply in the last years. CICs represent an evolution of the classical call centre, and in addition to the telephone, CICs work with additional media such as fax, text message, Internet and e-mail, coordinating and bundling these services in a single organisational process to better serve the customer (Kantsperger/Meyer 2006, p. 26). As all informational, advisory, purchase and post-purchasing processes are normally supported by multiple media platforms in B2C distance retail these days, CICs have an important role, particularly in online retailing.

Along with effectiveness, CICs must increasingly be measured according to efficiency, particularly in regards to cost and customer value. CICs are also increasingly run as "profit centres", rather than "cost-saving" ones, as was previously the rule. Thus, the efficiency-driven tendency towards outsourcing to external providers must be considered with an eye to image and customer satisfaction. Outsourcing is not without danger, and at the very least should be done only with a detailed directive at all levels of customer service.

2.3.4 Communication Policy in Online Retailing

Communication, in terms of online retailing, means first and foremost establishing an electronic channel and keeping this online communication functional and coordinated for marketing purposes. The rapidly growing market for online marketing increased by 29 percent to 3.7 billion euros in 2008 (Fredrich 2008, p. C3), with large single-channel online providers accounting for the largest portion of this by far.

Online retailers must take the realities of modern online marketing seriously and immediately set aside a portion of their budget for this purpose. At the moment, Web 2.0 communities are a major topic. These groups are currently changing the very structure of the German online advertising market.

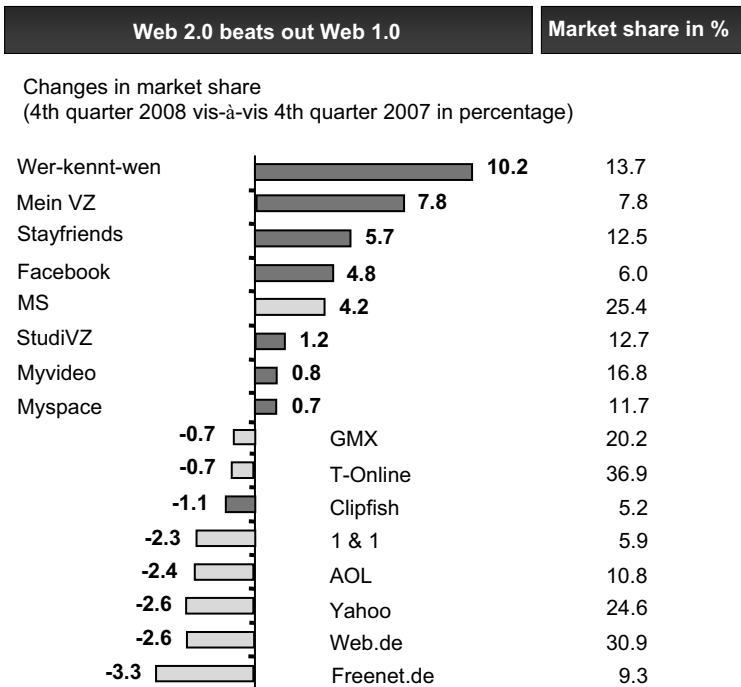
Web 2.0 sites grow measurably faster than classical Web portals and are in the process of becoming the dominant power in the Internet world. Quickly growing social networks can be found in Germany alongside the as-yet-dominant classical portals. However, these classical portals suffered in 2008 and are visited by diminishing numbers of Internet users. Freenet, for example, lost 3.3 percentage points in the fourth quarter of 2008, although in-house problems almost certainly contributed to this loss in market share. United Internet also lost 2.6 percentage points with its web.de, with GMX and T-Online similarly among the losers in 2008 (FAZ 2009, No. 70, p. 15).

Figure 2-12 shows a changing of the guard taking place on the Internet. Growth rates show the winners to be, without a doubt, the Web 2.0 sites. So far, none of the classical online portals has come up with a satisfactory answer to the challenge presented by the Web 2.0 phenomenon. Only the Berliner Morgenpost, owned by online interna-

tional group Axel Springer, seems to have recognised that classical publishing can be offered via "social media", for example by using Twitter and allowing "user-generated content" that can be integrated on news portals (FAZ 2009, No. 70, p. 15).

Figure 2-12: Market share on the Internet

Source: FAZ 2009, No. 70, p. 21



Particularly explosive for the classical portals is the fact that Web 2.0 companies, with their multi-faceted communications offerings, are already taking away an important segment of the classical portals' activities. Young people contact each other increasingly over SchülerVZ, StudiVZ, Wer-kennt-wen or Facebook, rather than sending one another e-mails. Innovative companies such as Twitter offer users "real-time Internet", in which news can be sent around the world instantly (FAZ 2009, No. 70, p. 15).

The assertion of Web.de President Jan Oetjen that these are "teenager phenomena" (ibid.) could turn out to be a fatal miscalculation. In the particularly successful network "Wer-kennt-wen", all age levels (including 95-year-olds) are represented.

Price comparison sites will also remain popular in the future if they manage to maintain high rankings with Google and Yahoo and retain a high degree of visibility with online retailers under given search terms (FAZ 2008, No. 29, p. 19).

Strong growth rates show that new-fangled news portals such as Google News or Netvibes could find success. On these sites, visitors' news is collected from a variety of sources and personalised using widgets.

All in all, an enormous increase in offerings can be seen. Popular Web 2.0 websites such as StudiVZ and MyVideo alone have increased the number of marketable pages by more than 10 billion. This further increases the pressure on advertising prices, providing an additional incentive for online retailers (FAZ 2008, No. 29, p. 19).

In many cases, however, online retailers still fail to set aside adequate marketing budgets for these new channel structures and goals. Figure 2-13 shows the effectiveness of advertising campaigns with and without additional online advertising. While the pure offline marketing campaign increases sales potential by up to 3.4 percent, this number can be increased to 3.8 percent if 7 percent of the advertising budget is online, representing an improvement of 9 percent. In an optimal situation, 11 percent of the total ad budget should be dedicated to online advertising, increasing sales potential by 4.3 percent, which is more than 20 percent higher than in a pure play, offline campaign.

"The market is waking up. Large corporations are stepping on the gas when it comes to the Internet. The role of the Internet in marketing does not need to be explained: The Internet has been accepted," Philipp Schindler, northern European president of the search engine Google, told the newspaper FAZ in October 2007 (FAZ 2007, No. 229, p. 23).

The increase in online advertising is clear to see in the numbers. The online advertising market rose by approximately 3.6 billion euros in 2008, becoming worth 13 percent of the entire advertising market.

Still, plenty of Internet launches remain poorly conceived (FAZ 2007, No. 229, p. 23). Often, company homepages are too concerned with cultivating the image of the company, rather than brand building around the premium products – thus focusing on customers' interest. This affects the amount of time the user spends at the site: The average Internet user spends 23 seconds on a webpage, as opposed to 2 minutes with direct product offerings via a Google search (FAZ 2007, No. 229, p. 23).

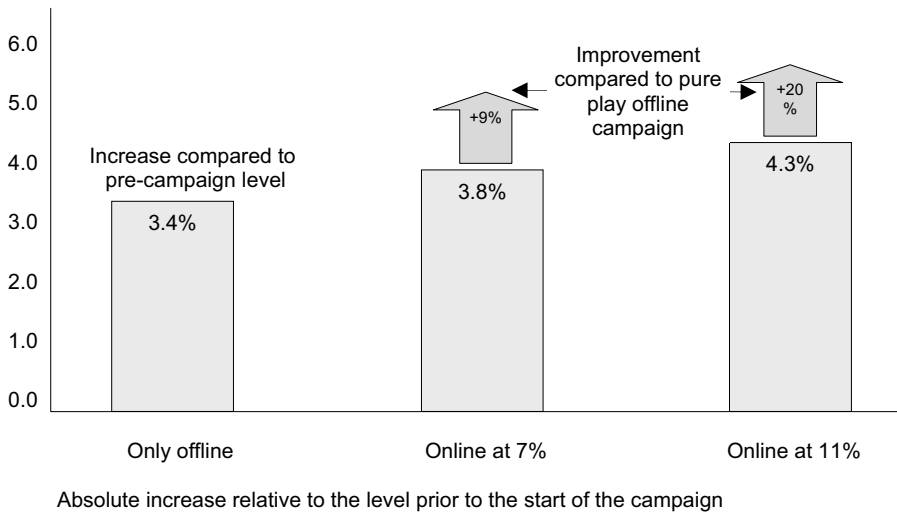
The largest segment of Internet marketing budgets, 1.3 billion euros, goes to graphic banner ads, followed by 1.2 billion euros for search engine marketing as well as 0.2 billion euros for commercialisation of partner sites (affiliate marketing). Search engine businesses, some of which rake in amounts in the two-digit millions for placing key words in prominent spots, have the best prospects, with Google alone holding a 90 percent share. Even Yahoo's new Panamasystem has not diminished Google's market

share. No official numbers exist as yet for e-mail marketing and mobile marketing (FAZ 2008, No. 29, p. 19; FAZ 2007, No. 229, p. 23).

Figure 2-13: Improved advertising effectiveness through online advertising

Source: H&P 2004

Sales potential in %



2.4 CRM as a Basic Instrument of New Online Retailing

Since the Internet is an interactive medium, online selling and customer relationship management (CRM) are intrinsically entwined. The acquisition of customers, organisation of customer relations and focusing the retail process on the customer's needs are all of great importance to online selling.

Building direct and loyal customer relations is highly relevant to success in online selling. The aim is to increase the value of the individual customer to the enterprise, thus increasing profits and company value. With regard to CRM, there are four central questions an enterprise needs to answer (Schneider 2002, p. 31):

1. What is the optimal way to support the customer process in order to build lasting and profitable customer relations?
2. What choices and benefits do customers have to be offered in order to best satisfy their needs?
3. How efficient is it to deliver these benefits ourselves or is it best to go through a third party?
4. Which customers are seen as most profitable throughout the customer relationship, and how can we attract new customers who are similarly profitable?

CRM brings a radical new direction to the marketing policies of online commerce. Unlike mass marketing, which is common in a traditional business setting and aims to increase market share through standardised mass products, the goal of CRM is to establish loyal customer relationships. The most important goals of CRM are:

- To gain and engage individual customers
- To foster and maintain lasting customer relationships
- To permanently increase customer satisfaction and value

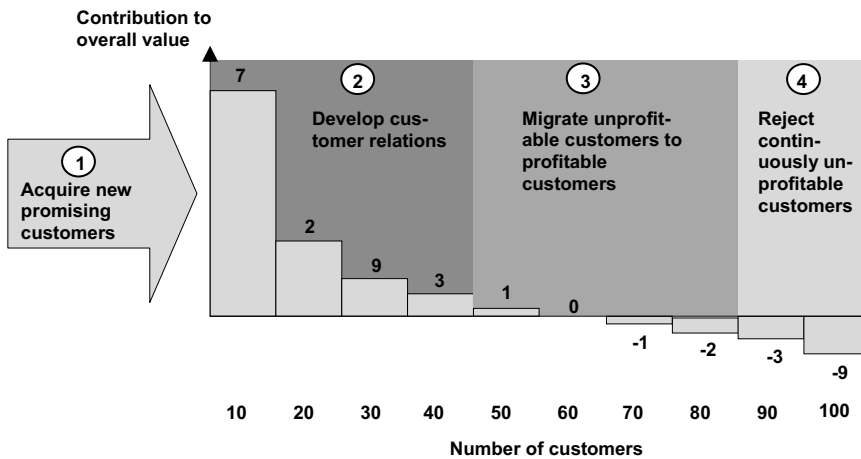
Solid customer relationships and high customer loyalty are important criteria for success, especially for interactive marketing channels, and they have a direct influence on a company's output and profitability. So far, we can summarise the findings as follows (Schneider 2002, p. 32):

- Businesses in the United States, on average, lose half their customers over a period of five years. The "churn rate" of German mobile phone service providers is even higher than that and can be as high as 30 percent per business year.
- There is a positive correlation between customer loyalty and profitability. Empirical data shows that a 5 percent increase in customer loyalty rates leads to a 35 to 95 percent increase in business value.
- Money spent acquiring new customers has shown good amortisation over the years and outpaces the positive effects of sales growth, customer recommendations and decreasing costs for maintaining a customer relationship.
- More than half of new customers are lost within the first two years, while there is only a 5 percent likelihood that those who have been customers for more than 20 years will leave.
- Attracting new customers is more expensive than deepening ties with existing customers. We can assume that it costs five to 10 times more to gain new customers than to keep old customers.

The "information revolution" connected to the Internet shows the potential all CRM standard strategies have for online commerce.

Figure 2-14: Identification of standard CRM strategies in online commerce

Source: Schneider 2002, p. 34



2.4.1 CRM Standard Strategies in Online Commerce

In particular, the Internet opens up an infinite number of possibilities for customer relations and customer loyalty management. The goal is to build a "unique" relationship with customers – one that they cannot find easily with the competition or one that the competition cannot easily copy.

Still, not all customers are worth holding on to and it is a more matter of caring for the right customers. Therefore, it is useful to segment customers by their worth in order to structure the customer analysis, the market measures provided for them and the company's own service spectrum. Analysis done by segmenting customers according to their value makes it easier to establish standard strategies as shown in Figure 2-14 (Schneider 2002, p. 33):

1. Acquire new customers with potential and a similar profile to that of profitable customers (customer acquisition)

2. Develop and maintain relationships with profitable customers (customer loyalty)
3. Migrate from unprofitable to profitable customers (customer conversion)
4. Let go of unprofitable customers (cutting off customers)

2.4.2 Customer Loyalty in Online Selling

It is important for an online venture to adjust its customer loyalty activities to the potential of its current individual customers, which requires detailed knowledge of each individual customer. Loyal customers and long-term relationships are thus irrevocably linked with lowering costs, increasing sales and promoting growth.

Additionally, a higher proportion of regular customers gives the service provider smaller error rates when forecasting sales and makes it easier to plan ahead for future products and services. The positive economic effects of customer loyalty in online commerce are illustrated in Figure 2-15 (Schrödter 2003, p. 14).

Figure 2-15: The economic impact of customer loyalty

Source: Schrödter 2003, p. 14

Economic effects of customer loyalty	
<p style="text-align: center;">Increased revenues</p> <ul style="list-style-type: none"> • Repeat buys • Cross-buying • Higher frequency and intensity of buys • Increased willingness to pay higher prices • Recommendations to other customers 	<p style="text-align: center;">Decreased costs</p> <ul style="list-style-type: none"> • Lower transaction costs • Lower losses in marketing • Lower share of new customers • Economies of scale • Lessons learned put into action

It can be helpful to organise customers by their position in a typical life cycle. For example, familial status and age play important roles in the marketing plan of furniture retailers, as the needs of singles, seniors and families are strikingly different.

With every year that a relationship with a business lasts, the customer becomes more valuable to the online dealer. After several years, the annual profit attainable with loyal customers is often significantly higher than the profit realised in the first year.

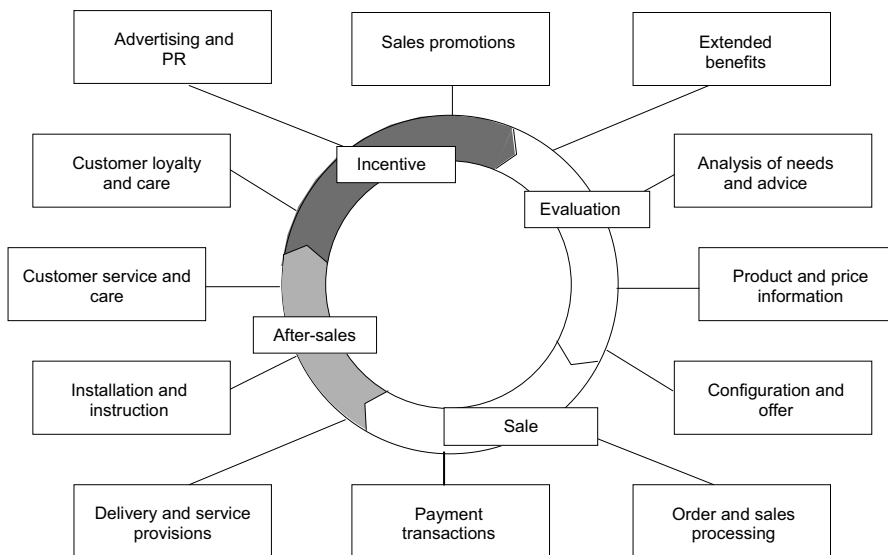
The strategic potential of customer loyalty can be seen best in those markets in which first-buyer potential is not used up. The mobile phone industry is a current example.

The value of strong customer loyalty can also be seen in the increasing number of products and services that can be substituted for one another. The above-mentioned factors show that it is important for the online seller to improve customer loyalty or to keep customer migration (or "churn rate") at the lowest rate possible.

It is therefore important to identify in a timely fashion customers who could potentially be lost. The online business should also analyse the circumstances that led to the loss of customers, while data gathered about customers who are thinking about leaving or those who have already left can be used to take adequate measures against losing more customers in the future (Schrödter 2003, p. 14-15).

Figure 2-16: Customer buying cycle

Source: Güttler 2003, p. 26



The customer buying cycle (CBC) model goes hand-in-hand with customer loyalty. The CBC focuses on the life cycle of a customer relationship and therefore helps companies expand and adapt their relationships to the customer. Each phase of cooperation with the customer is inspected in order to improve it. The CBC model, which is

shown in Figure 2-16, is based on a four-phase model from IBM and consists of these four main phases: incentive, evaluation, sale and after-sales (Güttler 2003, p. 24).

- **Incentive:** The beginning of the customer relationship is the Incentive phase, as the venture tries to create the potential customer's need for its products. The business uses sales promotions and advertisements to draw attention to its offerings.
- **Evaluation:** Once the business has the customer's attention, the customer wants details and hard data about the products and/or services. The company must then advise the customer based on his or her needs, possibly supplying samples, and support the decision-making process. This phase is concluded when the customer receives a concrete offer.
- **Sale:** The outcome of the next phase, the Sale, depends on the decision made by the customer. Here the complete order and purchase takes place. The customer can now order and pay for products. Supply and delivery also takes place in this phase.
- **After-sales:** This is the period from when the product gets first use until the customer disposes of it. This is also the time when introduction and training occurs through customer service, which should also include incentive programs for renewing the product purchase and/or further purchases.

It is possible to skip over phases of the CBC with repeat customers, since the customer repeats the purchase without re-evaluation. This can also happen when the customer develops interest in the dealer's other offerings and jumps directly to the Evaluation Phase without further stimulation from the dealer (Schrödter 2003, p. 37).

Interruptions to the CBC can include:

- The dealer's offers fall flat in the eyes of the customer and he develops no interest in the offer
- The customer goes to another dealer for the services and/or products after the assessment phase
- The customer loses interest in renewing the purchase or cross-buying after the purchase

The goal of every online retailer must thus be to work against the interruption of these cycles. In order to do so, the goal must be to meet the needs of the customer. Retention marketing must therefore be made a priority in the after-sales phase, which should animate the customer's desire to repurchase the product or service.

The practical application of the CBC model in online commerce strongly depends on the products and services offered. The company can use the CBC model to support all phases of the customer relationship or only a select phase.

The prerequisite for the use of all the phases is a fully electronic distribution path. This actually only includes nominal services (stocks, currency exchange) and digitalised products (such as software, e-books, etc.). When material goods are not distributed digitally, there is still the possibility to track the goods online. This way, customers can see where their goods are at any given time.

In a modified form however, the CBC model can also be consulted by online retailers with material goods to sell. Figure 2-17 shows the use of the application according to researchers. It is possible to select an application to support a specific phase (Güttler 2003, p. 29).

Important mainstays in customer loyalty in online commerce are loyalty programs and loyal customer cards. Loyalty programs in online businesses offer additional opportunities for customer loyalty. The goal is to turn consumers into loyal customers by means of a more direct approach. There are generally three different kinds of loyalty programs (Meyer/Schneider 2002, p. 309):

- **Rebate program:** A price reduction is granted with the presentation of a customer card.
- **Bonus program:** A bonus is granted in the form of money and/or prizes depending on the amount of money spent.
- **Added value program:** Extra services are offered to loyal customers.

Often these three types are combined with other features, such as the payment system. Since the repeal of the rebate laws in 2000, there has been out-of-proportion growth in customer loyalty card programs in Germany. The trend is clearly toward companies that use the program across various branches (and regional programs), with the possibility to gain loyalty points at various locations. Loyalty programs also create new impulses, such as the opportunity to use m- or e-payment systems, since the paid-content concept is growing.

In Germany, every resident currently has less than one customer loyalty card in use at any given time. Compared with 2.1 cards per French person and 2.8 cards for every British citizen, the market for customer loyalty card programs is still full of opportunities in Germany. A re-launch of many customer loyalty card programs should thus be taken into serious consideration.

With customers who use as many as three customer loyalty cards, 56 percent of existing cardholders find value in the campaigns, and the majority respond to marketing campaigns based on data about their shopping habits (e.g. wine offers for wine lovers).

Every second consumer is willing to use coupons and 72 percent of loyalty card holders prefer multi-partner programs. Cards that go against multi-partner programs, such

as the EDECARD, must therefore offer their customers additional benefits (such as a club or community approach) to find additional acceptance.

Despite some successful examples, many customer loyalty card programs are not used by customers within the reward-offering program itself.

Figure 2-17: Customer buying cycle in online commerce

Source: Güttler 2003, p. 29

Phase	Subphase	CBC applications
Stimulation	Advertising/ public relations	Advertisements on websites of other sellers (such as banner ads and search engines), links to and with other retailers
	Merchandising	Affiliate programs and competition
	Benefits	Giveaways and free services
Advice/bid solicitation	Need analysis/ advice	Intelligent sales consultants, individualised offer based on previous buying behaviour
	Product and price information	Offers in electronic product catalogues, electronic price lists and electronic specials
	Configuration/ offer	Service programs and self-service programs with which the client can see possible product variations for himself
Buying process	Buying and shopping process	Filling the shopping cart, ability to order on the website, ability to order over e-mail, secure transactions
	Pricing	Offers in an electronic product catalogue
	Payment process	Ability to pay electronically
	Delivery and service provisions	Possibility to download the products (such as e-books), online tracking and electronic goods and services
After-sales	Installation/training	Downloadable service and instruction manuals
	Customer service	FAQ, addressing customer questions via e-mail, online registration after the purchase, online updates
	Customer loyalty/ customer care	Regular sending of newsletter to customer by e-mail; community offers on a virtual basis

Often only a fraction of customers participate in the bonus program. Shops that offer premiums as a concept have been found to block costs and are therefore not necessary. Cash-back programs, which are also frequently used, are usually costly and are currently an exception among loyalty programs. It shouldn't come as a surprise that some customer cards have low acceptance, since they are missing important state-of-the-art components. Many online retailers still operate without a partner and thus offer their customers no range of products to consume. Many cardholders find that there is often no communication, such as mass mailings, advertisements or special offers.

Valuable customer data can only be used to a certain extent. Because of this, it is suboptimal to let bonus points be "held" without expiration so that the incentive for customers to shop is gone (in the United States, more than 30 percent of bonus program benefits expire). When no fee is required for the customer card, there is a conceptual weakening of the program. The same goes for bonuses which should be arranged on a nationally uniform scale and indicate where the standards should lie (between 1 and 3 percent).

Closely tied to the customer loyalty card is the idea of a customer club with the goal to emotionalise the customer-retailer relationship with personal contact. In terms of customer loyalty, the customer club should also have the following goals:

- Improving position against the competition
- Acquisition of new customers
- Better customer recognition through the creation of a customer database with personalisation, such as purchase history information
- Increasing interest in products through exclusive pre-release news
- Direct customer communication according to individual needs (such as wine lovers receiving special deals on wine)
- Generating additional sales figures through cross- and up-selling (e.g. through reasonably-priced accessories or replacement parts)
- Economic stimuli through bonus and rebate programs
- Platforms for viral marketing by engaging customers and word-of-mouth propaganda
- Offering after-sales services such as transportation, disposal or an information hotline
- Strengthening personal loyalty and identification through communities or club events

Overall, customer clubs offer the provider the possibility to create exclusive benefits. Thus customer clubs not only address aspects of customer loyalty, but also create an advantage that will win new customers. This acts as a stimulus for non-members to join the club, creating a special community.

Through registration of the new customer, the customer club also takes away the customer's anonymity. From there, the enterprise can build up personalised and dialogue-oriented communication. This also makes customer clubs an outstanding communication and market-research tool.

There are two different types of customer clubs – advantage-based and premium-based clubs. While customers in an advantage-based club enjoy immediate benefits of being members, those with a premium-based club membership must first earn bonus points through shopping that can later be used for awards or redeemed for cash back. Special deals or temporary rebates are typical benefits of an advantage-based club.

While club benefits on the Internet can be tied closely with the service offerings of the enterprise, customer clubs are just now becoming suitable for online retailers, which can make better use of standard benefits through additional services. Therefore, the customer club can also serve to inform members about a range of services they might not even be aware of otherwise. But even benefits far above the standard, such as club meetings, online services or presents, can be used, especially when the standard benefits are exchangeable, such as goods bought at grocery stores.

The core benefit of customer clubs, besides club cards that show exclusive membership, are generally a club magazine and/or newsletter as a central information channel, in addition to a hotline or website as a communication platform. Merchandising products, such as special service offerings (product samples, recipes, etc.), events and contests, as well as premium status, can also be offered.

As a rule, such preferential status is likely to be reached through above-average purchasing levels and opens the possibilities of additional service offers (Schrödter 2003, p. 44). The spectrum of services offered by customer loyalty clubs should also depend on the characteristics of the targeted group of customers, such as the level of loyalty.

In the ideal case, the customer loyalty club evolves into an attractive environment that leads to further recommendations. However, the venture should always be careful not to exclude other customers, making those customers that are non-members feel at a disadvantage when it comes to the range of offers and services. Making a customer feel disparaged on the basis of his customer status should be avoided completely.

This can be achieved by making sure that core benefits are accessible to everyone outside of the customer loyalty club, in order to meet the basic needs of the consumer. This then places the consumer in a position to consider joining the loyalty club. The customer decides for himself whether to take on an elite status, such as joining a VIP club or gaining "preferred customer" status.

For customer loyalty clubs, the Internet offers the possibility to better personalise and interact with consumers (Schrödter 2003, p. 44):

- A customer loyalty card can completely replace the online registration and chronicling of individual customer data for the purpose of market research, so that customers and their buying behaviour become identifiable and recordable.
- The sales bulletin can be replaced by an electronic newsletter or through a club-specific website, which has a clear advantage over printed media in that it is flexible and can be tuned to the individual.

- The separation of club-specific Internet websites from the pages that are accessible to the public also allows for better division between winning over new customers on the one hand and maintaining customer loyalty on the other. The public website gives a taste and creates an appetite for the members-only website. The members-only site, with its benefits designed to promote customer loyalty, can be accessed with a password, but should still be directly accessible for non-members via a membership that is available immediately.
- Targeted and engaged response elements, such as e-mails, online fliers or forms (e.g. for ordering or questions) can increase customer contact considerably.

In online commerce, the use of club specials can be combined – and mutually beneficial – with the traditional elements of customer loyalty clubs, such as the loyalty card and/or the advertisement flier. Furthermore, a premium system that awards prizes in conjunction with the use of the website can be linked so that the customer gets more incentive and/or is motivated to use the Internet channel. In doing so, the Internet delivers several starting points such as login, registration, newsletter subscription, discussion contributions in a forum, recommendations (word-of-mouth advertising), ordering, evaluation and participation in online surveys (Schrödter 2003, p. 45).

Communication between buyers in forums or chat rooms can bring another dimension to customer membership clubs, developing the customer base into a virtual community. This in turn supports aspects of the CBC phases. Virtual communities can be useful in winning over customers by creating demand based on their desire to participate.

2.4.3 Acquiring New Customers in Online Commerce

Online sellers are under pressure to use the Internet actively to gain new customers. Often, newly launched websites are functional and modern, but don't make use of e-tools that could increase the company's customer base.

Advertising costs, in relation to the number of new customers, are especially high. The typical cost per new customer (CNC) often reaches up to 300 euros in mail-order retail, of which around 80 euros are pure acquisition costs. For book clubs, which need to acquire up to 1 million new customers annually, the CNC can be up to 100 euros, although acquisition costs per customer and channel are strictly monitored. One reason for this is the continued dependency on classical channels, including agents, which acquire 45 percent of the share of newly acquired customers, as well as address cooperatives, which take about 20 percent.

Even word-of-mouth advertising, which accounts for 10 percent of new customers, is an expensive method (gifts and/or 60 euro coupon). The CNC of renewals or contract extensions is certainly less, but doesn't reach the same CNC as on the Internet. The

following methods are available for the purpose of gaining new online customers (Kollmann 2007, p. 176 ff.):

- **Search-engine marketing:** This concerns all efforts to achieve better placement among search engine result lists, such as in Google or Yahoo (Lammenett 2006, p. 145). Because around half of all purchase decisions are initiated with the help of search engines using keyword searches, search-engine marketing is more important than ever as a first point of contact with customers. Placement in the top five results means that a company has a good chance of drawing Internet users and potential buyers to its site. Paid search results are another means of acquiring customers as a type of keyword advertising. Internet users enter keywords, and the results of the search show up on the first page as advertising. By using keyword or ad-specific tracking tools as part of Web analytics software, an advertisement's success can gradually be improved. Due to the prominent role of search requests, search-engine optimisation should be given plenty of attention. The most important factor is to ensure that the homepage code is programmed properly (Initiativbanking 4/2008, p. 8). One successful advertiser is the mobile service provider O2, which has used search-engine optimisation to garner 120,000 contracts and new customers (Schwarz 2007, p. 27).
- **Banner marketing:** In this form, advertisements are placed on sites external to the company to draw customers to the company's own website. Generally, the size of the banner can be designed individually. The most common formats are full-sized (468 x 60 pixels), rectangle (180 x 150 pixels), medium rectangle (300 x 250 pixels), skyscraper (120 x 600 pixels), and wide skyscraper (160 x 600). Depending on the function, banner ads can either be static or animated. Further possibilities are so-called fake banners, which aren't recognisable as advertising and are deliberately embedded in the site's content, as well as numerous other special forms, of which the pop-up has become the most widely used. Pop-ups overlap main webpages with new windows that contain ads. Pop-up blockers, however, have begun to undermine this form of advertising. In any case, classical banner advertising remains the largest expenditure in online ad budgets, at around 50 percent.
- **E-mail marketing and permission marketing:** Following the principle of dialogue marketing, the point here is to directly engage the customer via e-mail. E-mail newsletters have become very popular, as these are linked to the advertiser's website, where special offers are presented to customers (Schwarz 2007, p. 17 ff.). Both the relatively low cost and high response quota speak for this method of customer acquisition. Once the content is created, the newsletter can be forwarded by customers at no extra cost to the advertiser. Links to the website simplify the customer's options, however customers must first opt in to receive regular news and information from the retailer. As a consent-based message form, e-mail marketing is a subclass of permission marketing. An important advantage of e-mail marketing is the palpability of success, reflected in the number of logins/outs, campaigns

and their comparisons, as well as responses and offers. Besides measuring the "cost per interest" (CPI) and "cost per click" (CPC), sites can directly measure their return on the investment. Tracking results show that single-topic mailings, which are transaction-based e-mails that contain only one offer, are often more successful than regular newsletters (Schwarz 2008, p. 35). Types of e-mails can be differentiated, for example trigger, split or life cycle e-mails. Trigger e-mails are sent to mark a particular occasion, such as an anniversary or birthday. A split e-mail can be used when testing how an e-mail is received. Life cycle e-mails orient themselves entirely on the life situation of the customer, for example older target groups.

- **Viral marketing:** The intent of this marketing instrument is to have Internet users freely spread communication messages, similar to the principle of mouth-to-mouth propaganda. The network effects of the Internet are used to disseminate information as quickly and effectively as possible at no charge. Viral marketing makes use of different carrier instruments such as search engines (Yahoo, etc.) and link pages (ec-net.de). On special link sites, additional free services can be brought to the customer's attention (umsonst.de). In addition, virtual communication spaces such as topic forums or chats, specific carriers such as Hotmail or recommendations from content sites (spiegel.de) can be used to circulate information. Finally, sweepstakes are another effective instrument for bringing attention to service offerings (Schwarz 2007, p. 37).
- **Affiliate marketing:** This marketing principle involves sales and network partnerships between different enterprises, based on fashioning agreements between partners (affiliates) for advertising for particular offers. The method of compensation for affiliates can be individual and variable, and can therefore occur as barter, without necessarily involving payment. Critical to the success of this form of advertisement is the selection of suitable, related partners whose sites receive a great deal of traffic. Thanks to the sophisticated nature of compensation methods in affiliate marketing, various tracking tools are available. URL tracking (integrating the partner's ID into the HTML code), cookie tracking (saving identifying information in the user's browser), database tracking (combining the URL and cookie tracking), and Web bugs (use of HTML bugs) are all used frequently. Affiliate marketing has become an important pillar of online customer acquisition that has found acceptance even among well-known businesses such as E-Plus (Schwarz 2007, p. 29).

Affiliate network operators such as affilinet.de or zanox.de have become increasingly more attractive for connecting program operators and potential affiliate network providers.

In conclusion, it must be kept in mind that the Internet can be used to generate a large number of transactions (orders or new customer orders). The examples of Amazon and eBay show how efficiently this can be done. These companies gain more than 2 million new customers per year, for which they spend no more than 10 euros per customer (CNC).

Both companies make extensive use of viral methods (search engines, affiliates, word-of-mouth advertising, new customer vouchers, newsletter sweepstakes) and cooperation with companies that have large clienteles. More than 75 percent of the advertising budget for Amazon and similar companies is measurable, since it is tied to transactions. Financial service providers such as DiBa also gain new online customers with credit accounts.

Figure 2-18: Increasing marketing efficiency with CNC

Source: Based on H&P 2004

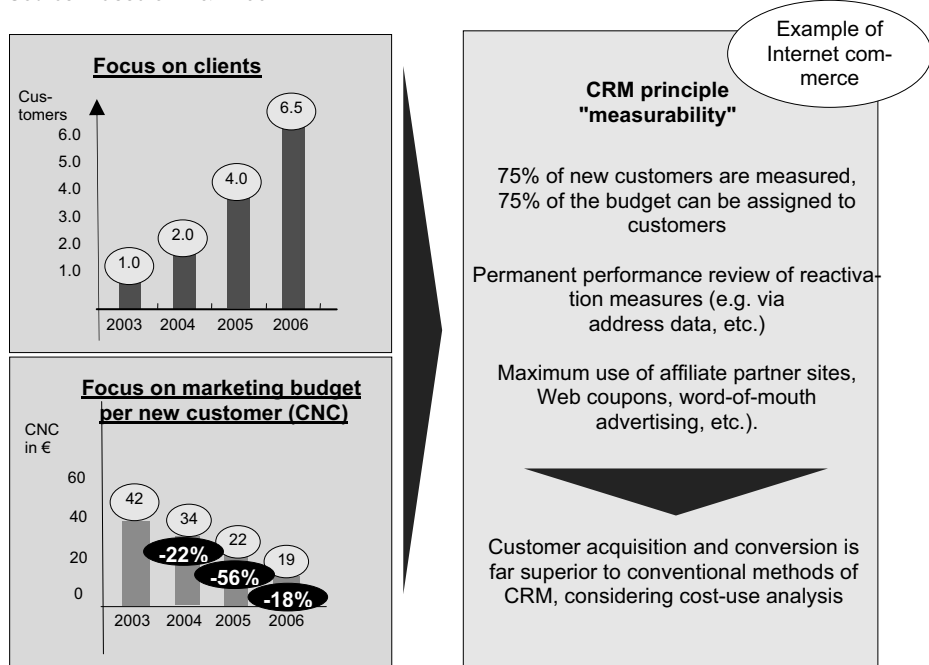


Figure 2-18 shows the professionalism with which typical e-intermediaries such as Amazon pursue the topic of CNC. Massive increases in new customers are made possible at dramatically decreased costs. Thus the goal of every online retailer must be to secure cost-effective acquisition of new customers via the Internet. Empirically, the average cost per new customer should amount to a maximum of 50 percent of the average CNC in mail-order trade, or 80 euros.

The central topic is how the Internet can be used to better acquire new customers, while generating more revenue from the website. All in all, it is surprising that many websites in hybrid Internet commerce (mail-order retailers with additional Internet channels) are still being used solely as an alternative to the catalogue as a way to place

orders, but not for the purpose of acquiring new customers. Accordingly, many Internet sellers have had low visitor frequency and fewer links to their websites (as with Alexa).

An important indicator is search engine presence. A leading wine distributor that is also an active online vendor, for example, should make sure that key terms in Google such as "red wine" and "white wine" are not the territory of the competition alone.

Vendors also shouldn't forget to send vouchers to their customers via partners. A typical example of an "unused website" is one in which a new customer fails to receive a cookie-based coupon and the site remains unused. The same is true for friend solicitation if the site lacks a financial hook for both the person who recommends and the friend.

Website conversion rates can be increased in many ways. Ranking lists are often insufficiently differentiated or lack comparisons. Customer evaluations and ratings should not be left off a site, even if the content is supposed to be of high quality.

On the Internet, it is easy to gain access to large e-mail databases, which can be used to win new customers successfully. The same is true of ad banners, which – if the service is provided – can also be used to gain new customers. For this purpose, affiliate models (10 percent of e-sellers' new customers) and guerrilla campaigns are especially useful.

2.4.4 Customer Conversion in Online Commerce

In online commerce, the migration of non-profitable customers to profitable customers is generally only possible through an aggressive Internet presence. The basic success factors for an e-shop are undoubtedly a competent offer, attractive prices and good service – but these are still not enough.

A further differentiating success factor is the seller's ability to stimulate the customer to buy with higher frequency and in greater quantities (cross-selling). Often, no cross-selling possibilities are offered. Sites also frequently lack "killer features" that drive up cross-selling and traffic frequency, such as communities, similarities, cross-selling coupons, weekly promotions, target group differentiation and bundles. Often the services offered are not "killer services", especially not ones for the Internet or distance trade.

If online sellers want to be successful at converting customers with service offers, they must have a unique selling point. They must also consider whether and how business models can be optimised so that they reach the above standards (for example by offering discounted tickets online or photos that the customer can have delivered to his home).

Another common blow to customer conversion is that many online retailers fail to take online advertising into consideration. By allocating a portion of the media budget (10-

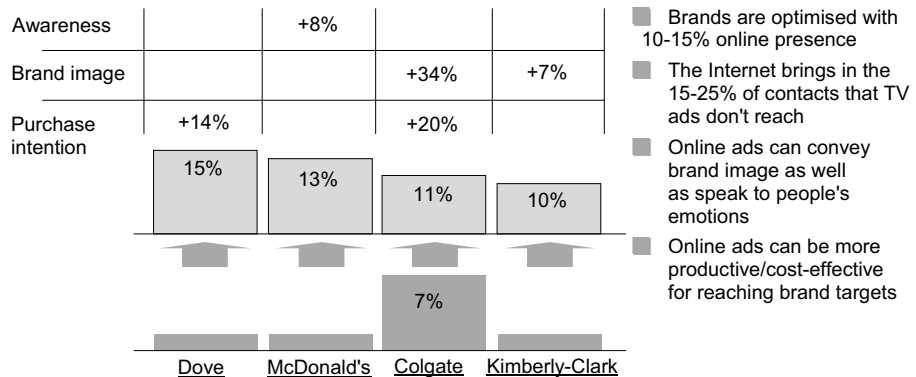
15 percent) to online advertising, the effectiveness of ad campaigns increases disproportionately without having to increase spending.

Figure 2-19 shows a comparison among Dove, McDonald's, Colgate and Kimberley-Clark by the Interactive Advertising Bureau (IAB) in 2004. With respect to customer conversion, it is also necessary to consider that the Internet, as a direct distribution channel, is well suited to generate a very large number of transactions (orders or new customer orders). Therefore, intensive viral instruments and cooperation between businesses with large customer bases can be sought.

It is also important that customer conversion be measurable. Every online retailer's website should be subjected to benchmark analyses with regard to sales effectiveness (for example order funnel, cross-selling, up-selling, personalisation, etc.), so that customer conversion measures can be taken.

Figure 2-19: The effect of online presence on conversion

Source: H&P 2004



Closely connected to customer conversion and customer loyalty is the term "customer focus", which can be seen more and more often in online retail banking and can be viewed as a model for online commerce.

Although most customers say they are satisfied with their banks, the 2003 Kundenmonitor survey showed that customers often switch banks: 15 percent of them even plan to change which bank holds their main account within the next 12 months (KPMG 2004).

Many customers also use specialised financial services parallel to their main bank accounts, such as the DAB bank for securities or DiBa for money market accounts. In addition, they might take out a loan from Citibank, purchase insurance from Tchibo and/or finance the purchase of their own homes using regional savings banks.

The question that inevitably emerges is how it can be that ostensibly satisfied customers purchase fewer and fewer services from their main banks and instead turn increasingly to other institutions. Apparently, customer satisfaction is no longer a sufficient indicator of success.

Businesses often use the proportion of satisfied customers as an indicator for economic success because satisfied customers generally consume more than unsatisfied ones. Indeed, it can be proven that the market share of a bank, in relation to the financial products held by its customers (share of wallet), correlates strongly with customer satisfaction. According to this, very satisfied customers spend up to 65 percent more than unsatisfied customers (Heinemann 2008g, p.89).

While there is obviously a stronger correlation between customer satisfaction and a bank's market shares, this does not apply to revenue growth. Analyses show that the growth of a business correlates less with customer satisfaction, and instead has much more to do with the number of customers who recommend it to others (Booz 2003). The absolute number of customers who actively recommend the business is the measurement of customer focus.

A suitable indicator for customer focus is, for example, the intensity with which word-of-mouth advertising is used by existing customers. (A customer recommends the business to a friend or acquaintance and receives a coupon). Aside from the unsatisfied customers, it is the enthusiastic customers above all who are emotionally engaged and therefore communicate intensely with their friends and acquaintances. They tell others when they're excited. Since unsatisfied customers say they communicate their impressions seven times more than satisfied customers, it can be assumed that excited customers communicate with others with similar frequency.

There is no known company that would say it is not customer-oriented or that it has kept customer focus out of its vision statement. Customer-focused businesses that think in terms of maximising their customers' enthusiasm are, however, demonstrably more successful than customer-oriented businesses.

Customer focus implies passion and credibility on the part of the management and a company that is unconditionally in line with its customers' wishes. Jeff Bezos, CEO of Amazon, is deeply convinced that only outstanding customer service and an exact understanding of customers' desires can ensure long-term success. Because customers want to compare product offers from different retailers, he has allowed other vendors to sell on Amazon as well, knowing full well that Amazon might be underbid by other retailers. His motto is "If you don't do it, then the customer will."

Customer focus permeates the entire business system of an enterprise and provides employees with an orientation framework for making daily decisions. A Wal-Mart employee knows that he must first help customers before dealing with internal problems. An Aldi buyer knows that he should not raise the price of inelastic goods, even if it would be better from a competitive point of view. Amazon employees also know that they must make the company's placement identifiable so as not to make the impression that placement was objectively generated. A Cortal Consors employee is aware that his main task is first and foremost to discuss problems openly and honestly with customers in the community domain.

One customer is not like another. Ideally, a company should view every customer as an individual, as Berenberg or Sal. Oppenheim do. In a high-volume business, individualisation is not economically feasible. Therefore, customers are assigned to statistically relevant segments (personalised). These are either statically generated by traditional businesses or dynamically/randomly by online sellers.

The art of customer focus lies in a company's outstanding individualisation or personalisation and in its correct implementation, which must have priority. Only when top managers are convinced and impassioned about customer focus are they also ready to exemplify it authentically and to reorient the company in a customer-focused way. To do this, a four-step approach is helpful:

- **Phase 1: Understand customers:** This concerns questions of customer segmentation (segment-of-one, static or dynamic personalisation), the desires of single customer groups, their performance, the degree of fulfilment of customer wishes through the company in comparison to competitors and the intensity of activation.
- **Phase 2: Formulate company goals:** Derived from this strategy, sources of future growth must be identified, which will differentiate products and customer segments. Finally, goals for individual customer segments are determined.
- **Phase 3: Compile measures:** In this phase, concrete measures that lead to increased customer recommendations are worked out and implemented using the 80/20 rule. Lastly, milestone planning and controlling are established.
- **Phase 4: Create organisational conditions:** In this phase, promoters and obstacles to change in the organisation are identified and, for the period of the changes, restrained, trained and possibly relocated or replaced. Furthermore, structural conditions and processes are defined and customised.

2.4.5 Cutting off Customers in Online Commerce

By cutting unprofitable customers off for good, owners of distance trade businesses are increasingly trying to improve the cost-effectiveness of their sales approach. Con-

sidering that a complete line of mail-order catalogues often costs more than 100 euros per customer annually, the inefficiency of passive, non-buying customers quickly becomes obvious. In some cases, these customers can make up 30 percent of the customer base. Cutting off customers thus means getting rid of unprofitable customers.

This requires constant evaluation of customers, for which various evaluation methods can be used. The value of customers can be expressed monetarily and non-monetarily. While monetary methods quantify according to financial units, non-monetary methods describe customer value in a qualitative way. The standard customer evaluation methods can be viewed in Figure 2-20.

Figure 2-20: Systematisation of selected customer evaluation methods

Source: Wittkötter/Steffen 2002, p. 77

	Retrospective	Prospective
Monetary	<ul style="list-style-type: none"> • Customer revenue analysis • Customer profit margin analysis 	<ul style="list-style-type: none"> • Customer lifetime value • Analysis of potential customer profit margins
Non-monetary	<ul style="list-style-type: none"> • Scoring models • Customer portfolio analysis 	<ul style="list-style-type: none"> • Scoring models • Customer portfolio analysis

The methods displayed are also differentiated according to whether they are retrospective and based on past and present data, or prospective methods based on available information that predicts future trends (Wittkötter/Steffen 2002, p. 76 ff.). The following means of customer evaluation can be used:

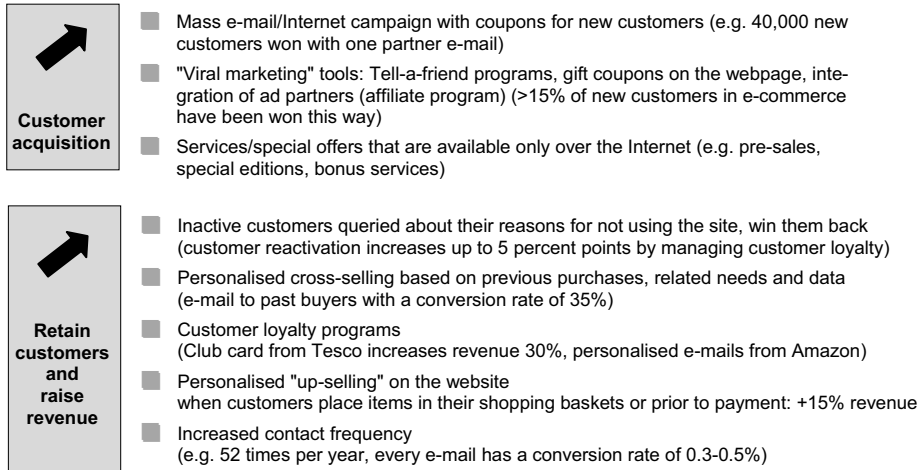
- **Customer revenue analysis:** Here, customers are rated and classified according to their actual revenues. This commonly includes an ABC analysis. Revenue analysis is widely used in retail practice, as customer revenue is easy to study and analysis easy to undertake. However, the cost side is not considered, and it may be possible that, according to profits, strong "A customers" are not viable.
- **Customer profit margin analysis:** In this process, the profit margin of a customer is calculated from the difference between his turnover and costs. This information allows conclusions to be drawn about the profitability of customers and about which marketing strategies are appropriate. Besides the fact that the fair allocation

of costs is generally problematic (overhead coding), future developments in this process are not taken into account, with unprofitable customers still allowed to fully develop when suitable conversion instruments are used. In that respect, the danger of mispricing does exist, especially in younger companies or channels that are still in the creation process and are therefore highly focused on fixed costs.

- **Potential customer profit margin analysis** Fehler! Textmarke nicht definiert.: Along with profit margins, this method also considers future development potential and is widely used by businesses with contractual customer relationships (publishing houses with subscriptions, etc.). A distinction is made between phases and takes into account the fact that it is normal for customers to create losses at the beginning; this can be dealt with as long as they become more profitable in the course of doing business. Because future profit margin forecasts are considered at the same time, this method can also be appropriate to utilise for new or potential customers. However, it is advisable to compare customers with similar profiles in order to predict future demand and the likely duration of the business relationship.
- **Customer lifetime value:** Here, the principles of capital investment are applied to customer evaluations and used to generate the financial value of the customer. The face value of a customer is calculated based on the discounted deposit/withdrawal cash flow during the customer life cycle. An advantage of this method, which is used by businesses with high customer acquisition costs (book clubs and mobile phone retailers), lies in the consideration of the time lag between necessary investments and turnover received. It is also used in accounting for the activation of "customer bases" or with the purchase of these "customer bases" from professional brokers.
- **Scoring models:** These models allow monetary and non-monetary criteria to be taken into account, evaluating the customer with points that are then added to a customer score. Customers with higher point values are more important for the company. The system can also record when a customer last made a purchase (recency), how often he makes a purchase (frequency) and how much he buys (monetary ratio). These are so-called RFMR methods.
- **Customer portfolio analysis:** Here the value of the customer is recorded and documented in a multi-dimensional fashion. First, various dimensions are laid out that are important to the relationship with the customer, such as customer attractiveness and the company's own competitive position in relation to the customer. In a two-dimensional space, customer positions are displayed and their value is derived from this. Marketing strategies are derived depending on the respective customer position, just as with divestment decisions or the choice to cut off a customer.

Figure 2-21: Examples of Internet-specific CRM goals

Source: Based on H&P 2004



Companies should use multiple methods to determine which customers should be dropped. This should in no way be a one-time process but should be performed regularly, occurring at least once a year. It can also be installed as the foundation for value-oriented customer controlling within Internet controlling. This assumes that the goals which should be followed in CRM are determined in advance. Examples of such goals are pictured in Figure 2-21.

2.4.6 Cost-Effectiveness of CRM in Online Commerce

Internet-driven customer relationship management is superior to other CRM models, as can be seen by using a cost-benefit analysis. Figure 2-22 shows the four extreme positions possible within a two-dimensional cost-benefit analysis that result from combinations of high and low.

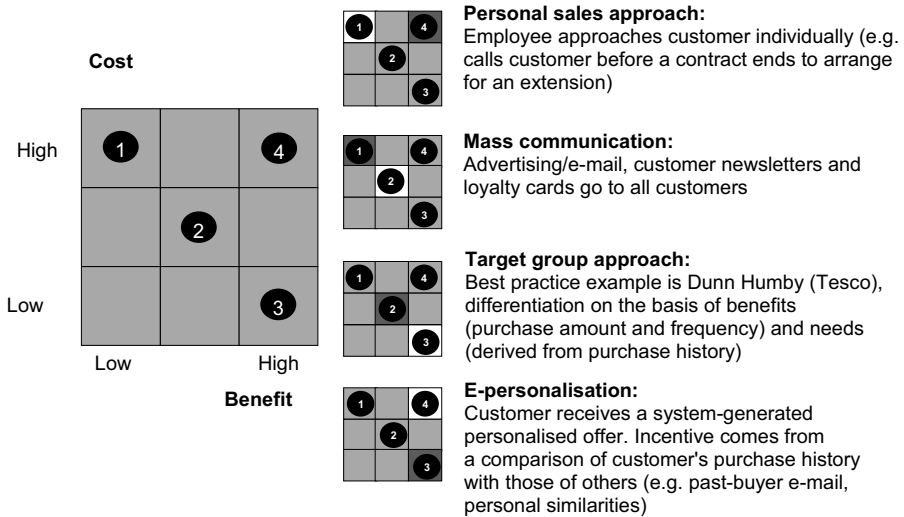
The constellation of "low cost and low benefit" cannot be found within CRM. A personal sales approach ("face-to-face" or "mouth-to-mouth") can be seen to bring high costs, but also high benefits (position 4). Here, the employee addresses the customer individually, for example when an employee calls a mobile network customer before his contract is up in order to arrange a contract extension.

Mass communication is equally expensive, but from a benefit standpoint always problematic (position 1). Target market advertising, which can be successful by differentiat-

ing between benefits (purchase amount and frequency) and needs (purchase history), is a midfield player (position 2).

Figure 2-22: CRM models in a cost-benefit analysis

Source: Based on H&P 2004



Internet-based e-personalisation, on the other hand, is by far the least expensive, but reaps the highest benefits by presenting the customer with a system-generated, personalised offer, which otherwise would come from a comparison of his purchase history with that of other customers (position 3).

2.5 Forms of New Online Retailing

Different formats for online retail now exist. The top players in online commerce are without a doubt the classic mail-order retailers such as Otto, Neckermann and others, with online shares of up to 50 percent (Giersberg 2008, p. 15). These distance trade forms are often falsely labelled multi-channel systems, even if they don't maintain a brick and mortar business. With their parallel models that consist of classical and electronic trade, they form "hybrid online commerce", which is an independent retail format and different from the form "pure online commerce". Cooperation between online traders can increasingly be observed in online portals, which make up "cooperative online commerce".

A further form of online commerce is multi-channel retailing. Without the combination of brick and mortar and electronic sales channels, we cannot speak of "modern" multi-channel systems, but only of "traditional" ones (Giersberg 2007, p. 18).

Increasingly, manufacturing companies such as Esprit, BOSS, adidas and Nike are using the Internet channel to enter into direct business, thereby cutting out the middle man (Heinemann 2008g, p. 34). This form of selling directly to the end customer online is called "vertical online commerce".

2.5.1 Pure Online Commerce

The presence of pure online retailers, the so-called "pure players", is becoming less and less common. The market share of pure online sellers in e-commerce revenue amounts to only 26 percent in total. Among the eight largest Web retailers in Germany, only a single one of these – Amazon – is a real startup company, and it has had great success. With more than 1 billion euros in revenue and 50 percent of Germany's book and media revenue, Amazon is one of the top booksellers in the country (FAZ 2008, No. 53, p. 19).

Next to these "born globals", of which eBay Powersellers is also part, the future clearly belongs to pure online retailers, whose market share of e-commerce revenue will grow exponentially according to experts (open-stream.ch/info/news, 15.04.2008). Whether for pet food (pet-shop.de), delicatessen food (gourmondo.de), wine (avinos.de) or hats (hutshopping.de), and above all for highly specialised offers, the Internet presents the ideal retail form for small enterprises. This development is certainly also supported by the fact that technology allows for these e-shops to be run from a "home office". In the coming years, many small online shops will be started that can also react to changes in a much more flexible way.

With pure online retailers, an entirely new generation of Internet shops has appeared on the scene. The following innovations in the retail format can be observed (Wieschowski 2008, p. 47; FAZ 2008, No. 156, p. 19):

- **Live shops – just one product and one price:** "One day, one product, one competitive price" sums up the business model of live shops such as guut.de. With their straightforward product lines, often just one single product at a competitive price (e.g. bright red ice skates), live shops are providing conventional Internet vendors increasing competition.
- **Club selling – shop only after registration:** Vente Privée is the pioneer of club selling. The online retailer introduced this new sales concept in 2002, which was copied in Germany by the shopping clubs BuyVip and Brands4Friends. Both of the German clubs were founded in 2007 and were on track, according to their own calculations, to exceed the 70 million euro threshold in 2009. The online retailer Buy-

Vip, in which Bertelsmann AG recently bought a stake, quintupled its earnings in 2009. Only customers who have registered may make purchases in the club shop, and customers can only be invited to the club by friends. The concentration is on exclusivity, with the emphasis of the offers on brands, fashion and lifestyle products (e.g. Diesel, Swatch, Dolce & Gabbana, Armani and Converse). It's common to see five promotions per week. Club members are informed about them via e-mail and they run for one or two days.

- **Shopping markets – buy when the price is right:** The Gimahhot business model functions similarly to the Frankfurt stock exchange, with sellers and buyers suggesting their preferred prices for a certain product (e.g. iPod nano or the latest Motorola mobile phone) in shopping markets. To begin, the seller enters a price, with all those bidding on the product listed in a table. After the customer has listed a desired price, the bargaining begins, in which the sellers receive the suggested price and have several days to decide whether they want to sell the product at that price. If a seller agrees to the price, the customer is notified via e-mail. The transaction is then processed solely through Gimahhot.
- **Flea markets – custom made versus bulk goods:** Instead of selling at classical flea markets, talented small businesses are offering their handmade products via Internet platforms such as DaWanda. On this site, there are no mass goods, just "products with love", homemade, single items or limited editions made in small quantities. DaWanda has close to 15,000 manufacturers with more than 200,000 products. Vendors also give insights into their work and trade with colleagues and customers. The crossover from this business model to cooperative and vertical online retail is quite smooth.
- **New auction forms – eBay for gamblers:** Telebild.de now offers a mix of auction, gambling and bargain hunting. Every bid costs 50 cents and raises the bid price 10 cents. The last person to bid wins. The winner can get a bargain, since most goods auctioned are technology-based (e.g. mobile phones, computers, game consoles, household appliances, cars and even money vouchers). Compared to shop prices, winners save an average of 66 percent. There is only ever one winner, with the losers still required to pay for their bids. In spite of this, 3,000 new users register each day in Germany, Great Britain and Spain, the three countries in which Sofina GmbH operates Telebild, and each day customers buy goods exceeding a value of 30,000 euros.

2.5.2 Cooperative Online Commerce

Increasingly, online cooperatives are appearing under a single e-store brand. Often, these are store solutions in the form of portals that are offered by wholesalers, federations, manufacturers or independent institutions. This form of online retail is common

with pharmaceutical wholesalers (apotheker.com) or book wholesalers (buchhandel.de or libri.de).

The use of a complete online shop has also become possible with the auction house eBay or as a partner of Amazon. This is relatively uncomplicated and is done with straightforward costs. With external tools, an eBay shop is quite easily and quickly made into a complete e-commerce system. Common eBay services such as PayPal, Inkasso and Treuhandkonto support sellers during the settlement process. This allows sellers to profit from trust potential, popularity and the advertising strategies of these two beloved commerce platforms. Amazon, for example, is dynamically linked to a large number of foreign websites, and it is also possible to take advantage of the "Amazon payments" service offered by Inkasso.

The cost of using the Amazon marketplace is between 10 and 15 percent of the selling price, plus 0.99 euros per successful sale. With the "zShop" function, sellers can actually display their own product ranges or auctions. The costs for this range from 5 percent for a price up to 100 euros to 1.25 percent plus 52.50 euros for prices above 2,000 euros (HMWVL 2007, p. 52 ff.).

2.5.3 Multi-Channel Retailing

In the first phase of online commerce, many ventures use only the Internet as a specialised outlet, without considering a traditional retail outlet. Meanwhile, those with traditional outlets see the other side as all "hype" and concentrate on their current business model.

As the Internet has become more popular and evolved, however, more and more traditional companies have taken their product portfolios online and started their first multi-channel strategies. In the process, many halfway successful online commerce sites have been bought by commerce giants and integrated into their multi-channel strategy.

Increasingly, online retailers also realise that their chances of survival are considerably higher when they complement their business by expanding to catalogue and stationary retailing (Krone 2004, p. 5 ff.). Meanwhile, a large number of different multi-channel systems exist, but they are only considered multi-channel commerce in combination with an Internet channel. They include:

- Companies that started out as stationary retailers (brick and mortar vendors) but have an additional electronic channel to support the main stationary channel ("click and mortar" vendors), such as Douglas, Tengelmann and Schlecker.
- Stationary retailers that cooperate with an online retailer that could also be a classical mail-order company. They do so to profit from know-how and access to a

multi-channel system, such as Bogner with catalogue retailer Primondo/Quelle or OBI's former relationship with Otto.

- Companies that started out with multi-channel systems (stationary retailers with catalogue shopping), then expanded through an electronic channel, such as Tchibo, Conrad Electronic or IKEA.
- Retailers that were originally and strictly online players but are now acquiring and/or opening traditional retail outlets in order to gain new customers, such as Beautynet or Pixelnet, which took over Photo Porst in 2001.

Mail-order companies that offer an online outlet in addition to their catalogues are not an example of multi-channel retailers but are involved in "hybrid Internet commerce", since they use the same multiple distance-retailing channels. Of all the manifestations brick and mortar retailers (stationary commerce) take on when they make the transformation to e-retailers, "click and mortar retailer" is the most common.

A multi-channel system gives customers at least two possible ways to access products – usually a stationary outlet and an online outlet. This poses the question of how many online retailers without a stationary shop still exist. In total, the portion of "non-pure" online retailers in Germany in online commerce is more than 65 percent. The remaining 35 percent are those that do business purely online.

This ratio puts Germany in the middle. Italy has the lowest ratio, with only 39 percent of retailers operating in the multi-channel segment, while Switzerland has the highest portion of multi-channel retailers, with 84 percent of ventures falling into that category (Krone 2004, p. 6).

A combination of an online outlet and a stationary outlet, which is considered a real multi-channel system, can be regarded as one of the most complex forms of online commerce, due to its competence and capability requirements. When an online retailer enters the world of stationary outlets, complex new requirements develop such as variety concepts and innovation in areas including location and store layout.

On the other hand, online commerce has strengths that can be beneficial in a stationary outlet, such as already-established customer ties and/or loyalty programs. Still, stationary business is not an option for achieving identical positioning for companies with universal product lines. This is not the case for those with speciality offerings.

2.5.4 Hybrid Online Retailing

The parallel operation of classical commerce as well as mail-order sales with electronic shipping is "hybrid online commerce" in its commercial form. The online success of mail-order companies is no coincidence, as the Internet channel has many natural strengths that can be used.

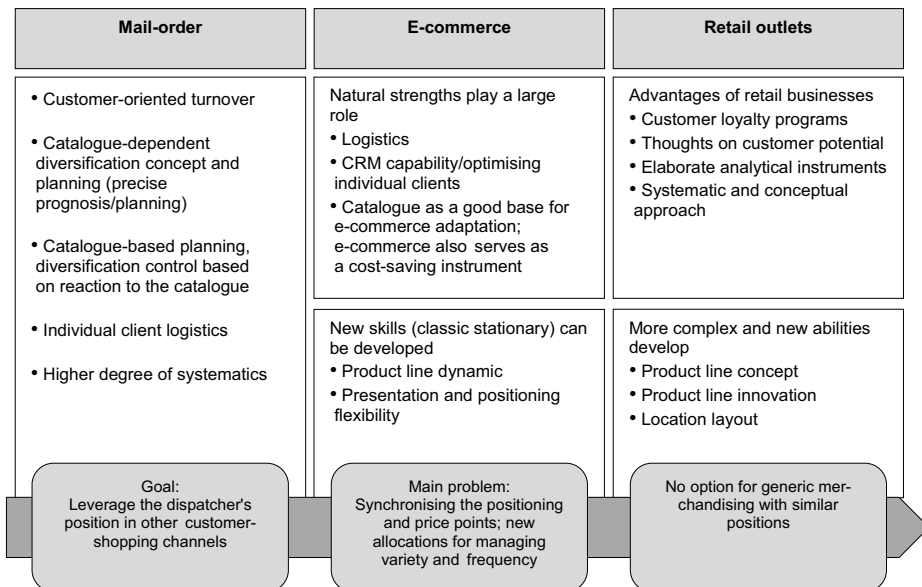
Mail-order ventures benefit from already established logistics and merchandise management processes that make it easy for the business to adapt to the Internet. Companies can use their strengths in CRM as well as their abilities to optimise relationships with individual customers. Often, mail-order operations see the Internet as a "cost-saving" instrument, with which the high costs of producing a catalogue can be reduced.

The main problems, however, are synchronising positioning and achieving the right price point, as well as managing the range of products and the frequency of customer purchases. On the other hand, this provides the opportunity to develop new abilities, such as improved product lines and presentation as well as positioning flexibility.

In terms of the parallel business of an online channel, it can be relatively easy for dispatching departments to transfer their skills and to then concentrate on getting the most sales out of each customer. It is effective strategy to use customer addresses in as many different ways as possible.

Figure 2-23: Core competencies per channel from the seller's perspective

Source: Based on Bähre 2007, p. 15



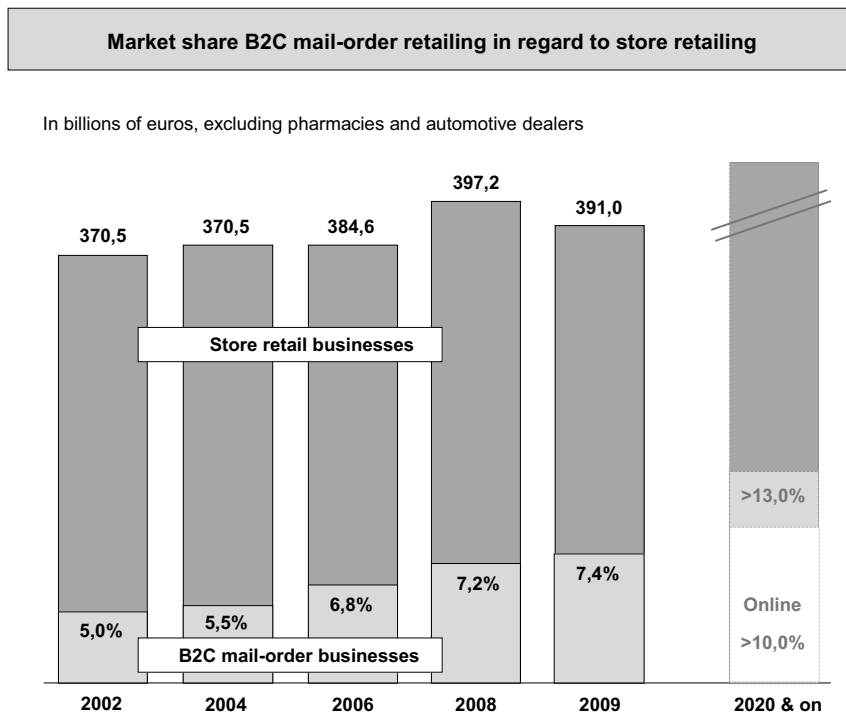
In addition to addresses, there is the catalogue as a centrepiece. Everything revolves around the catalogue's product range concept and planning and thus requires precise

planning and prognosis. Mail-order companies are typically very systematic. Planning is based on the catalogue and cannot be separated from the limitations of the catalogue (catalogue impact chain) by which the product line is readjusted.

Finally, the product delivery process requires individual customer logistics. The objective of combining with an electronic channel is to take advantage of the position of online commerce. The corresponding core competencies of each channel from the seller's view are shown in Figure 2-23.

Figure 2-24: Development of B2C mail-order retail

Quelle: BVH 2010; Welt Online 2010



Combining with online commerce ventures has breathed new life into the declining mail-order business. An 8 January 2008, FAZ article titled "The Second Boom" claimed that mail-order companies were getting a second wind thanks to the Internet and "in a two-fold way" (Giersberg 2008, p. 15). Mail-order companies can both develop a modern ordering system and attract the attention of new suppliers. As a result, online

commerce sites operated by mail-order companies are booming, while traditional mail-order firms have been declining for years. Online sales for mail-order companies are expected to rise in the coming years, although it is unclear whether Internet sales will represent additional turnover.

The share of mail-order operations is declining visibly, while B2C mail-order commerce, which includes the Internet, has been growing since 2003. The force behind the positive growth of the mail-order business is clearly the Internet (Figure 2-24).

Experts at Deutsche Bank have even predicted that by the year 2015, mail-order companies will make up 13 percent of the retail industry, and 10 percent of that business will be online (Giersberg 2008, p. 15). "The Internet channel is what will keep the mail-order retail industry growing," said Thomas Steinmark, CEO of BVH (tagesschau.de, 25 May 2008). "The Internet has given mail-order companies new life. The experts are sure of it. Until further notice, e-commerce will remain the driver of mail-order retail" (Lippok 2008, p. 41).

It is thus insignificant whether sales come from new business or substitution. Each traditional retailer is affected when a considerable portion of its sales are made over the Internet and this turnover is lost due to the lack of available online shopping opportunities for its customers.

2.5.5 Vertical Online Retailing

More and more top fashion labels are using online commerce as an instrument to grow vertically and thus operate as vertically arranged online commerce. Businesses that are not organised vertically are increasingly undermined by price-cutting business models from the discount field and the mostly vertical fashion chains, which no longer require business alliances such as department stores and can profit from their own labels. The vertical types of companies, which can also be called "locked manufacturer-retailer combinations", are characterised by their command of the complete supply chain and thus their ability to gain above-average growth rates and net yields.

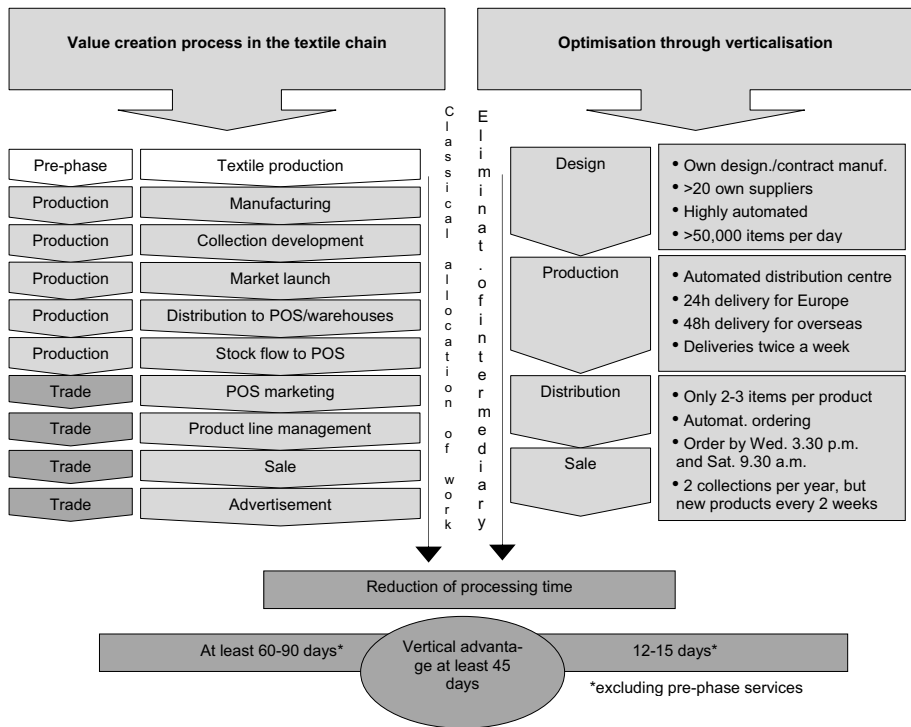
Direct sales through the fashion industry are also growing strongly, whether via a company's own stationary shops or B2C online sales. In the meantime, retailers such as boss.de, adidas.de, puma.de and esprit.de, to name a few, are at least partially vertically organised and operate online as well. The vertical concept has seen dynamic growth in Germany for years. A clear brand signature with a high level of influence on sourcing and design leads to an above-average performance and thus adds substantially to the value chain.

Since 1998, vertically organised clothing retailers have been clearly outperforming the total market with sales growth of 27 percent. Just by abandoning the intermediate distribution stage, companies open up considerable synergy potential, while also

promoting relatively fast expansion. Dispensing with intermediate storage also saves time and cost, as well as enabling a higher level of data transparency and quality than what is possible with a "classic division of labour". Companies can thus react more flexibly to demand. Above all, it is important to have integrated branding that makes a company's brand message and services transparent and easier for customers to evaluate (KPMG 2005, p. 21).

Figure 2-25: Inditex as an example of the advantages of vertical business systems

Source: KPMG 2005, p. 23



In the meantime, the trend toward organising vertically can be recognised in almost all industries. Brands such as BREE, NIVEA, GEOX, Faber-Castell, Samsonite, Bang & Olufsen, LEGO, Apple and even Maggi and Frosta all operate their own retail stores.

Manufacturers that sell their own brands all see themselves taking their online business even further in the future. Those that have grown over the years based on the structural division of labour between industry and retail in Germany are increasingly

outdated and unsuccessful, and no longer in a position to meet growing consumer demands.

Vertical offers are usurping traditional retail forms in terms of availability, variety, production and identification. The example of Inditex in Figure 2-25 shows the massive profitability potential of the vertically organised model. The case exemplifies the massive amount of time that a vertical system can save through the reduction of cycle time in the process chain, as compared to a system organised by the division of labour.

The newest representatives of vertical online commerce are Internet vendors that offer their customers product configurations ("mass customisation") or co-design possibilities ("open innovation") such as Spreadshirt. These vendors use Internet technology to integrate the customer at nearly all levels of the value-creation process (Reichwald/Pillar 2006, p. 209). This requires a vertical structure, since having an influence on the product would otherwise not be possible.

2.6 Mobile Shopping and New Online Retailing

"CeBIT: the Internet goes mobile" (Fredrich 2009, p. B2). While surfing the Internet by mobile phone has been possible since the 1997 introduction of the "Wireless Application Protocol" (WAP-Standard) (Turowski/Pousttchi 2004, p. 89; Alby 2008, p. 22), slow connections, lack of offerings and high costs initially led to insufficient use of WAP.

Since then, however, technical advances in transmission technology and mobile devices have created a new outlook for the mobile Internet (Bernauer 2008, p. 4). The "Universal Mobile Telecommunications System" (UMTS), as well as consumer devices and flat rates, have propelled mobile Internet growth (Accenture 2008/2009/2010). Accordingly, current studies predict a final breakthrough for the mobile Internet in the near future (Thelen 2009, p. 1). Market penetration of mobile phones is higher than that of PCs, with one in five Germans owning more than one mobile phone.

However, mobile shopping (m-shopping) – as one of many possible applications of the mobile Internet – is still in its infancy. A comparison with the Internet shows, however, that the m-shop offers attractive qualities as a distribution channel. The mobile phone has the advantage of having developed into a constant companion that can be used everywhere, as evidenced by the steady growth of mobile networks (Thelen 2009, p. 1).

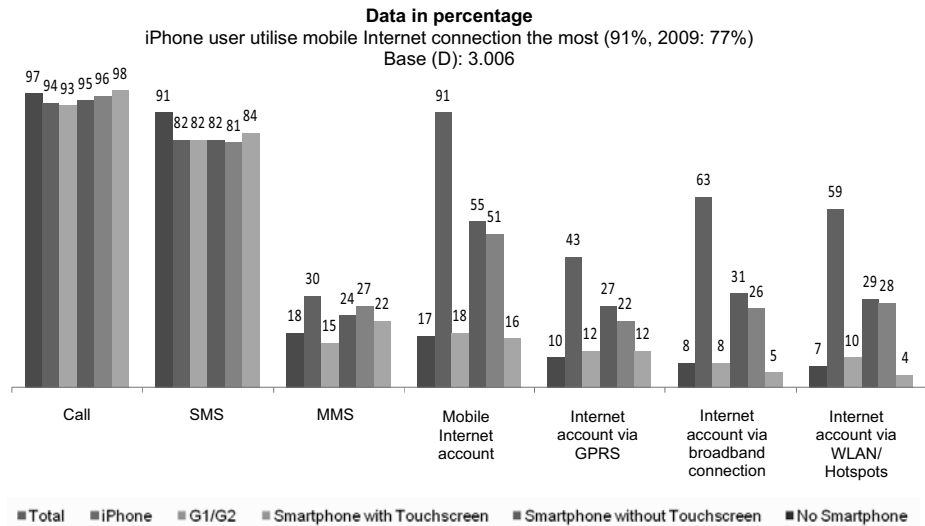
In April 2008, Germany had already crossed the threshold of 100 million mobile network users (Gruner + Jahr 2008a, p. 6). Almost one half of all Germans can no longer fathom life without a mobile phone and around a quarter feel "naked" without it (BITKOM/Goldmedia 2008, p. 4). Its status as a constant companion and the "anywhere

and anytime" usage option give the mobile phone great potential as an Internet access point (Accenture 2008, p. 15).

Figure 2-26: Caveats of mobile Internet

Source: Accenture 2010, p. 13

**Answer the question: For which reason do you use your mobile phone?
If you have more phone types please answer for the one you use most frequently
(multiple answers possible).**



2.6.1 Status of M-Shopping

Currently, 26 million Germans own a mobile phone with Internet capabilities and of these almost half are high-speed UMTS phones. Only 13 percent of these customers, however, actually use the mobile Internet (BITKOM/Goldmedia 2008, p. 27). Almost two thirds of the Germans who don't own an Internet-equipped phone are also uninterested in having one in the future (Accenture 2008, p. 4f). Figure 2-26 displays the reasons for this low acceptance of mobile Internet.

Despite all caveats, the number of mobile Internet customers has doubled in the last two years (Gruner + Jahr 2008a, p. 17). Falling prices and fast connections through technologies such as UMTS will promote more intensive use of the mobile Internet (Gruner + Jahr 2008a, p. 6). Current studies have concluded that the "pocket Internet" will be more popular in the near future and will open up new possibilities for m-

shopping (Bernauer 2008, p.4; Accenture 2008, p. 15; Gruner + Jahr 2008a, p. 17; BITKOM/Goldmedia 2008, p. 45).

While the mobile Internet is currently used mostly for classical services such as e-mail, news, weather or traffic information, m-shopping took seventh place in a list of the top 10 favourite mobile Internet offers (BITKOM/Goldmedia 2008, p. 28). According to a survey, 25 percent of German consumers said that they would buy products or services with their mobile phones (Lightspeed Research 2008, p. 2). Easy-to-understand and "on-the-go" products ranked highest on the list (Lightspeed Research 2008, p. 1).

In this respect, m-shopping offers opportunities for commercial enterprises, although the mobile phone has its limitations when compared with the PC and there are currently only a few m-shopping offers in Germany. In clothing, for example, only m-shops for Amazon, Neckermann, Otto and Ralph Lauren are well-established, using websites specially optimised for mobile phones. Non-optimised sites or online shops can be used either not at all or only in very limited ways on mobile phones.

Compared to the high number of online shops in the garment industry, the range of m-shops is significantly lower. A study by Proximity Germany indicates that fashion retailers are thus not in step with current digital trends and not taking advantage of m-shopping (Proximity 2008, p. 1).

2.6.2 Fundamentals and Limitations of M-Shopping

The next relevant question is what the term "m-shopping" actually means. The term "mobile" and the letter "m" make it clear that this mode of shopping is not bound to a permanent location. Shopping is made mobile through the employment of devices that were developed for mobile use. They can be carried and used in everyday life and are also able to display the Internet (Bernauer 2008, p. 26).

Mobile end devices are defined as classical mobile phones in the broader sense of "personal digital assistants" (PDAs) or smartphones (Wiecker 2002, p. 405). Indeed, the laptop is not really considered a device for m-shopping, since its capabilities (screen size, input options, etc.) are too similar to the stationary PC.

Looking at the PDA, it can be seen that sales for these devices are declining as more and more of them are replaced by the smartphone – a combination of mobile phone and PDA (BITKOM/Goldmedia 2008, p. 13; Wiecker 2002, p. 417). The smartphone is viewed as a mobile phone and, in German, is also called by the word for mobile phone, "Handy". With help from transmission technologies such as UMTS, the smartphone enables Internet access and becomes, in a sense, the mobile Internet.

M-shops differ from online retail in their use of a mobile end device instead of a stationary PC. Otherwise, the features are the same as for "classical" online retail and distance trade (Thelen 2009, p. 4):

- The offer is made with the use of electronic media (mobile Internet).
- The purchase happens from a distance: The spatial separation between seller and buyer is bridged by the mobile phone. In m-shopping, the order takes place over the mobile Internet, via text message or via telephone. There is a time interval between order and delivery of products.
- The goods are sent to the customer's desired address (or returned) using the firm's own or an external delivery service.

M-shopping is a part of mobile commerce (m-commerce). The spotlight is on the exchange of goods and services, but information and communication processes such as "location-based services" are also part of m-commerce (Scheer et al. 2002, p. 100; Lehner 2002, p. 8; Turowski/Pousttchi 2004, p. 2).

M-commerce and e-commerce differ from each other in their use of devices. In e-commerce, devices are generally stationary and commerce is mostly location-based, whereas this is not the case with m-shopping (Turowski/Pousttchi 2004, p. 1).

2.6.3 Technical Fundamentals of M-Shopping

Because the proliferation of mobile Internet and m-shopping is largely influenced by the development of faster transmission technologies and better devices, both aspects are discussed in detail below (BITKOM/Goldmedia 2008, p. 11).

Transmission Technologies

"Global System for Mobile Communications" (GSM Standard) based mobile networks rank among the second generation of mobile network systems (2G). However, because of GSM's slow data transfer rate (9.6 kbit/s), bridging technologies, also known as 2.5 G, were developed in the 1990s.

The "General Packet Radio Service" (GPRS) is one of the most well-known and frequently-used of these technologies. GPRS was introduced in Germany in 2001 and expanded the GSM standard, allowing for faster data transmission (115 kbit/s) (Bernauer 2008, p. 22).

UMTS is the third mobile network generation, and has been available in Germany since 2004 (Thelen 2009, p. 6f). However, in comparison to the expanded GSM standard – e.g. GPRS – simple network updates are no longer possible. Here, it is necessary to build one's own network.

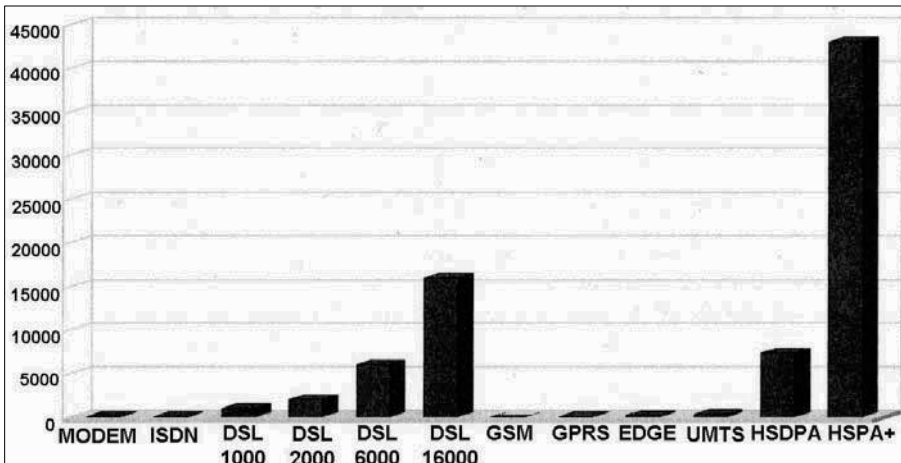
Accordingly, UMTS coverage is not yet comparable to the near blanket coverage of GSM networks. Thanks to the downward compatibility of UMTS networks, wherever these are not available, UMTS switches over to the more widely available, albeit slower, GSM/GPRS network. While voice customers notice no difference between the networks, the change is clearly felt by those using the Internet on mobile devices (Alby 2008, p. 24).

UMTS is also not able to compete with the speed of DSL connections for the stationary Internet, as shown in Figure 2-27. In spite of this, UMTS is the system of the future that will expand mobile Internet use, and on which future technologies will be based (Alby 2008, p. 26). Among those already developed are UMTS upgrades such as "High Speed Downlink Packet Access" (HSDPA). These upgrades are known as 3.5G and can be compared to the GSM upgrade to GPRS. They dramatically increase data transmission speeds (Alby 2008, p. 26).

There are differing opinions on the question of which technologies will be implemented as part of the fourth generation of the mobile network system. For some, "long-term evolution" lies in the "mobile super-network", while others see technologies such as "worldwide interoperability for microwave access" (WiMAX) or "IP multimedia subsystems" as the winners (Alby 2008, p. 30 f.; Bernauer 2008, p. 24 and 26 f.).

Figure 2-27: Comparison of transmission speeds (in kbit/s)

Source: Alby 2008, p. 27



Mobile Devices

Screen size and limited input options on a classical mobile phone keypad make using the mobile Internet cumbersome. To surf the mobile Internet, an Internet-ready device is first required. A "fast" connection to the mobile network via UMTS is only possible with a special UMTS-equipped device. Most phones available on the market today have UMTS capabilities, almost without exception (Bernauer 2008, p. 26 f.).

Mobiles differ from smartphones in their smaller size, while smartphones are a combination of mobile phone and PDA, which by definition have no telephone functionality. Generally, they possess larger screens than mobile phones and can display a greater number of colours (Bernauer 2008, p. 27 and 28 f.). Smaller, foldable or slide-to-open keypads and touchpads also have different input options (QWERTZ keypads) from phones. They can commonly be used with one finger or a stylus. The smartphone's screen size and input options offer a simpler and more comfortable way to use mobile Internet than standard mobile phones.

As sales of this device increase, its use is advancing quickly (Bernauer 2008, p. 28). With the most prominent member of the smartphone family, the Apple iPhone, the "Internet in pocket format" has finally had its breakthrough. Now competitors such as Nokia, Microsoft and Google are going mobile and striving to create an "iPhone killer" (Lufthansa Exclusive 03/09, p. 17). The Android phone from HTC, which has allowed Google to "step into the ring", is receiving lots of attention (Fredrich 2009b, p. B3).

2.6.4 M-Shopping Product Suitability for Fashion

The possibilities for using m-shopping to sell high-value products were examined in a study overseen by the authors of the book. The study examined whether mobile shopping would also be suitable for clothing. The authors observed not only the characteristics of clothing, but also the specific traits of mobile devices and mobile networks (Thelen 2009, p. 11 ff.).

Device-Dependent Features

The display is a characteristic feature of the mobile phone. Despite a trend toward larger screens, the mobile phone is still a "pocket companion" and its screen will never reach the size required to acceptably display most websites (Alby 2008, p. 64). This is one of the greatest limitations to m-shopping for clothing, since the smaller the screen, the smaller the product images that are meant to appeal to customers.

Realistically rendering material, structure and colour is, however, of great importance here, not least to avoid exorbitant numbers of returns. The major challenge in m-shopping lies in small screen sizes. Pictures must be edited by the shop owner so that

the display of the material and the structure of the product is an optimised substitute for touching it, and the colour is accurate to the original (Erlinger 2008, p. 52).

A component that cannot be impacted, however, is the choice of end device. The device's image resolution plays a central role in displaying the image sharply, while the number of colours that can be displayed (colour depth) is also very important. The customer must be able to rely on the colours in the displayed article of clothing, but the discrepancy between the colours on the screen and the real colour is often too great (Lochmann 2007, p. 92). Older mobile phones in particular are very limited in their ability to display colours, and image resolution is not at all comparable to that of PCs (Alby 2008, p. 64).

Another aspect that impairs use of mobile phones is unfavourable exposure to light on the display. Customers can theoretically shop from anywhere, but the mobile phone user will have problems viewing displays on the screen in places with strong exposure to sunlight (Alby 2008, p. 65 f.). This has less significance with minor products such as shampoo than with more refined products such as clothing.

The keypad, like the screen, is impacted by the size of the phone. While the classic phone console with its multiple functions is sufficient for making calls, using it for surfing the mobile Internet is uncomfortable. As the popularity of "Internet phones" such as the iPhone grows, the number of devices that offer more comfortable input options is also increasing. Among these are touchscreens that are operable with a finger or stylus, or devices with small complete keyboards that fold or slide into the phone. However, none of these is comparable to the input potential of computer keyboards (Alby 2008, p. 65 ff.).

Navigating the network presents another obstacle to comfortable surfing. Instead of a mouse or series of keyboard shortcuts, devices lacking a touchscreen must be operated solely with the phone's keypad. For devices with touchscreens, the difficulty lies in touching the already minimised elements to navigate the site (Alby 2008, p. 65 ff.). The problem is further exacerbated by the small number of Internet sites that are optimised for viewing on small phone displays. The phone user is not only required to scroll up and down, but also left and right.

Another requirement for mobile Internet that is not often addressed is uninterrupted power supply, which generally is delivered by a battery. Classical mobile services such as making calls or sending/receiving text messages use very little electricity, allowing most batteries to last several days. However, new uses such as sending or checking e-mails or m-shopping via UMTS require much more power (Alby 2008, p. 66 f.). Difficult navigation and long loading times take time and therefore battery life. Mobile phone users can only shop as long as the battery capacity of their mobile end device actually permits it. This is inadequate and can hinder mobile shopping.

Still, the greatest impediment to m-shopping for clothing is the lack of Internet sites optimised for mobile end devices. Many fashion retailers, such as the Esprit Online

Shop, still choose not to optimise their websites for mobile phones (Thelen 2009, p. 16 ff.).

When an Internet site is optimised as an m-shop, as with Otto's m-shop (www.otto.de), a specially adapted site for mobile phones is developed parallel to the existing site (www.mobil.otto.de). This is inevitably more work for the retailer, but simplifies m-shopping for the customer considerably.

According to "mobile Web best practices", display of contents and the content itself are tied to the limitations of the device (Alby 2008, p. 118). This affects the browser, screen size and input alternatives and makes sense as long as mobile phones, due to their limitations, are not attempting to present comprehensive information (Alby 2008, p. 33).

It can further be assumed that mobile phones are often used in situations where PCs are not, and that requested information is related to the current context of the user (Alby 2008, p. 33). In terms of design and content display, optimisation means dispensing with, for example, high-resolution photos, many colours, complicated tables and frames, instead presenting information compactly. Focusing navigation and reducing loading time are also helpful in this case.

Specially optimised websites for mobile devices have the advantage of being relatively fast, easy and comfortable to use. They are also available to all Internet-equipped phones. Large numbers of mobile phones are certainly capable of displaying optimised pages (Alby 2008, p. 118 ff. and 136 ff.). One great disadvantage is that these "trimmed" versions must do without functions that would be available on the Internet. However, this is much preferable to leaving Internet pages un-optimised for mobile devices, since un-optimised pages are not at all usable on mobile phones or come with very restricted use (Alby 2008, p. 68 f.).

Internet sites and online shops are often intricately designed and offer the user diverse functions (e.g. the Otto Styling Shop). Because of this, websites reach sizes that surpass the capabilities of mobile devices. The most important functions that give the customer intense, interactive contact with goods are currently not available to mobile devices. The use of the Esprit online shop, for example, is hardly possible with a classic mobile phone or even with a smartphone. The site takes a long time to load, displays errors and navigates poorly. Esprit's zoom function is not usable either. The online shops of Tommy Hilfiger and S.Oliver show similar results.

Since un-optimised websites are hardly usable for m-shopping, the study was conducted solely using sites that are optimised for mobile phones, primarily demonstrating improved loading times and usability, such as the Otto m-shop.

Mobile Network-Dependent Features

Although the construction of the GSM network is currently quite far along, rural areas still have many dead spots. Train travellers especially have brought this problem to

light. In situations where mobile telephones are equipped for mobile Internet surfing, connection interruptions are significantly disturbing. If a connection to the mobile Internet fails, m-shopping cannot fulfil a brand's demand for ubiquity and accessibility (Thelen 2009, p. 18 f.). Permanent network availability and high-speed transmission are fundamental requirements of both m-shopping and the online shopping experience.

UMTS has been called the driving force for growth for the expansion of the mobile Internet, but its transmission speeds don't come close to those of the fast and relatively widely used DSL connections. Expansions such as HSDPA offer a cure, but not all mobile network providers are equipped with this high-speed technology (e.g. E-Plus).

This means that UMTS doesn't exist as blanket coverage and that, wherever UMTS is not available, the phone falls back on the more widely-used GSM/GPRS network. For mobile Internet customers, this change slows down the connection greatly (Thelen 2009, p. 19). M-shopping, which relies on product displays with long loading times, becomes a trial of patience. Slow transmission speed proves to be one of the greatest hindrances to comfortable m-shopping.

Operators' prices for mobile data services are another hurdle to mobile Internet use (Thelen 2009, p. 19). Despite falling prices and flat rate offers, 71 percent of those in possession of Internet-ready phones cite high connection costs as a main reason for not using the mobile Internet (Accenture 2008, p. 11). These costs are indeed quite high when compared with the calling costs and flat rate prices of faster and more reliable DSL connections. On the other hand, the advantage for the customer is the ability to surf on the go (Alby 2008, p. 68).

2.6.5 M-Shopping Prospects

Without a doubt, m-shops open up attractive possibilities for customers and businesses. However, they can hardly compensate for the grave limitations that still come with the mobile phone as a distribution channel. M-shopping is not yet fit for products such as clothing (Thelen 2009, p. 32). The decisive criteria for purchasing clothing cannot yet be taken into consideration due to technical limitations, which is especially true for fashionable clothing.

Certainly it must be taken into account that so-called top brands profit from a loyalty bonus in terms of fit and quality, which is why they lend themselves quite well to distance sales (Fuchslocher/Hochheimer 2001, p. 137). However, this advantage carries far less weight with fashionable products than with basics, for example, as fashionable products pose a greater risk for customers in terms of fit, and thus it cannot compensate for the deficits of m-shopping.

M-shopping is certainly better suited for (brand) basics or "never-out-of-stock" items. The risk of a bad purchase is far lower, as form and fit are generally standard. The product and its corresponding size are also generally known. The Ralph Lauren m-shop, which only offers "RL Classics" (polo shirts, sweatshirts or shorts) for mobile purchase, confirms the usefulness of different treatment for clothing products when assessing the m-shop (Thelen 2009, p. 33). The company may have considered the existing limitations of the m-shop compared to online shops and what these mean for the purchase of fashionable products.

Since netbooks are increasingly appearing on the market and are more appropriate for everyday use, the question arises whether mobile phones are even still desirable as a mobile shopping option. With UMTS cards and UMTS USB sticks, even these "mini laptops" can be used anywhere to surf the Web wirelessly.

Compared to mobile phones, these devices allow unlimited access to online shops and to the offers available there. Netbooks are certainly a better and more comfortable solution for fashion purchases (Thelen 2009, p. 33). Admittedly, they are not nearly as widely used as mobile phones, and lack important features of the mobile phone, such as the "pocket size" and being constantly reachable via call or text message. Due to the lack of telephone function, netbooks will probably never have the same significance for users as the mobile phone does, which also makes them a poor alternative for m-shopping (Thelen 2009, p. 33).

Despite its poor suitability for fashion, the m-shop is a complementary distribution channel with undeniable opportunities. Here, the integration of the m-shop with a system of existing distribution channels and the resulting channel hopping possibilities could certainly have great advantages for customers. Other channels such as online or brick and mortar retail offer a wider range of information and are therefore without a doubt better suited for clothing sales.

The great strength of the m-shop exists in its anywhere/anytime availability. The added value for customers results not only from location-based 24-hour ordering possibilities, but also from the constant availability of service offers. Mobile services especially designed for phones, such as Otto's m-shop price alarm, provide a significant customer benefit. The opportunities for m-shops lie in their strength as a complementary distribution channel to the online shop (Thelen 2009, p. 33).

2.7 Innovation: From Retail to Me-tail

As power shifts from seller to buyer and retailing changes into a system of "me-tail", retail companies will require much more than customer centricity and supply chain optimisation to achieve high performance.

Today's consumers are demanding, but tomorrow's consumers will demand even more. Empowered by technology and unprecedented selection, they will demand products and services that meet their ever-shifting expectations – from convenience and affordability to a customised experience and sustainable sourcing. They will expect access to products anywhere and at any time. Among other things, it is the consumer's drive for instant gratification that will transform the retail industry.

- Stores as we know them could become obsolete and many shoppers may never even visit one.
- Consumers will be able to shop in multiple channels and will expect to find relevant content in all of them.
- "Fast fashion" will be the de facto industry standard, causing dramatic changes in stores' inventory levels.
- Supply chains will be optimised throughout the product's entire life cycle.
- Consumers themselves will help form the communities of talent required to accommodate new and constantly shifting demands.

2.7.1 Role of Stores Will Change Dramatically

In the future it will become necessary for businesses to offer sales in different formats, each tailored to specific markets. Precision retailing will become a mainstay. Successful stores will be those that can use their relationships with customers to interpret their needs and act swiftly to meet them.

Some stores may focus on customers who are in a rush, others on serving the "green" customer, while others will simply be showrooms. Vogue magazine's take on pop-up retail allows visitors to try on clothing from displays, receive advice from stylists and sample products from the perfume or make-up counters. The store itself sells nothing, but the information gained by attentive staff can provide insight into customer preferences that may be invaluable for future sales.

People who continue to visit physical retail spaces will be in search of an enjoyable and entertaining "experience". They may patronise bookstores, where they can meet stimulating authors, or visit toy stores, where children can interact with toys and games, while real and virtual in-store experts answer parents' questions.

Today's shoppers are ready for mobile and interactive technologies that can deliver this level of experience. For example, almost three quarters of Europeans say they would use mobile phones to scan products in-store and learn more about them (Accenture survey 2010 – Janet L. Hoffman, Renee V. Sang, p. 5). More than half agreed

that being able to interact with an online product expert would save them time while shopping in-store.

2.7.2 Consumers Will Demand Real Multi-Channel Retailing

Today's consumers already enjoy round-the-clock purchasing power and transparency throughout transactions. They are beginning to abandon product ownership in favour of a "leasing lifestyle", characterised by a growing demand for access to items closer to the point of need.

In the future, Internet penetration will turn this multi-channel lifestyle into a global phenomenon. Until now it has been enjoyed mostly by the generation born since 1980, also known as the Millennials or Generation Y. The trend means great opportunities for startup businesses – called "wildfire niches" due to the rate at which they spread. Wildfire niches are empowered by new technologies and serve an array of consumer segments.

Using single mobile devices, retail "grazers" will be able to configure their experiences from a variety of locations, using different channels to effectively vary their product choices. If products fail to fulfil their expectations, they will compare products online or canvass their worldwide network of "friends" for a better match elsewhere.

For example, if a customer spots someone wearing a shirt on the street or online and wants to buy it, but that shirt doesn't fit with the environmental or ethical standards of the person's social network – "friends" can help the person find the actual item wanted.

Leading retailers are already looking to capture increasingly elusive customers in imaginative ways. Consider the success of Zlio, an online site that invites visitors to "create your own store" by selecting products from hundreds of Internet merchants, and which earns money on each sale. The Swedish fashion giant H&M allows customers to buy products from their mobile phones. Domino's customers can order pizza from the TV, via a mobile phone app or Facebook.

Staples Canada's print shop offers virtual experts on demand to help the customer define a print job, mock up samples and place orders. This innovation has helped Staples expand its offering into more locations by solving a basic challenge in retailing – providing each customer with cost-effective, personalised service and expertise when needed.

One high-end clothing maker offers to seek out items similar to the one the potential customer sought, but didn't find, on the company's website. The sourced results are then offered at a discount to the customer, as well as to the customer's network of friends.

2.7.3 "Fast Fashion" Will Be the De Facto Industry Standard

In the future, product life cycles will be significantly shorter, making product innovation more critical for high performance. "Fast fashion", in fact, will be the dominant business model – not just in apparel and consumer electronics, where it is already popular, but also in other retail categories.

Fast fashion will also necessitate more supple supply chains, a challenge for many. According to the Miami-based Retail Systems Research, forecasts do not match actual demand for most retailers. The proliferation of stock-keeping units means that retailers are attempting to provide an increasing number of choices to stay relevant for the consumer. One study estimates that more than 80 percent of inventory investments are in store – an unsustainable situation, with real estate costs rising and retail space in increasingly short supply (Accenture survey 2010 – Janet L. Hoffman, Renee V. Sang, p. 6).

In the future, the retail supply chain will be dominated by inventory that arrives on the store shelf as the need arises. Supplies will be replenished at weekly or longer intervals. Lead times for domestic suppliers will be measured in hours or days. Forecasting, planning and replenishment systems will support real-time allocations and inventory management techniques – innovations that are estimated to reduce in-store inventory by a third or more.

There are numerous benefits to the fast fashion business model. Customers see a visible difference in the store's sales area and are enticed to return, thus boosting revenue. Faster responses to sales data can help increase production efficiency, fuelling sales and reducing markdowns. This model ensures that best-selling and basic items are always in stock. It separates and streamlines design function, encouraging timely and accurate correspondence between design and production teams. Production lead times should drop, as common components are used. Vendor partnerships should strengthen as well.

Some leading retailers have already begun using consumer data to shift toward the fast fashion model. For example, Target, the U.S.-based general merchandise retailer, expanded its fast fashion concept from apparel to gardening, home décor and kitchenware.

In the future, Target will be able to combine sales data with analytical capabilities to identify specific attributes of each product, determine the value of these products to individual consumers and target product lines to them, thus customising individual offerings. What's more, fast-moving products will be stocked in smaller formats such as vending machines or kiosks, which are not only more convenient for consumers, but also more cost-effective for retailers.

2.7.4 Supply Chains Will Be Optimised Along the Product's Total Life Cycle

In the future, resources will be even scarcer than they are today and consumers will become more value-conscious. Shoppers will take on more responsibility for reducing packaging and avoiding irresponsible production. However, they are not prepared to face the full cost of sustainability. Retailers will need to institute cost-effective sustainability strategies of their own. A supply chain that is optimised throughout the product's life cycle will be of critical importance.

Reusable and recyclable "bags for life", which are issued by retail grocers including Tesco and Whole Food Market, will eventually be replaced by refillable containers. Rent and return services are growing in popularity for everything from high-end handbags to children's toys. There may be a time in the near future when consumers will be able to stop at "refresh and refill" windows to stock up on basic supplies, using mobile devices to pay for them.

Resource constraints are already changing peoples' behaviour, and not just in Europe and the United States, where the demand for sustainable products and environmentally responsible services has given rise to a new sub-sector: organic groceries. In Brazil, for example, Pao de Acuar, the country's largest food retailer, has responded to shoppers' growing concerns with "green" stores that use 10 percent less water and 14 percent less energy.

Retail must also become a more collaborative industry. Individual retailers will recognise the value of specialisation, particularly in logistics, and supply chain specialisation and segmentation will become commonplace. However, a proliferation of distribution points will also make it necessary for companies to share logistics and other forms of collaboration. For example, Meadowhall, a large mall in the U.K., has teamed up with Clipper logistics to manage an on-site distribution centre that stores inventory for all retailers in the mall. The collaboration has cut in-store inventories, decreased the mall's carbon footprint and boosted sales by up to 10 percent in some cases.

2.7.5 Consumers Themselves Will Help Form the Communities of Talent

In the future, consumer demands will be so diverse and complex that no single organisation will be able to cater to all of them. Individual retailers will need to function more as agents to consumers who look to them to "broker" products and sales channels. This will cause many retailers to join together in strategic alliances, possibly with firms in other industries that also want a share consumers.

For example, the U.K. retail grocer Tesco has evolved into an aggregator of smaller products and services, ranging from Tesco Finance (a joint venture with Bank of Scotland), to Tesco Mobile (with O2) to Tesco Travel, which is powered by LastMinute.com.

The main demand will be for specialised, knowledge-based talent that can create value beyond distribution. This talent will come from possibly unlikely sources, for example from companies. Companies will start outsourcing for talent, a significant portion of which will be mobile, moving from retailer to retailer. The development of "communities of talent" will involve employees who work for multiple companies, sometimes simultaneously due to open sourcing.

Google and Procter & Gamble have traded employees on a temporary basis in order to learn from one another. Japan's Otetsudai Networks allows anyone to register for employment by submitting his core skills. Employers with short-term labour needs can enter a task description and find matched registrants in the area.

2.8 Transformation: Roadmap for Success

Today's consumers expect an equal number of products and services from a retailer, no matter whether those products and services come from a store, the Internet, a call centre, catalogue, mobile phone, kiosk or franchise. What's more, they expect a seamless shopping experience in which they can switch between channels at will. They want to be able to return or exchange products in-store, even if they bought them online, and to cancel or exchange orders via any channel, regardless of where they initiated the transaction.

These cross-channel shoppers are significantly more valuable than single-channel customers. They buy with higher frequency and spend, on average, almost three times the monthly amount of single-channel shoppers in some segments of the industry. They are also more responsive to cross-selling. Shoppers who come to the store to pick up their online purchase, for example, may end up making a spontaneous purchase while there.

In other words, if retailers can draw in physical and virtual customers with consistently high quality products and services, they will be well-positioned to oversee profitable growth and high performance. Most retailers recognise that cross-channel sales are the most profitable. A majority of respondents in a recent industry survey agreed that cross-channel retailers are better able to weather recessions, and just under half of them recognised the benefits of cross-channel sales in boosting market share.

However, too many retailers fail to recognise that cross-channel retailing involves more than simply establishing an online presence. Internet experts confirm that e-

commerce can stimulate purchasing on and offline. Yet research also suggests that the Internet is a less effective way of informing customers about a product than either word-of-mouth advertising or marketing strategies, because of the high number of advertisements that customers are confronted with on a daily basis.

Of the customers who make purchases in stores, as many as 87 percent of them first researched their purchases online. Millions still gather information about products while in the store and many use catalogues as a reference before buying from a brick-and-mortar location.

Designing a Roadmap

Retail businesses that wish to turn their companies into cross-channel operations must first pose the following questions:

Cross-channel strategy:

- Which customers use which channels?
- Are these channels integrated?
- Which products and services are offered in each channel?

Cross-channel processes:

- How is direct customer interaction designed?
- What must be completed behind the scenes?

Cross-channel culture, organisation, incentive and control systems:

- How should the business and its employees be transitioned to the cross-channel system?
- What is the "ideal" organisation of the business?
- How are incentive systems designed for each channel?
- How will success be measured?

Cross-channel information systems and tools:

- What support systems are required?

Cross-channel communication:

- How are integrated activities communicated to the customer?

In short, a website is one of many methods retailers can use to connect with customers at different points in the transaction. What is most important is maintaining consistency between channels and giving customers a unified brand experience while moving among them.

Retailers who sell their products through multiple channels, but manage each one in a separate, non-integrated fashion, may improve the performance of their individual channels, but they may also lack a unified brand identity that can help secure customer loyalty. This strategy also neglects the merits of sharing insights into customer preferences, which are so critical to success in cross-channel marketing.

Of course, different customer segments will expect different things from each channel. Customer profiles will vary in each channel as well and various retail organisations will approach cross-channel sales differently, depending on their circumstances.

Regardless, channels require a single customer database to provide a unified view of the customer from all perspectives. This can be used to tailor offerings to customers' choices and give them the flexibility they desire. To do this, retailers must define a clear cross-channel strategy for their processes.

True cross-channel retailers integrate all their channels – traditional stores, catalogues, call centres, mobile phones, franchises, kiosks or websites – so that customers are treated to the same products and level of service within all of them. Moreover, true cross-channel retailers exchange information on customer preferences across all of their channels, managing them as one entity so that customers always know they are dealing with a single business.

The rewards for taking the correct approach can be substantial. Industry studies show that successful cross-channel retailers meet the needs of their customers consistently and throughout diverse channels. Their organisation and processes are integrated, creating a seamless experience for the customer, regardless of the point of contact. They project a clear, cross-channel brand identity and their growth strategies focus on how best to maximise their relationships with customers.

Sainsbury's Scales Up

In the future, Sainsbury's general merchandise online offering is expected to encompass 20,000 products, be viewed by more than 100 million customers annually and fill 2 million orders a year.

The leading U.K. supermarket launched a new line of home and lifestyle products on sainsburys.co.uk in the summer of 2009. It now includes some 5,000 home and technology items, household appliances, sporting equipment, toys and games. The company implemented a new business model and changed its processes and systems to support it. The new model includes more flexible content management, new promotions capabilities, improved Web analytics and reporting.

This cross-channel initiative delivers an end-to-end solution, from item and promotion set-up to receipt of inventory from suppliers by a newly commissioned fulfilment centre. It also includes a new content management system, product delivery, returns management, financial recognition and an updated customer-contact centre application.

3 Eight Success Factors in New Online Retailing

3.1 Determining Success Factors in Online Commerce

The next step is to determine generally accepted principles that can be defined as the success factors in online commerce. Success factors are those factors whose influence makes a decisive contribution to the success of an enterprise. (Patt 1988, p. 6 ff.). Our main focus here is why and how some online sellers succeed while others falter by failing to take advantage of existing potential.

We measure success in this area both with financial metrics, such as turnover growth and profitability, and with specific online metrics. These include: reach of the e-shop (e.g. visitors per million online users), interconnectedness through the Uniform Resource Locator (URL) that links to another URL and speed of the website (e.g. loading time in seconds). Financial indicators in particular proved to be a stumbling block for many online vendors in the early years of the "new economy", when some insider circles still saw a high cash burn rate as a status symbol (Heinemann 2008g, p. 140 ff.).

We follow a standard procedure, depicted in Figure 3-1, to assess success factors in a qualitative way. First, we determine an online vendor's roots by researching whether this is a traditional online commerce, cooperative online commerce, multi-channel commerce, hybrid online commerce or vertical online commerce. A business' global reach, size and history are also taken into consideration.

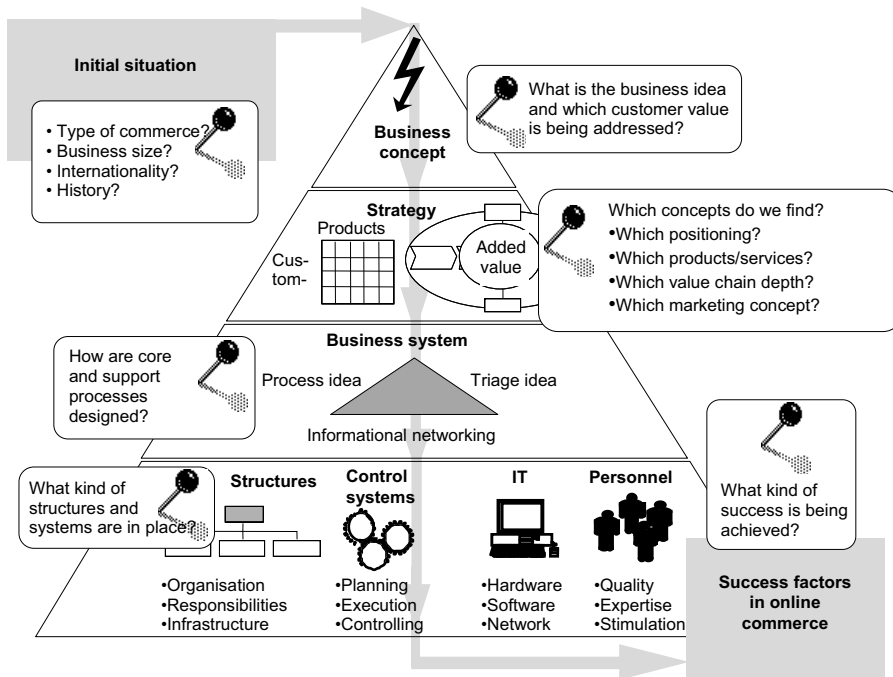
Then we evaluate the vendor's business concept carefully based on an "outside/in perspective" (Heinemann 1989, p. 105), with the goal of understanding the underlying business concept and the added value offered to the customer.

Next, we take a closer look at strategy and try to understand the business' positioning, product and service offering, value chain depth (make-or-buy) and marketing concept. After that, we evaluate the business system based on its core and support processes, as well as the process concept, triage concept and its informal connectedness.

Finally, we analyse the structures and systems behind an enterprise's organisation, leadership, personnel, IT and Internet-specific capabilities.

Figure 3-1: Determining success factors in online commerce

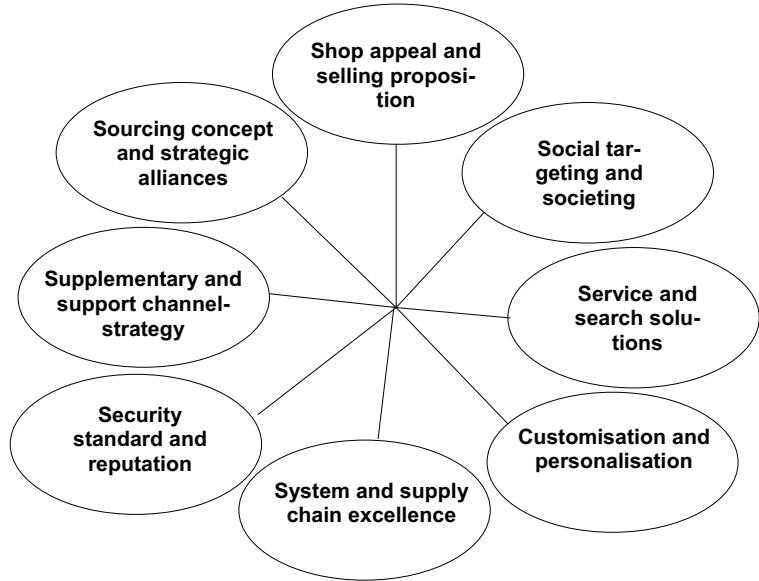
Source: Heinemann 2009, p. 88



This qualitative evaluation of success factors in online commerce is based on more than 150 progress reports from various online commerce companies, more than 200 international "best practice case studies" from 2007 to 2010 as well as expert interviews on this topic. It also includes experience from more than 20 consulting projects that were directly or indirectly related to online commerce.

Summarising the results of the analysis allows us to identify eight central success factors, depicted in Figure 3-2:

Figure 3-2: 8 Success factors in online commerce



- **Success factor No. 1:** The unique appeal of the e-shop and a clearly defined value proposition ("shop appeal and selling proposition").
- **Success factor No. 2:** Extensive use of communities and social networks ("social targeting and societing").
- **Success factor No. 3:** Excellent and fast self-service and searching ("service and search solutions").
- **Success factor No. 4:** Maximum customisation and personalisation of customer interactions ("customisation and personalisation").
- **Success factor No. 5:** "System and supply chain excellence".
- **Success factor No. 6:** Best possible "security standards and reputation".
- **Success factor No. 7:** Supplementing the online lead channel with supporting sales and communication channels ("supplementary and support channel strategy").
- **Success factor No. 8:** "Sourcing concept and strategic alliances".

3.2 Shop Appeal and Selling Proposition as Success Factor No. 1

Today's online customers have become more demanding and nuanced in their needs, not least because of the abundance of options. This means online businesses must anticipate future developments and megatrends early on, in order to incorporate them into business strategy and operation. As they do so, they will quickly run into the limitations of traditional marketing tools, such as classical market segmentation and target marketing (Gömann/Münchow 2004, p. 178).

Today's successful online commerce models are those that anticipated megatrends early on. They have succeeded in staging the whole mix of brand presentation, distribution channels, selection, service and pricing far beyond simply fulfilling the needs of a target audience. This is how they were able to create a unique shopping experience for customers that was not only perceived that way by a target audience but which also had cross-market appeal. This formula illustrates nicely the concept of "attraction marketing" (Gömann/Münchow 2004, p. 180).

3.2.1 Attraction Marketing and Customer Value Orientation

In online commerce, the business models that tend to be successful are those that have been able to differentiate themselves clearly from the competition. They must succeed in appealing to hybrid consumers in the online marketplace. Online, consumers are unpredictable and it is difficult for particular brands or vendors to keep customers interested for the long-term, since online customers no longer fit simple target group models.

The decisive question is: How can retailers use unique marketing tools – tools that are plugged into all levels of customer communication – to create an appeal which crosses target groups and inspires consumers to interact via the Internet? (Gömann/Münchow 2004, p. 183).

Businesses can't simply create this extraordinary appeal ("shop appeal") with one-off measures. They must focus on holistically addressing online customers and satisfying their needs. More importantly, they must present their online store credibly.

For home shoppers, central topics include convenience and control over the shopping process (the ability to compare, price transparency, return options), but these are not enough to guarantee the customer's interest and loyalty. Bridging interest to the selection is decisive. The selection must reflect the vendor's communicated brand positioning and create a credible connection to the online store. In fact, it is the "unlimited expanse" of the Internet that often leads online vendors to offer everything, thereby failing to draw a clear line or focus.

Sellers should not be ambivalent about whether they are perceived as a media specialist who offers complementary goods, or whether the business is seen as a general store. It makes sense to set a minimum for the size of the core selection (for example, at least 50 percent of the turnover should come from media products).

It is imperative that vendors avoid tarnishing a customer's perception of a brand with poor merchandise selection. Many online sellers today have significant contradictions between their various business levels, namely e-store, e-brand and selection. This means that the communicated brand image and the promised added value are not reflected on the shop and selection levels.

It's stunning how often vendors neglect the necessity of defining a business profile for their online shops (Heinemann 1989, p. 17). In some cases, customers would barely be able to identify the online business if its name were omitted (Gömann/Münchow 2004, p. 194). In this area, there is still a great deal of potential to apply holistic attraction marketing.

It's difficult to comprehend why the "flagship store model", which has become so central in brick-and-mortar commerce, has still not caught on in online commerce. This is especially puzzling considering that technical capabilities (e.g. 3-D picture quality with zoom function) make it nearly possible to make online shopping even more entertaining than a visit to a physical store.

Even as vendors invest millions in designing ever bigger physical stores, the design of online shops still lags far behind. This is baffling, considering that Internet channels offer much higher potential for turnover than physical sales channels. Successful online vendors have picked up the "flagship store model" and put it into practice.

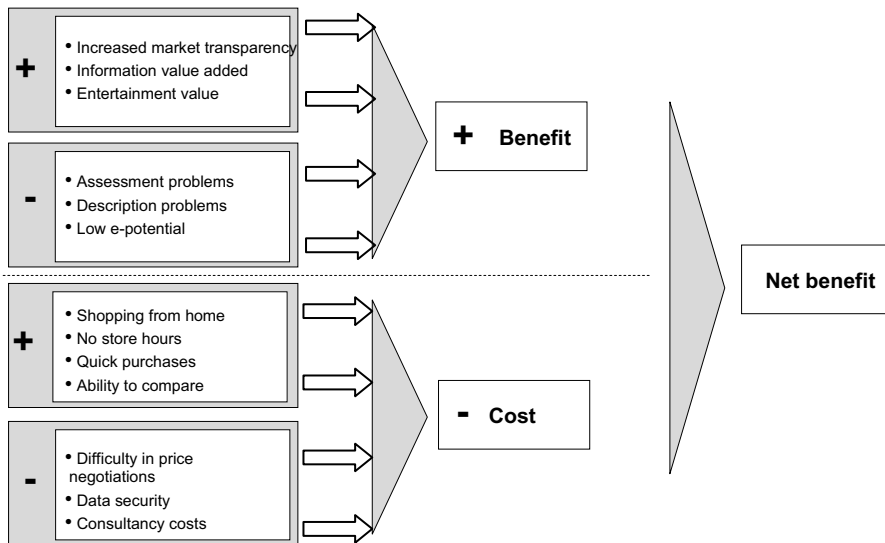
Apart from prerequisites for the appropriate selection and presentation of merchandise, "attraction marketing" revolves mainly around offering online customers an added value. To succeed here, vendors must present the merchandise in such a way that the total utility of online shopping outweighs the effort of finding goods online. Overall, the bottom line gain from an online purchase should be bigger than that of shopping in traditional ways. Only when Internet-specific advantages are exploited as much as possible can online shopping offer the customer higher utility than traditional shopping.

This applies to all areas of the marketing mix, because it is the interplay of all factors that forms the total utility, as shown in Figure 3-3. Note that total utility and effort depend on factors that increase and diminish, but balance out in the end. Effectively, the fact is that product selections in online shops are not just perceived as stand-alone products, but tied to the whole online shopping experience. Every online vendor should thus ensure that customer communication about store advantages increases that customer's perception of the total utility (Kollmann 2007, p. 79 ff.).

Amazon's success relies on this principle. By providing customised services and supplementary information about its products, Amazon creates the kind of personal service once associated with neighbourhood bookstores (Booz 2000, p. 38). Amazon offers far more information than just title information. Reviews, personal recommendations, new release tips, gift tips and information about complementary literature create a permanent exchange of information and add significant customer value. This added value, in turn, increases the store's appeal and with it the "interactive incentive" for customers.

Figure 3-3: The net benefit concept in online commerce

Source: Kollmann 2007, p. 79, with reference to Billen 2004, p. 343



3.2.2 Killer Differentiators

In the coming years, the basic foundation for clear differentiation will be the polarisation of consumer behaviour. As can be seen in Figure 3-4, online stores – due to strategic alignment in discounts, sourcing, experience and convenience – will have to evolve the target marketing they have practiced until now into attraction marketing.

The only online sellers that can have lasting success are those that succeed in at least one of the four "killer differentiators": killer price, killer product/product category,

killer service and killer feature. In the process, an online business should develop its attraction marketing by considering customers' psychological and lifestyle profiles so that it can appeal to different groups of customers. The company can use these strategic differentiation factors as a guideline.

Vendors can achieve this appeal by creating new needs and discovering previously unsatisfied motivations and needs of their customers. Successful stores will be those that have pursued as many of the killer differentiators (shown in Figure 3-4) as possible.

Figure 3-4: Killer differentiators in online commerce

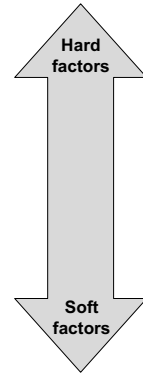
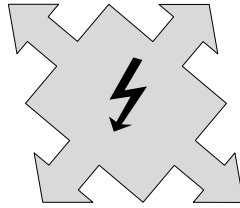
Source: Own

Killer product
as a differentiator
critical to success
("source")

Killer price
as a differentiator
critical to success
("discount")

Killer feature
as a differentiator
critical to success
("experience")

Killer service
as a differentiator
critical to success
("convenience")



It is also necessary here to create certain added value that can be offered to the customer in real time. In this sense, attraction marketing can't be practiced separately from customer value orientation. Examples include simplified shopping processes ("three clicks to your destination"), affordable prices (e.g. product exchanges), or a fashionable and simultaneously attractive selection (e.g. live shops). Gömann/Münchow 2004, p. 184).

The online vendor must communicate its e-brand positioning and the value it adds via the selection of merchandise. Because of the Internet's limitless expanse, online vendors tend to offer merchandise simply because they can (still) sell it, even if products don't fit the brand statement. The real question is: Can the online vendor offer customers an attractive selection ("killer category") in the necessary breadth and depth at a fair price?

It is not necessarily the absolute number of items on offer that matters here, but the selection of merchandise suitable for the site's customers. Successful online vendors

prefer to concentrate on a small number of items, which fulfil or awaken certain customer needs at the right time. They regularly offer "killer products" that combine an unusual price-quality ratio with trendy additions (for example, iPods in special colours or monogrammed, Tchibo's new range of products each week, bestseller items, etc.).

"Killer products" excite customers and lead to intensive word-of-mouth campaigns – i.e. they are a form of viral marketing. The same goes for "killer prices", which should be as low as those of discount leader Aldi if the vendor wants to position itself as a discount store.

Similar to "killer products" and "killer prices", customers can also be drawn in with "killer features" and "killer service". A "killer feature" is one that delivers an Internet-specific added value. This added value can come in many different forms and can include anything from the solution of a problem with a computer program all the way to finding a relationship. It can also be a spark and a condition for the creation of an online community. The "groupware" feature must have a direct advantage for the user.

However, the simple existence of such a feature doesn't suffice for the creation of a community. Just as important are "awareness", "stability" and the "user interface". A user should find added value simply by registering on the community website; the value multiplies when other users register (Pietsch 2007 p.1; König 2007, p. 1).

"Killer services" are found in exceptional self-service functionalities, speed, usability, as well as generous complaint and return policies. By limiting and thoroughly showcasing the merchandise through multimedia, visitors can also be drawn to the e-flagship store by the attractiveness of the selection. This draw, in return, rubs off positively on the e-store brand.

A key secret to Bogner's home shopping success is that it makes sure to have some very high quality items available only on the Internet. In close coordination with the print catalogue, exclusive offerings in the online shop are presented in a way that matches Bogner's lifestyle message. Bogner also manages, for example, to position itself as a blockbuster in the top-premium segment of women's jackets priced at more than 8,000 euros. In this regard, it can be considered an outstanding example of a "lifestyle Internet channel". The online shop also contributes significantly to Bogner's sales (Heinemann 2008g, p. 155).

3.2.3 Multimedia Presentation and Multidimensionality

Website design is becoming increasingly important for store appeal. Before deploying the latest graphic tools, however, businesses must pay attention to basic design rules for Web shops. For example, a website visitor's gaze typically goes from the upper left side to the upper right side, which is why the most important shopping tools in a

navigation bar should be found on the upper half of a page, with entry into the e-shop also on the upper part of the start page.

As soon as the customer is on the shop's main page, he should be able to find buttons for the shopping cart in the upper corner as well as links to information about his account and important help functions. It's important here that customers can find the search box quickly and easily. Finally, the menu on the left side should take the online customer directly to the merchandise selection and advisory functions. Ideally, the unique selling proposition of the shop, the hotspots and the (quickly loading) features should be found in the middle (Lochmann 2007, p. 72).

The possibilities for presenting merchandise in electronic media are far superior to those in print media. The combination of multimedia and interactive entertainment elements are ideally suited for creating a gripping shopping experience even through a screen. This makes it all the more baffling that the "flagship store model" hasn't been able to take hold in online commerce, although the technology exists already.

Switzerland's Factory121, an Internet seller of high quality men's and women's watches, is one of the few businesses that understand this. User-friendly configuration options, quick image loading as well as excellent 3-D picture quality with zoom functions illustrate how "new online commerce" should present itself in a "state-of-the-art" manner (Reichwald/Piller 2006, p. 240).

The combination of different multi-media components, such as text, images, graphics, sound, video and animation, now allows every product to be presented in an appealing way and allows the staging of "experiential worlds". Aside from the classical elements of text, image and graphics, the following multimedia and multi-dimensional product presentations are possible (Lochmann 2007, p. 73 ff.; Kollmann 2007, p. 69 ff., among others). E-shops in the luxury domain, including Escada, Dior, Gucci, eLuxury, Net-a-Porter and Neiman Marcus show what can be done with multi-media and multidimensionality.

- **Video and virtual catwalk:** A product can be shown in action, while a voice explains its uses. This type of presentation works especially well, without overwhelming the customer, for products that need a lot of explanation. But vendors should proceed with caution because only videos that appear professional allow the online customer to realistically imagine the product and motivate him or her to buy it. (Kollmann 2007, p. 70). This tool presents itself particularly well for high-end fashion: Luxury brands such as Chanel use it to offer "insider access" to catwalks usually only open to VIPs or the press. This can be done with the help of streaming videos, slideshows and reviews of various fashion shows, as well as backstage videos (Lochmann 2007, p. 74). In this way, an e-shop can offer visitors a unique Web-specific experience. At Hugo Boss, not only can customers watch the collection presented against appropriate background music, they can even click a

video function to stand on the catwalk. This way, customers can see the clothing in motion and experience it in real time.

- **Sound:** Even without videos it's possible to create a certain atmosphere by setting the site's presentation to music. It is also possible to supplement a product's presentation with audio, as often happens with music downloads. This allows online customers to evaluate and buy, say, an MP3 file after a trial listen (Kollmann 2007, p. 70). In a borderless Internet, audio design also gains extraordinary significance.
- **Animation:** Unlike video, animations don't contain any real product presentation, but rely instead on graphic drawings. They are often used to boost a website's entertainment value. Nokia Designspecial (www.nokia.de/designspecial), for example, uses animation to elucidate individual functions of a mobile phone (Kollmann 2007, p. 70). Animation is also being used increasingly in product customisation: The so-called mass-market customisation vendors, such as Factory121, NikeID, Mi-Adidas and even Spreadshirt allow their customers to customise products using a configuration tool based on animation.
- **Interactive elements:** These are certain online functions meant to motivate customers to interact more closely with a product. Typical examples include movement and zoom functions, which allow customers to see a product from all sides in three dimensions. At Vodafone.de, for example, visitors can move an image segment in all directions and can push the selected mobile phone back and forth. Flash elements used for this can also be used to zoom more closely into a product. Online fashion vendors (e.g. Esprit.de) in particular are increasingly using these functions to allow customers to see and evaluate fabric structures more closely (Kollmann 2007, p. 71). Many websites now give their customers the option to express their opinions or ask questions, which makes it possible to offer a kind of customer service over the Internet (Lochmann 2007, p. 77).

3.2.4 E-Branding, E-Brand USP and E-Brand Pull

An e-store brand is a way to make a store more attractive. This attraction has a considerable influence on the Internet user's decision to start a relationship with the online retailer or not. This is best established when an e-brand offers Internet users recognition, orientation, confidence, identity and appreciation, and embodies the core values of the venture. To do so, a brand needs to create a clear, recognisable brand profile and generate a distinguishable increased value (the "killer differentiator"), such as continuous brand leadership (Gömann/Münchow, 2004, p. 185).

The possibilities in e-branding are heavily reliant on the type of e-commerce under consideration. Purely online retailers (e.g. hutshopping.de, gourmondo.de or buch.de) are always forced to create an Internet-based brand. In contrast, the following market

options can apply to all other types of online commerce that already have a well-established brand (Bongartz 2002, p. 311; Schröder 2005, p. 235):

- Utilisation of various brands and therefore a **virtual brand strategy** for the new Internet channel. The virtual brand shows no ties to the existing brands from classical market surroundings. Examples of such a separate virtual brand are BOL for Bertelsmann or buch.de for Thalia/Douglas, Eworld for Edeka, Peapod for Ahold and Shopping24 for Otto. This brand option can also work for online commerce that is purely online.
- Utilisation of related brands with a **combined brand strategy**. The strategies show a shared recognition of the different channels and are integrated to a certain degree, yet they differ clearly in brand presentation. An existing core brand is further developed by the addition of a new Internet-specific component, such as name extensions. Examples include Bogner Homeshopping, familia24 or e-Sixt.
- Utilisation of the same brand for all channels as a **hybrid brand strategy** with complete integration between the actual and Internet-based brand. The existing brand is effectively assigned to new online commerce so that the brand and image are the same (Meffert/Heinemann 1999, p. 119). The complete application requires a tightly-controlled harmonisation and coordination of all marketing initiatives to prevent customer confusion. Examples of a hybrid brand strategy are Tchibo, Conrad Electronic, Rossmann, Schlecker, Neckermann and Barnes & Noble.

The brand strategies for "non-pure" online retailers are laid out in Figure 3-5 (Bongartz 2002, p. 312). A hybrid marketing strategy aims to have the new channel work with the established brand. Startup investments and costs are also spared when it's possible to achieve synergies for advertising with existing channels. Alternatively, by providing information to Internet-based customers, a website can become a promotional tool for the existing shop or the established brand can be rejuvenated through the Internet.

Another option is for the new brand to be created with the goal of eventually emancipating it from the "old brand" in order to develop its own channel-specific profile. The Internet channel has its own important reasons for the creation of a new virtual brand.

The basic argument for a virtual market strategy is that young, modern brands definitely have the advantage on the online market. This also has a positive side effect for the existing brand, as it diminishes the risk of damage to its image in case the Internet channel fails. Moreover, the re-creation of a brand enables an independent progression online, with business expansion made possible through new commodities, price points and customers (Schnetkamp 2001, p. 41). A new brand can also advance a business' ability to cooperate internationally with partners.

Choosing and defining a new channel is a complex problem (Heinemann 2008, p. 113). For a detailed evaluation of the different e-branding options, many different criteria must be considered.

In regard to the necessary pull-effect for the Internet channel's e-brand, a hybrid branding strategy yields the greatest potential to reduce the natural "interaction barrier" inevitably involved in online shopping. Pilot studies have shown that because of their multi-channel presence, hybrid brands have advantages in the brand confidence and recognition fields, which is reflected in significantly increased recognition rates for these brands.

Figure 3-5: Brand strategy options in non-pure online commerce

Source: Bongartz 2002, p. 312

		Independent brand		
		Requirements:	Requirements: the existence of a brand from a traditional market realm	
Strategies	Virtual brand strategy	Combined brand strategy	Hybrid brand strategy	
Definition	Independent, Internet-specific brand without ties to brands from the traditional market realm	Tied to actual elements of a known brand with Internet-specific components with the combined brand	Utilisation of a single brand name for e-commerce and further transaction outlets	
Degree of integration	No integration	Partial integration	Total integration	
Examples	<ul style="list-style-type: none"> • hutshopping.de • gourmondo.de • buch.de 	<ul style="list-style-type: none"> • Bogner Homeshopping • familia24 • eSixt 	<ul style="list-style-type: none"> • Quelle • Neckermann • Barnes & Noble 	

However, the danger of negative spillover rises, since customers regard all channels as one unit. This rule is especially true for mail-order companies that pursue a model of combined mail-order commerce, such as a combination of catalogue and online retail.

In terms of risk, the combined brand strategy makes more sense, as it moderates the possibility of a negative spillover effect, yet promotes the risk of creating a blurred image of the existing brand and the combined brand (Bongartz 2002, p. 313).

Regarding the process of identity-oriented brand positioning and profiling, a slightly different picture emerges in terms of the control and design process. In virtual brand strategies, there is much room to experiment, since tradition and obligations no longer play a role. Compared to a hybrid brand strategy, the coordination demands are much lower, since a virtual brand strategy requires no guarantee of a consistent appearance across platforms.

In addition, besides harmonising all communications, performance-based cross-media coordination is also necessary for success. There is also higher demand in a hybrid strategy to create effective, holistic brand leadership in order to build up a secure and strong brand identity. In contrast, a virtual brand strategy requires a higher level of investment in order to create adequate brand recognition and strength, despite its flexibility.

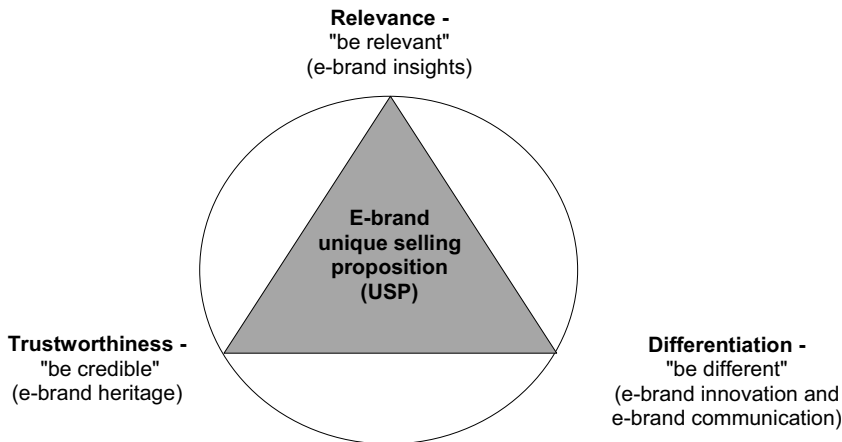
When the decision to create an e-store brand is favoured, then the "laws of nature in brand leadership" have to apply to the World Wide Web (Hermes 2004, p. 277). While retail trade can experience fast-paced changes more than other industries, this can especially be seen in online commerce (Hermes 2004, p. 278) (Figure 3-6).

- **Differentiation as survival rule no. 1 – "Be different":** Without differentiation, the e-brand has no reason to exist ("Be different – or die"). The often-used basic rule of "a little bit of everything" is suboptimal for the Internet channel. Innovations in the e-store must be extreme, meaning extremely price-oriented, extremely service-oriented, extremely convenience-oriented, extremely quality-oriented – extreme in all regards. Emotional differentiation plays an increasingly important role in this. It no longer revolves around a "positive shopping experience" through emotionally-oriented shop designs, but through taking advantage of new, more emotional brand territories. Finding these territories is not easy, but can be deduced from megatrends, such as patriotism or wellness (Hermes 2004, p. 279).
- **Relevance as survival rule no. 2 – "Be relevant":** Being relevant requires special insights, such as an understanding of the psychology, shopping motives and shopping barriers of users. Three behavioural patterns can thus be derived that will be relevant in the future: social prestige, permanently rising awareness of effectiveness and efficiency and recognition of variety in the consumer world. The desire for social prestige stems from recognising the desire to survive and "be respected", which leaves lots of room for a psychological shopping motivation (such as allowing oneself to be inspired or enjoying a bit of luxury). The awareness of efficiency and effectiveness leads to ever higher price-performance demands, causing suppliers of cheap goods not to drop into poor quality ranges and suppliers of quality goods not to overprice their wares. The diversity of the consumer world leads to stronger divergent consumer behaviours, an increasing demand for maximum benefits and, at the same time, an increasing need for cheap offers (Hermes 2004, p. 281).
- **Credibility as survival rule no. 3 – "Be credible":** An e-brand may not reinvent itself too often, but rather must follow its core competency and always review necessary changes. "Brand heritage" means that even the e-brand has a history that is considered valid. This requires further evolution rather than leaping or making opportunistic changes. Therefore, the e-brands that have an advantage are those that grow with "strong reproduction" (such as internationalisation). However, with this comes increasing complexity that must be managed. This is a question of more

than just the organisation of the business. In the meantime, there are service providers available for every possible service (Hermes 2004, p. 282).

Figure 3-6: The laws of e-branding in online commerce

Source: With reference to Hermes 2004, p. 284



The regularities observed in e-branding determine the unique selling proposition (USP) of the e-store brand. Whereas the brands of mail-order catalogue retailers usually have highly differentiated and relevant USPs for their mail-order catalogues, their e-channels rarely differentiate from each other enough.

In particular, many e-shops of hybrid online retailers are missing the typical USP, such as product range competency, availability or service competency, a basic requirement for such retail businesses along with the killer differentiators:

- **Product line competency** means having an outstanding selection compared to offline retailers. One example of this is eBay, with the world's largest range of products in the C2C field; eBay is also growing in the B2C field. Another example is Amazon, which has the largest range of product choices in B2C and C2C.
- **Availability** can mean two things: For one, it can mean novelties and specials that encourage a customer to visit the site often. Examples are Aldi, Media Markt and Tchibo – which offer new sales every week – as well as Amazon, with its weekly special or Gold Box. Availability can also mean novelties and themes, such as Amazon with its pre-order feature, its dynamic bestseller lists and its capability to adjust prices in its various categories on a daily basis.

- **Service competency** means much more than fast and obliging customer service, helpful product descriptions and photos. Service also includes delivery speed (the benchmark should be 48 hours except on Mondays) and complying with delivery agreements made with the customer. Furthermore, it is important to provide expert service on the website or over e-mail. This should include customer reviews, technical product comparisons, lists of included accessories, dynamic product offers, wish lists, Listmania and/or a search service for rare goods.

Shopping24 illustrates the topic of "USP as brand content" in comparison with competitors (as of 2004). Shopping24 is the leading online shopping mall in Germany. Basic data on the site show 8 million items, 400,000 to 450,000 visitors per month and 170,000 newsletters.

Shopping24 makes it easier for Internet users to find products with tools such as ad placement, browser options and search options. The customer can even install a virtual shopping advisor named "Atira". Shopping24 also links visitors to partner sites and uses Pangora technology (by Bertelsmann) for its search engine.

Revenue comes from advertisements and commission paid by customers based on clicks. Remuneration based on success is increasingly replacing fixed rents. The business model of Shopping24 is comparable to the large portals (T-Online Shopping, Yahoo Shopping, Lycos Shopping or MSN Shopping/Kelkoo), whose online shops profit from high traffic without really contributing to the traffic.

Generic USPs are thus about product selection above all, as well as the clarity and structure of search results. The portals do very little to differentiate from each other, although Kelkoo is certainly the leader in choice – among other things through its incorporation of an eBay search – followed by Lycos (2 million items) and T-Online (1.5 million items). Yahoo and Shopping24 have considerably lower selections (<500,000 items).

What Shopping24 is missing is the natural visitor frequency of a portal, and this cannot be compensated for through a connection to the Otto Group. It appears not to be worthwhile to buy additional traffic via online advertisements, for example.

Shopping24 must differentiate itself from its competition more in order to develop a separate USP and develop new growth. One option would be for Shopping24 to develop as an auction site. The attraction would be due to the size of the market and the possibilities to differentiate from eBay. It could create a USP on points such as security, service and fees.

Shopping domains should supply the customer with a true increase in value (such as financial inducements in the form of rebates or coupons), content (e.g. catalogues and product comparisons) or convenience (e.g. an integrated shopping cart and payment system). This is becoming less and less relevant, however, through the increasing market share of search engines (especially Google, including its service providers) and

affiliate platforms (e.g. ZanoX). Increasingly, Amazon and eBay are becoming direct competitors as they integrate the larger retailers into their platforms and make linking in the shopping field redundant.

3.2.5 External Promotion of E-Store Brands

Successful online companies are invariably anxious to make their e-store brand as well known as possible and to allow potential customers to search for it easily and quickly on the Internet. Search engine presence and banner ads, when used in a targeted manner, have been found to be effective ways to increase the degree of brand awareness. It is also efficient to trade links, which are then posted on a partner site. In addition, the online retailer should also offer e-mail services so that customers can register their presence online (Schnetkamp 2001, page 41).

All possibilities for external, non-Internet promotions should also be used in order to position the e-store brand. In this respect, it is clearly advantageous to use "every advertising surface", including other products, bills of delivery, packages, packaging, vehicles, buildings and publications of the online retailer in order to present the URL.

Figure 3-7: Possibilities for e-brand promotion in online retail

Source: Schnetkamp 2001, p. 42

Own website	<ul style="list-style-type: none"> -Information on new products in the Internet shop (shop topic) -Expose successes and awards of the website -Active promotion of events on the website -Sales promotions
Other commercial websites	<ul style="list-style-type: none"> -Presence on all search engines -Targeted use of banner advertising -Trade links with partner sites -Placement through sponsorship and e-mail services
Internet community	<ul style="list-style-type: none"> -High degree of recognition on the Internet -Good placement in hit lists -Presence in news groups -Status in Internet community
Offline	<ul style="list-style-type: none"> -Coordinated advertising campaign -Internet address on all products and publications -PR with external opinion leaders and multiplier effect -Promotion through client contact in delivery process

This presupposes, however, that the e-brand name is harmonised with its URL. Nothing is more of a hindrance to online success as a wasted search for a brand on the Internet. The URL should be completely identifiable with the e-brand's name. Conciseness and the ability to be internationalised are just as important here as in naming the e-brand.

In all branding considerations in online retail, the URL is to be included 1:1. Each customer contact should be used for promotional purposes, especially the only physical contact that a customer has with the online venture: the delivery and acquisition of the product. In mail-order retail, this is where the biggest mistake is made, when the delivery service is outsourced and the image of the contact person is no longer controlled by the venture.

The influence and rankings of opinion leaders and multipliers are also crucial, since they can promote word-of-mouth propaganda. An overview of the possibilities of Internet promotion can be seen in Figure 3-7 (Schnetkamp 2001, p. 42).

3.3 Social Targeting and Societing as Success Factor No. 2

With regard to the external promotion of the e-brand as just cited, participation in an Internet community is also recommended to maximise an Internet company's ability to be recognised and allow it to secure top rankings in hit lists. It is also wise to establish a presence among news groups in order to "get people talking".

The topic "content and community" refers to the integration of one's own Internet presence into the greater realm of the Web. Especially for small and mid-sized online dealers, a virtual online community for special offers, products, a service or another related topic makes sense: blackboards and guestbooks are examples of this. Additionally, a company can participate in established forums and virtual communities to demonstrate its own expertise, thereby attracting positive attention (HMWVL 2007, p. 13).

Aside from establishing one's own Internet community or social group where consumers actively share their experiences with the group, the use of external Internet communities for advertising and customer acquisition purposes is becoming increasingly important. Highly-interactive Web 2.0 communications platforms offer consumers completely new options for coordinating their interests. Tapping and exhausting consumer potential within this environment – recently coined "societing" (Bolz 2008, p. 255) – is emerging as a key issue. Before consumer potential can be accurately assessed and societing effectively initiated, however, online market segmentation is necessary to obtain a solid grasp on a company's own online target groups.

3.3.1 Online Market Segmentation and Target Marketing

Segmentation of the key market into homogeneous buyer segments is just as important to online dealers as it is to traditional ones: The undifferentiated processing of an entire market is neither possible nor practical. The allocation of total user potential to online target groups sets the foundation for target marketing, which can be viewed as the basis for attraction marketing (Gömann/Münchow 2004, p. 185).

Not all segmentation factors – such as geographic, demographic, socio-cultural, affective, cognitive and relative – are equally relevant to online market segmentation. Here it is important to divide consumers into behavioural target groups and then to return to behavioural-orientated segmentation in order to account for factors such as media use, loyalty status, level of use and situational use.

Accordingly, there are comprehensive electronic data which customers leave as tracks on the website during their transactions and interactions. It is possible to use this information to create "type clusters" or homogenous groups into which customers are sorted according to their characteristics (Kollmann 2007, p. 75).

One of many online customer "type clusters" is the target group definition by Loevenich/Lingenfelder, based on characteristics including the customer's attitude toward brands, convenience, price, experience, shopping flexibility and perceived risk. Asking customers to evaluate themselves according to these characteristics resulted in these six online shopper groups (Loevenich/Lingenfelder 2004, p. 53 ff.):

- **Time-pressed convenience shoppers:** These customers do not highly value personal service or physical shopping. The risk of an online purchase is seen as small. The top priorities are convenience and flexibility.
- **Risk-averse brand-cynics:** Physical stores are the preferred shopping venue. These customers consider online shopping very risky. Brands, convenience and flexibility are unimportant.
- **Price-focused convenience shoppers:** Price and convenience rank high. Satisfaction with physical stores is low. Since the risk of online shopping is considered low, there is a high affinity to online shopping.
- **Service-oriented, reluctant shoppers:** There is little appetite for experience and brand orientation. However, service and shopping flexibility are valued. Necessity shoppers, who are generally critical about shopping, are represented here.
- **Demanding shoppers:** These shoppers rank everything, including price, as important, which means shoppers in this group can be described as multi-optional. Online shopping is viewed very positively and substituted for brick-and-mortar shopping.

- **Spend-happy experience shoppers:** Very little attention is paid to price, convenience and shopping flexibility. These shoppers are more interested in extended, time-consuming shopping sprees. There's a high affinity for physical stores and strong focus on brand and experience.

There are now many different classifications of online customers, all of which weight either shopping motives or values and lifestyles more heavily. In addition, there are approaches to classifying non-online-shoppers. Which classification system a business uses for target marketing is less important than the conscious choice for or against a specific online target group. This choice allows a business to better evaluate customer potential in the context of interactive communications and thereby better direct its marketing strategies (Kollmann 2007, p. 77). Increasing attention is paid here to "silver surfers", e.g. the older generation of consumers that represents a rapidly growing share of Internet users (Schulz 2006, p. 1).

3.3.2 Integrated Community Marketing

In the era of Web 2.0, the multi-optional customer can find a community with similar interests in almost every segment of life. In these communities, a customer can share his consumer experience or pursue his interests in a particular topic, product, or brand. Even if online customer targeting still needs time to reach maturity as a tool, it at least allows an online vendor to make use of other communities that have been created by customers or other businesses.

A vendor can also create a community himself and thereby practice social targeting in his service area. These communities offer online businesses new opportunities to target customers who have shared interests with a value proposition. Some online businesses already practice this strategy very successfully (e.g. Etsy.com).

Further, this strategy makes it possible to conceive new services because the communities are being drawn into the creation process. During the start-up phase of a community, the business must encourage interaction between customers, lest the community end up "lifeless" and therefore useless (Kaul 2008, p. 55).

In the field of community marketing, Spreadshirt is certainly a pioneer. Spreadshirt (since 2006 Sprd.net AG) was started in 2002 as a Web 2.0 business by Lukasz Gadowski, a student in Leipzig, and today has more than 250 employees worldwide. Turnover in 2007 was estimated at 15 million euros. Customers design the motif (for shirts, cups or hats, for example) themselves in a virtual design studio and then offer these for sale on their own homepages, although production orders go directly to Spreadshirt. The "shop partners", now 300,000 strong, simultaneously make up a Spreadshirt community that continues to grow along with the business (FAZ 2007, No. 251, p. 18).

Community marketing aims to fulfil four core tasks: customer acquisition, customer attachment, service innovation and service maintenance (Kaul 2008, p. 57):

- **Customer acquisition** includes all measures meant to inspire a customer to shop at a business for the first time. To achieve this, online vendors can, for example, implement relevant partner programs, which lead to word-of-mouth (or viral) marketing campaigns. Amazon has developed one of the most successful partner programs, with more than 900,000 members worldwide.
- **Customer loyalty** involves turning desirable customers into repeat shoppers and preventing them from switching to a competitor. An example here is support communities that strengthen the customer bond and facilitate cross-selling and follow-up purchases, which in turn boost revenue. (e.g. "Mac User Groups" for Macintosh customers.)
- **Service innovations** represent everything from idea conception all the way to the introduction of new products and services. Spreadshirt is a typical example of this core task, wherein customers exchange designs with each other ("open innovation").
- **Service maintenance** is meant to achieve the longest market presence possible. An example here would be "Apple User Groups", which receive unwavering attention in the public eye.

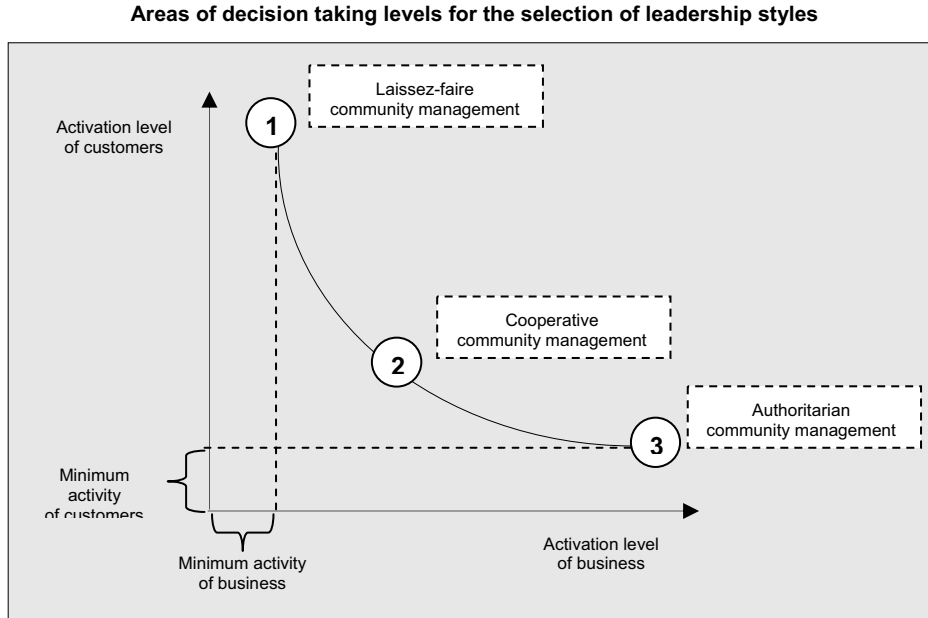
In order to successfully put these core tasks into practice on the market, an online business must clearly define how it plans to interact with its communities. The business must first determine to what extent the customer network's information exchange overlaps with its own interests, and to what extent it wants to influence interactive communications.

Styles of community marketing can be divided into "authoritarian", "cooperative" or "laissez-faire", depending on whether the business prefers to lead the communities in question dominantly or prefers to let them rule themselves (Kaul 2008, p. 60). These leadership styles can be found in Figure 3-8. Each strategy is defined by the activity level of both the customers and the business.

- **Authoritarian community marketing:** The interaction between customers is meant to be suppressed and/or controlled. Rule violations (for example with regard to licensing or copyright) are tracked down. Such a control mechanism only has a positive effect if the business' own contributions to the community are basic ones. Some community brands such as YouTube position themselves self-confidently toward the community from the start, but they must justify their demands with their own core competencies.

Figure 3-8: Leadership styles in community marketing

Source: Kaul 2008, p. 63



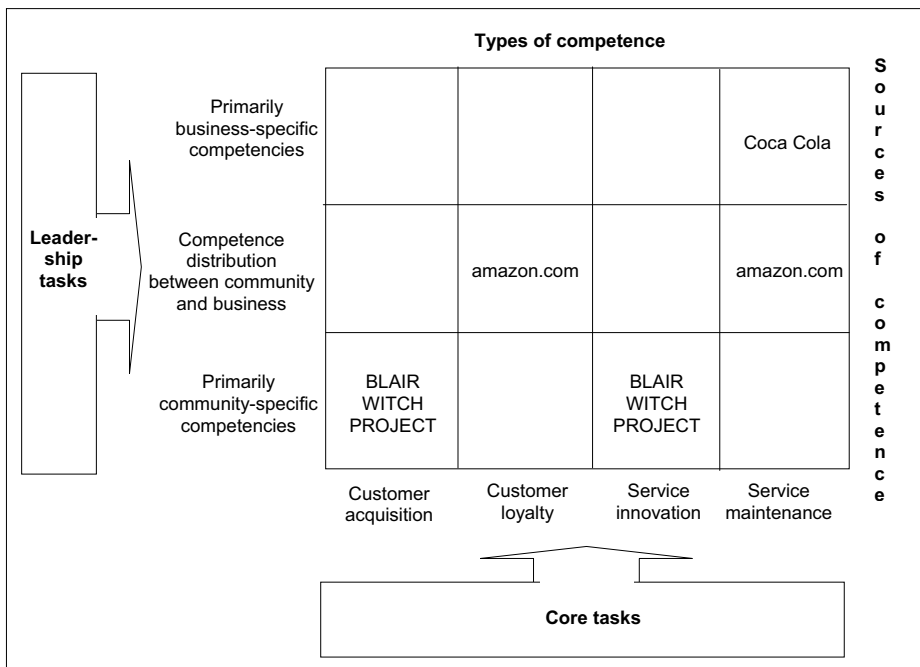
- **Cooperative community marketing:** Interaction between customers is tolerated or even fostered. The goal is to create an optimised knowledge exchange (for example for market research purposes). At Amazon, the advisory service can also be viewed as a symbiosis between the competencies of the business and those of the customer. Customers' product knowledge is connected to the business' interests, for example when the customers' favourite book lists are presented to other Internet users as the need arises.
- **Laissez-faire community marketing:** Interactions between customers are strongly encouraged, although the business doesn't intervene (the loyalty concept, for example). Enabling tools include blogs, wikis and tags, as well as advisory and recommendation systems. MySpace supports customer interactions in order to showcase them in its own brand building ("a place to make friends").

Integrated community marketing is based on a strategic framework that juxtaposes the core tasks and leadership styles in community marketing and thereby delivers workable tips on how community marketing should be designed. Figure 3-9 shows 12 strategy fields, which each represent a fundamental action option.

An example of authoritarian service maintenance is Coca Cola, which dispatches "brand cops" who continuously monitor the Internet and strictly punish copyright violators on fan websites. Accordingly, interactive communication is largely suppressed.

Figure 3-9: Strategic framework of community marketing

Source: Kaul 2008, p. 66



Cooperative customer attachment is practiced by Amazon. Amazon customers are encouraged to write reviews and submit evaluations, which are then used in Amazon's sales pitch to other buyers.

"The Blair Witch Project" fan websites, which call on customers to develop their own brand associations, are an example of laissez-faire community marketing in the form of acquisition and innovation (Kaul 2008, p. 66).

It's important that various measures are coordinated. At Amazon, for example, favourite book lists are linked into the platform's search function. To avoid customer confusion, coordination should also take place between classical marketing and community marketing (Kaul 2008, p. 68 ff.).

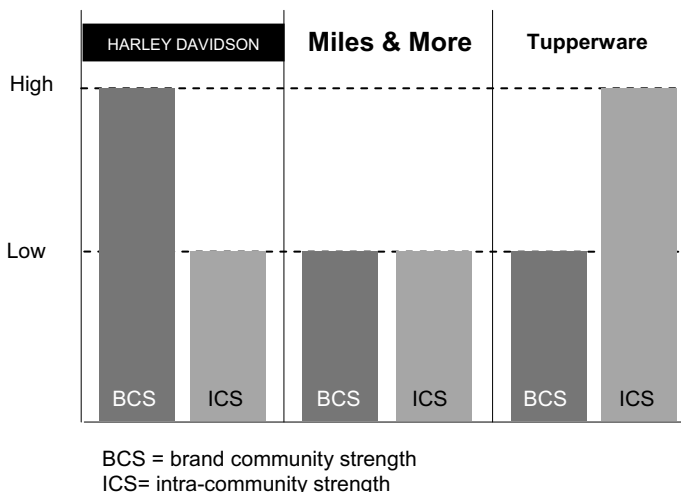
3.3.3 Community-Based Brand Leadership

An important characteristic of a community is the emotional connection and the "us feeling" it creates. These connections can be varyingly strong and are subject to varying levels of adhesion (stickiness, appeal), as well different levels of interaction. Here we can define an "intra-community strength (ICS)" and a "brand-community strength (BCF)" (Steinmann/Ramseier 2008, p. 43). Both constructs can fall out very differently depending on the connection between brand and community. The tighter the union between brand and community, the stronger the ICS and BCS.

The following three examples, Harley-Davidson, Lufthansa's Miles & More Frequent Flyer program and Tupperware, illustrate this point (see Figure 3-10). The BCS of the "cult brand" Harley-Davidson is extraordinarily high because the brand connection with HOG Members (Harley Davidson Owner Groups) is very strong. The ICS of Harley Davidson, on the other hand, is fairly modest, since the brand defines itself through the values of customisation, independence, freedom and rebellion. Such personalities can be categorised as not particularly interactive.

Figure 3-10: Connection between brand and community

Source: Steinmann/Ramseier 2008, p. 44



Both the BCS and ICS are fairly low for the Miles & More frequent flyer program, since customers are quick to switch brands depending on their needs and situation, and airline brand doesn't make much of a difference.

For Tupperware, however, the ICS is very strong, since it is heavily influenced by Tupperware parties and therefore has a meaningful interpersonal and emotional impact. The BCS, on the other hand, relies on the brand representative and therefore ends up being rather small.

In the aforementioned examples, degrees of activity and intensity are instigated either by the community (Harley Davidson Owner Groups) or by the brand (Tupperware). The conclusion is that every successful brand has a successful community, at least to the extent that it can point to a customer base that is more or less loyal. With its brand loyalty, this community is tied to the brand (BCS), but it is usually not very active (ICS). This is exactly where modern community marketing begins, with a business that actively fosters community (Steinmann/Ramseier 2008, p. 45).

Brands, then, have varying levels of community potential at their disposal. The more homogenous community members are in their attitudes to a brand, the stronger are the adhesions of BCS and ICS. Four levels of brand community attachment can be identified here (Steinmann/Ramseier 2008, p. 46):

- **Level 1 – brand presence:** This level concerns whether the brand is present in the consciousness of Internet users. The connection to the brand is utilitarian, multi-optional and opportunistic. As a result, customers also have a propensity to switch brands easily. Most brands can be found at this level (e.g. utilities, information portals, etc.).
- **Level 2 – brand preference:** Here the community affiliation begins to appear, but in a rational and utilitarian manner, so that the "us feeling" is relatively weak. Ties to the brand are situational and possibly opportunistic, with a relatively high readiness to switch brands. Examples here include airline frequent flyer programs or customer clubs (for example IKEA Family).
- **Level 3 – brand permanence:** This level is characterised by a dominant psychological utility function. The members of the community identify themselves with the brand, something they display with insignia, rituals or open avowals. Although identification with the brand is permanent and strong, the user always has one or two alternatives in mind. An obvious example of brand permanence is Google (for example compared to Yahoo).
- **Level 4 – brand prominence:** A brand that makes it into this category is one that can conjure up irrational forces and a strong emotional connection to its community with a strong "us feeling". Interaction within the community is strong and in some aspects organised. Prominence brands typically have cult status and no substitutes. For converts, these brands are formative and defining. Typical examples of

brand prominence are Harley Davidson or Apple, whose community attends the Apple-initiated MacWorld Expo each year in order to personally experience company founder Steve Jobs. eBay is also increasingly developing in this direction.

The goal of community-based brand leadership is to raise the e-store brand to continually higher levels until it finally reaches brand prominence. Decisive here is the conviction that brand and community can create a dynamic and variable connection that can change with time and by situation. In any case, the principle is that the more stable the union between brand and community become, the stronger BCS and ICS are (Steinmann/Ramseier 2008, p. 50).

The bonus is a cult status, such as the status enjoyed by Apple and substantially fostered and celebrated by Apple CEO Steve Jobs. "The guru with his telephone (...) the Jesus phone and its grey-bearded father," read a headline in the *Frankfurter Allgemeine Zeitung* (FAZ 2007, No. 219, p. 20). Brand prominence doesn't necessarily have to go this far, but at least "the journey is the goal."

3.3.4 Consumer-Generated Advertising

"Digital native" is a term that describes a generation of Internet users who interact with new technologies in a matter-of-course way that is still unattainable for various educated "media designers". These "nets" and other technology-savvy people are increasingly developing from consumers to "prosumers", i.e. customers who are integrated into the development of a product. By purchasing online and especially by using product configuration features, the consumer voluntarily gives away his preferences, which are the basis for the design of the actual product. This blurs the line between consumer and producer.

Accordingly, user-generated content is treated as a commodity on the Internet, as YouTube, Flickr, Facebook and Myspace impressively demonstrate. It appears that out of the more than 7 billion online videos viewed each month, the majority are user-generated (Unterberg 2008, p. 205).

Online vendors especially can no longer withdraw from interactive conversations about consumer experiences. Consumers have emancipated themselves with the help of the Internet and today decide to a large degree when, where and how media are used and advertising is consumed. The passively receptive consumer is increasingly relegated to history.

It is becoming increasingly important for advertisers to participate in consumers' conversations or to organise these conversations. The resulting mobilisation of customers becomes part of consumer-generated advertising (CGA). This term describes all content created by consumers that performs some kind of advertising function. Thus if the creation of advertising content by consumers is initiated by a business, it is considered

a consumer-generated advertising campaign. Experience tells us this form of advertising is perceived as more honest and credible by other consumers. In addition, participants in CGA campaigns are often opinion leaders in their consumer worlds or even first adopters of the advertised product (Unterberg 2008, p. 208 ff.).

In the first step of a CGA campaign, consumers are tapped through a call for entries to submit their ideas in the form of photographs and video. The idea is to motivate as many consumers as possible with the promise of a competition of ideas that includes rewards.

The call for entries is critical to success here, but it is often underestimated by businesses, which rely too much on the "power" of their own brands and products. The evaluation, vote and commenting on the entries in turn happens with the help of the participants. This ensures that the best ideas aren't lost and that additional attention and community feeling is generated.

CGA campaigns can additionally be supported by further community-building measures. For example, making a platform available for campaigns makes it easier for businesses to follow community members' conversations and utilise their conversations for market research purposes (Unterberg 2008, p. 210).

There have now been plenty of examples of successful CGA campaigns. The first company to practice this new type of interactive advertising was Mozilla, which offers the Firefox browser. BMW is also increasingly using CGA campaigns for its "Mini" lifestyle brand. Among online vendors, Zappos.com can be considered a CGA example, since the site allows users to pull up YouTube videos made by customers who want to share their shopping experiences.

3.3.5 Linking Value

By digitising all data, it has become possible to link all media with one another in multimedia form. The various media barely cannibalise each other in this case, but rather they complement each other and take into account the multi-optional customer's desire for channel hopping.

It is becoming increasingly clear that when it comes to interactive communications, people care more about participating in the communication than about the actual information. This phenomenon is called "linking value". Accordingly, the "link" has achieved great significance on the Internet. Linking value is the adjusted added value an online vendor can create. Linking value is increasingly used for the evaluation of networks, e.g. for concrete business evaluations. As a result, the top players in the new economy are willing to pay quite a lot for linking value.

"According to American media reports, Microsoft bought a 1.6 percent share in Facebook for 240 million dollars in 2007. This valued the business, only three years old at the time, at around 15 billion dollars. This sum far exceeds amounts that have been paid in recent years for other online communities. Internet giant Google, for example, bought the video website YouTube for 1.56 billion dollars in 2006. A year prior, media concern News Corp. bought the community MySpace for 580 million dollars. Measured by number of members, Facebook is still significantly smaller than MySpace, but growing more quickly. At last count, the site had 40 million members in the United States. Based on sources close to the business, The Wall Street Journal recently wrote that Facebook expects revenue of 150 million and a net profit of 30 million this year" (FAZ 2007, No. 229, p. 23).

The social added value of goods is accordingly highly valued in "new marketing", which is why people are already talking about "societing". In this, the act of linking is more important than what is being linked (Bolz 2008, p. 255).

Not only social networks have a linking value. For example eBay, as virtual auction house, offers "linking" and "rating" of buyers and sellers. Amazon can also be used as an example of linking value, since it delivers real time information about consumption trends and taste clusters (e-connection) to its shoppers. Google also offers a linking value for advertisers by precisely linking advertising messages to certain searches. The page-rank-algorithm used for this gives recommendations similar to the rankings and ratings on MySpace, Netflix, eBay and Amazon.

There is increasing talk of the "recommendation age" (Bolz 2008, p. 251 ff.). "Millions of people evaluate products and services on the Internet. The digital evaluation love fest is revolutionising entire industries," read a headline in Focus magazine (Focus 10/2008, p. 76).

As a principle for success on the Internet, linking value offers online vendors important ideas, namely thinking in the "multi-media and social network" framework. Vendors should see this channel as one component of a wider media mix. This is necessary because customers are increasingly acting multi-optionally and demanding ways to channel hop. At the same time, these customers are increasingly engaging in interactive communication and using social networks.

If an Internet vendor doesn't succeed in breaking through to existing communities or in starting his own communities or community cooperation agreements (for example through consumer-generated advertising), he is increasingly passing over potential future customers.

3.4 Service and Search Solutions as Success Factor No. 3

One main reason to choose Internet shopping, from the customer's point of view, is the reduction of time and cost (Kollmann 2007, p. 141). This results mainly from the ease of navigation and the efficiency of the online vendor (Der Versandhandelsberater 2007, p. 7).

For efficient online shops, accurate search functionality is a "key performance indicator". For example, the results of a Google search for products should have those from the online retailer's product range relatively high up in the search results. Incorrectly written phrases or alternative word usages (synonyms) must still lead to successful search results in the online shop.

If the potential customer is routed to the retailer's website during the search phase, then the category search must quickly lead to the right product. This presents the question of whether search results can be limited to relevant criteria such as brand, colour, size, price and so on. An obvious stipulation is that categories and subcategories be cleanly coded so that customers don't become confused.

In the same vein, eye tracking is a current topic in online marketing. It involves the Internet user's gaze and eye motion; the motion is recorded and evaluated using technological tools (Schulz 2007, p. 1). The results of eye-tracking studies are implemented to make websites more useable or user-friendly.

A common reason for disorientation and confusion is the way in which online customers are informed about the cost of delivery. While this information is generally listed in the service pages or order forms of classic print catalogues, it often appears in many different places in online channels. Sometimes all of the delivery information is available on the home page, but in other cases, the customer must wait until he has finished filling his shopping cart.

Generally, customers should be given the opportunity to view delivery information before filling their baskets to avoid the surprise of exorbitant shipping costs at the time of checkout. Shipping price lists and general terms and conditions should be easy to understand and should not contain too much text.

It must be the goal of every online retailer to complement service offers in a sensible way and to achieve the best possible service so as to yield maximum customer satisfaction. The Internet offers many cost-benefit possibilities as well. There are also many opportunities to create additional value for the customer through innovative ideas (HMWVL 2007, p. 57). Considering this, Web usability is playing an ever greater role, drawing on eye tracking analyses for optimisation.

3.4.1 Eye Tracking Optimised Web Usability

Eye tracking optimised Web usability refers to the appearance of the online shop and its usability. Generally this involves a great demand for backlogs. It is advisable to compare the usability of one's own website against that of competitors' and especially to test the number of clicks the customer requires to reach his goal. A sample comparison between Otto, Amazon and Quelle is displayed in Figure 3-11.

Figure 3-11: Comparison of usability of online shops

Source: H&P 2004

Sample order process for an Olympus 300y			
Clicks	Amazon	Otto	Quelle
1	Electronics and photo	(Electronics)	Electronics and multi-media
2	Camera and photo	Photo and video cameras	Photo and optics
3	Digital cameras - Bestselling - Megapixels - Manufacturer	Digital cameras (Five pages unsorted)	Cameras
4	Specifications - Comparison - Accessories - Similarities	Specifications (Similarities displayed)	Digital cameras (six pages unsorted)
5	Up-selling page - For you - New items - Hits	Pop up	Specs page
6	Customer data	Order confirmation	Specs page
7	-	Customer data	Shopping cart
8	-	-	Customer data

In an example of an order for an Olympus 300y, H&P tested which and how many clicks led where. For the non-pure online retailer, this presents the question of whether and in what capacity it should assimilate the appearance of the online shop with that of the catalogue and the brick-and-mortar location.

This is where eye tracking can help. When it is used by Internet pages to analyse visitors' behaviour, the following questions can be answered (Schulz 2007, p. 1):

- What does the user take in on the screen?
- What is the viewing time for individual websites and parts of websites?
- How often and how long does the Internet user take in particular content areas?
- Which areas does the viewer read intensively and which are quickly skimmed?

- Does the user read headlines and teasers or entire content blocks as well?

The knowledge gained from these questions is implemented by successful online vendors in the framework of Web usability. Their websites show that they're interested in their visitors and are concerned less with unconventional design that draws customers in and more with finding certain information, filling a request or buying a product quickly and in an uncomplicated manner (Schulz 2006, p. 2). This requires that the retailer avoid placing stumbling blocks in the shopper's way, such as long waiting times and difficult processing requirements. Eight common usability problems to be addressed are shown in Figure 3-12.

Figure 3-12: Usability problems

Source: Schulz 2006, p. 3

Eight common usability problems
<ul style="list-style-type: none"> ■ Links that don't change colours when clicked ■ Back button failure ■ Opening new browser windows ■ Pop-up windows ■ Design elements that look like advertisements ■ Violations against Web-wide conventions ■ Text bubbles and empty hype ■ Dense content and text that is hard to skim

3.4.2 Navigation, Selection and Evaluation Help

With the help of 3-D animation, it has become possible to assimilate an online shop very closely to the reality of a brick and mortar store, thereby giving the customer a recommended purchasing process (immersion). The shelf order can be displayed in a layout that allows the customer to recognise it (Schröder 2005, p. 171).

A navigation system is especially critical to success due to the self-service orientation of online shops. A website should always answer the following questions for visitors (Schulz 2006, p. 1):

- Where am I? – on the website/in the entire World Wide Web?

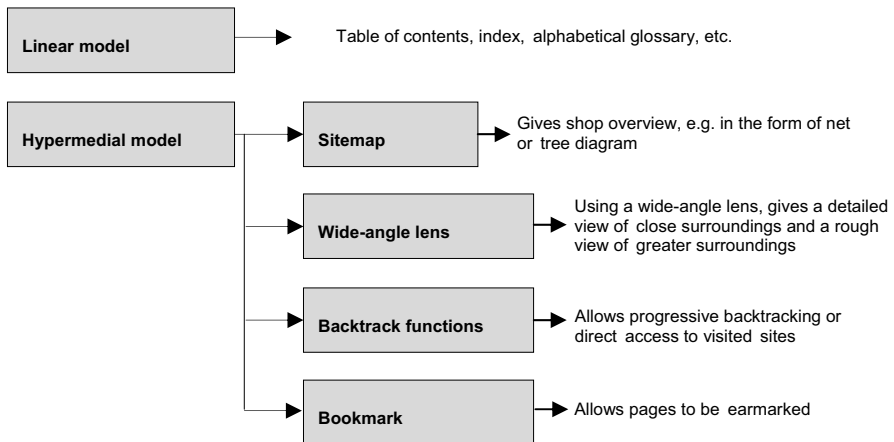
- Where was I? – which steps did I take to get here?
- Where can I go? – which clicks bring me to my goal?

Current research shows that more than 50 percent of Internet users end up on secondary websites ("deep links") of the sites they called up because the search engine redirected them there. For that reason, the following orientation issues are of central importance (Schulz 2006, p. 1):

- The logo in the top left corner should refer to the homepage.
- Clicking on the logo from any page should lead back to the homepage.
- There should be a search field in the top right corner.
- A breadcrumb trail should show the customer where he is within the website.

Figure 3-13: Navigation assistance for online shops

Source: Schröder 2005, p. 171



The frequency of contact with the product range in an online shop can be influenced well by user prompts. These can be divided into hierarchical and open-linking structures. While open structures allow the customer complete freedom in searching in and navigating the virtual shop, hierarchical ones are either built on a linear structure or as a tree diagram. In the linear concept, the customer is required to view all products, in a sense being "guided with restrictions". The tree diagram concept allows the customer to branch off at certain points and not have to view all products before finding the right one.

A special case is so-called "guided tours", which are mainly meant to ease orientation and navigation for inexperienced users in complicated environments. Search functions and key words provide assistance in this area (Schröder 2005, p. 170). Possible navigation supports for an online shop are pictured in Figure 3-13.

Internet-based product catalogues are closely tied to navigation, as they can display the entire product and service range in detail without spatial limitations, in comparison to conventional print catalogues. What's more, they are easier to update. A large drawback to the printed catalogue is its long running time (generally one season), in which it is completely inflexible.

The virtual catalogue also offers a diverse range of additional presentation and information options that may be useful for ranking compared products. Websites now exist that can call up more than 220,000 items (the U.S. vendor Grainger), which would take up 10,000 pages in a print catalogue (Schrödter 2003, p. 51).

Figure 3-14: Test of a website compared to Amazon as a benchmark

Source: According to H&P 2004

Speed	184 kb (+75% for Amazon) 44% of customers use modems (44 kb/s)
Features	- Availability - Customer reviews - Up-selling at the time of purchase - Pre-ordering - Personalised features
Search/browse	Browse by brand and sub-category Sortable lists
Information	Shipping fees not shown What about for Austria and Switzerland?
Operatives	Recommended gifts for seniors: "2x vacuum cleaner" No price comparison for special offers

Electronic product catalogues of this kind must be categorised at different levels in order to allow the user problem-free retrieval of products. Search functions using key words are helpful in this case, for which key words or attributes for every product must be stored in a database.

Electronic catalogues are also expandable and can be complemented with videos, audio elements, 3-D animation, 360° panorama views or virtual tours.

Figure 3-14 shows a sample test of a website in a benchmark comparison with Amazon from 2004. Given the fast innovation cycle of online commerce, businesses should regularly undergo similar comparisons using different criteria (e.g. speed, comfort and operation) so as to avoid becoming out of date.

The drawback here is that in many cases, users must have additional programs loaded on their computers (so-called plug-ins) to use the website. The result is long download times for the end customer. The amount of information about a product also plays a role again and again, because the data can make the website slow to load (Schrödter 2003, p. 52 ff.).

Companies can use a wide variety of interactive design features in electronic product catalogues. These can be used to simplify the process of selecting products and reviewing them. The tie that binds these two is the goal of providing customers alternatives and solutions and giving them recommendations. The customer benefits by reducing the amount of time spent searching and with a high-quality decision taking process. The following types of assistance for selecting and reviewing products are possible (Schrödter 2005, p. 57 ff.).

- **Recommendation lists:** The shopping site can give a customer recommendations that help him narrow his choice. For instance, it can provide a list of suggestions that includes the most common articles for each product category. For example, Amazon (www.amazon.de) puts together a list of top picks from its editors, based on book and CD categories. This gives the customer the impression that like-minded people or experts are helping to serve the website's customers and meet their needs.
- **Checklists and shopping lists:** In many cases, it makes sense to offer multiple products from the shopping site or other similar shopping sites in combination with the goods the customer is browsing. In this case, it's possible to put together lists that give the customer an overview about the components needed (checklist) and at the same time help the customer pre-select the right article (shopping list). Maggi (www.maggi.de) offers users of its website various recipes, with each recipe related to Maggi's products. The hardware store Hornbach (www.hornbach.de) creates material and tool lists for specific do-it-yourself projects on its site.
- **Bestseller lists:** The site displays bestseller lists at regular intervals. The lists are updated frequently and show which products in each category have sold the most. Categories include thematic areas, needs, applications or solutions. The high sales of the products give the customer his bearings.
- **Collaborative filtering:** The presentation of products and services is done with tips for and links to different products and services – e.g. those that other customers actually purchased when shopping for the same product. This tool is used intensively by Amazon. It assumes that one customer's purchasing habits are similar to another's, and assumes that potential customers will find it valuable to receive in-

formation about other goods that may be of interest to them. Such a feature also gives the customer the impression that the selections were hand-picked for him.

- **Personal product recommendations:** This instrument is designed to give the customer suggestions about products that fit his specific interest and needs, and the suggestions are often delivered in personalised form. The prerequisite is, of course, that the online retailer has access to individual customer data from previous purchases or a personal profile saved to the site. This allows a high degree of personalisation of the offer. Customer identification happens automatically based on the previously saved data (so-called cookies) or via a customer login.
- **Product recommendations from the customer:** This tool is based on the active contribution of customers and creates current product recommendations. To use this type of tool, dialogue elements about product ratings must be integrated. By including customers in the process in this manner, companies can cultivate loyal customers. At the same time, the website creates value, since the ratings are associated with a name and email address, at the very least.
- **Ratings:** More and more websites offer users the possibility to rate products on a scale. For each rating, viewers can see the number of ratings that contributed to the overall rating as well as the average rating. This feature allows the customer to get a quick first impression about the product's quality.
- **Reviews and product reports:** Critical reviews and product reports from customers give potential customers the chance to see the positives and negatives about a product. These types of product reviews are very believable and are often linked to the page on which a product is displayed. Negative reviews and ratings don't impact the retailer's image since the retailer usually offers a large selection of products from various producers.
- **Expert opinions:** Product test reports and recommendations from third-party experts are also a way to suggest products for customers. These may include those from institutions such as Stiftung Warentest, consumer organisations and/or trade magazines. Compaq, for example, makes an overview of current expert statements available on its website (www.compaq.de). And Amazon shows reviews for music CDs written by journalists from well-known trade magazines.
- **Product comparisons:** This feature makes it easier for customers to compare products. Hewlett Packard (www.hp.com) provides a tool that allows the customer to see the important data for three articles of his choice in a chart on a single page, thus easing the comparison process.
- **Configurations:** If a product is available in a variety of models (e.g. different colour combinations or additional features) made from different components that can be combined in different ways, the retailer offers a configuration tool that could also be called an electronic catalogue for construction. The advantage of these in-

struments that are offered more and more often by clothing retailers and producers, for example Tailor Store (www.tailorstore.com), is that the customer can put together an individualised product based on his own preferences within a short period of time using his PC. In the process, the customer can also calculate the price as he puts together the product, a service most automobile makers offer ("Car Configurator").

- **Needs analyses:** This instrument can be used by retailers to clarify the needs of the customer and to find out which services or products from the retailer's line are suitable to meet those needs. To make this possible, the retailer uses dialogue elements on the website to collect information about the customer's needs and preferences. The feature allows the retailer to screen customers in order to pre-select products and recommend them. This sort of Web-based needs analysis is similar to the sales discussion in a brick and mortar store, since a certain amount of trust in the retailer's competence is necessary. This type of needs analysis is available in a simplified form from automobile sites such as www.automobiles.com. The Swiss cosmetics company Juvena offers a detailed needs analysis in the form of a "skin-care advisor" on its website (www.juvena.com). It uses information about a person's age, skin type, skin problems and care regimen to recommend its products.
- **FAQ lists:** FAQ lists (collections of frequently asked questions) are answers to questions that are formulated by the company that offers the product or service. These lists can be seen as a way to help the customer select and evaluate products and services, if the questions address these matters. FAQ lists sometimes answer a user's question fully enough that the user does not have to request information personally and wait for a response. The retailer profits by reducing the number of customer inquiries that must be processed as well as from the information that is communicated indirectly in the questions.
- **Tags:** When data is saved, tags are used to label the data with meta or additional information (e.g. key words in the form of folder tabs). The tag is used on a data file to make it accessible at any time through a single click from other websites, allowing the user to land on the retailer's page. In addition to the data files that are saved, additional information is provided, such as the source or use of the data (Wikipedia 2008). In this way, ID3 tags used for music provide information about the artist's name, the genre of the work, the artist in general, etc. Pictures are frequently labelled via the Tagged Image File Format (TIFF). Additional information is also available in EXIF format.

3.4.3 Service-Oriented Dialogue Elements

The use of the Internet as a sales channel expands the possibilities for service-oriented dialogue with the customer by using Internet-based communication tools. A distinc-

tion should be made between forms of asynchronous communication (e-mail, forums, blogs) and synchronous communication (chat interfaces, video conferences, co-browsing, Internet telephony and wikis). Some of these tools are also appropriate for the evaluation process (e.g. e-mail correspondence and forums). The following types of dialogue elements are available (Schrödter 2003, p. 87 ff.):

- **E-mail:** This is the most widely used form of Internet-based communication. The advantage of e-mail is its speed and the ability to send messages directly. In addition, the expectations about e-mail formalities are not as high as with conventional letters; therefore, the medium reduces the threshold of anxiety that people may have about contacting each other in writing. This explains why e-mails are often used as a way to receive customer feedback. In addition, e-mail is an appropriate medium for making product recommendations that seem personal and individual.
- **Forum posts:** Online retailers can participate in forums that are really meant for customers to exchange their views. The forums then become another way to have a dialogue with customers. As a rule, the customers are presenting their opinions for other users rather than for the online retailers, and the customer often doesn't expect an answer to his posts. Nonetheless, online retailers can respond to individual posts, as Compaq does with the help of its own experts.
- **Chats:** This Internet-based communication method allows users to exchange their views in real time. Participants contribute to the discussions that are categorised by subject in so-called virtual chat rooms. Chats offer only a limited ability to communicate simultaneously.
- **Video conferencing:** Video conferencing on the Internet is helpful in cases where a customer must show an item in order to straighten out a problem. This communications form is very close to a sales discussion or consultation in a brick and mortar store. Customers must have specific software and hardware to make this possible (e.g. headset, webcam).
- **Co-browsing:** Co-browsing makes it possible for online retailers to demonstrate from afar how their website functions and to navigate it for the customer. Customers and online retailers simultaneously view the same webpage in their browsers, and both can access the various functions. This allows the customer to save time, but specific software is required to make co-browsing possible.
- **Call-back:** Typical call-back options are designed so that the customer can ask to be called by the online retailer by filling out a form online. The customer tells the online retailer his name and telephone number as well as the purpose of the inquiry and when he'd like to be called. This is not actually an online service, but the Internet is used to request the call. Call-back options can be helpful for customers who are evaluating products or services and want more specific information.

- **Wikis:** Wikis describe software solutions or collections of websites and can be read and changed by users online. The sites allow different authors to collaborate on texts so that their collective experience and knowledge can be captured (Wikipedia 2008).
- **Blogs:** Blogs are websites that act as personal journals or diaries that are open to the public. The journals are rarely kept for a specific amount of time only; instead, the author adds content on a regular basis at different intervals of time. Usually, the author keeps the content on the site and sorts posts in list form. The blog becomes an easily accessible medium for talking within a particular community about life, opinions, specific topics or shopping experiences. Blogs are similar to Internet forums and help users exchange information and experiences (Wikipedia 2008).
- **Twitter:** Twitter is a social networking and micro-blogging service. Registered users can send text messages (a maximum of 140 characters) and receive the messages of other users. Users can subscribe to the text messages of other users by signing up as that person's "follower". On the Twitter homepage, a user can input text messages and see the messages of the people the user follows sorted in chronological order. The sender decides if he wants to limit the recipients of his messages to a group of friends (Wikipedia 2009).

3.4.4 Self-Service Functionalities

Customer satisfaction increases if online customers are able to access self-service features and reach their desired goals without personal assistance. The interfaces between communications instruments and self-service functions are fluid and invisible from the customer's point of view. If, for example, an Internet user corrects his address by filling out a Web form, it doesn't matter to him if the information is updated in the database automatically or if the information is passed on to a person who is tasked with updating it (HMWVL 2007, p. 60 ff.).

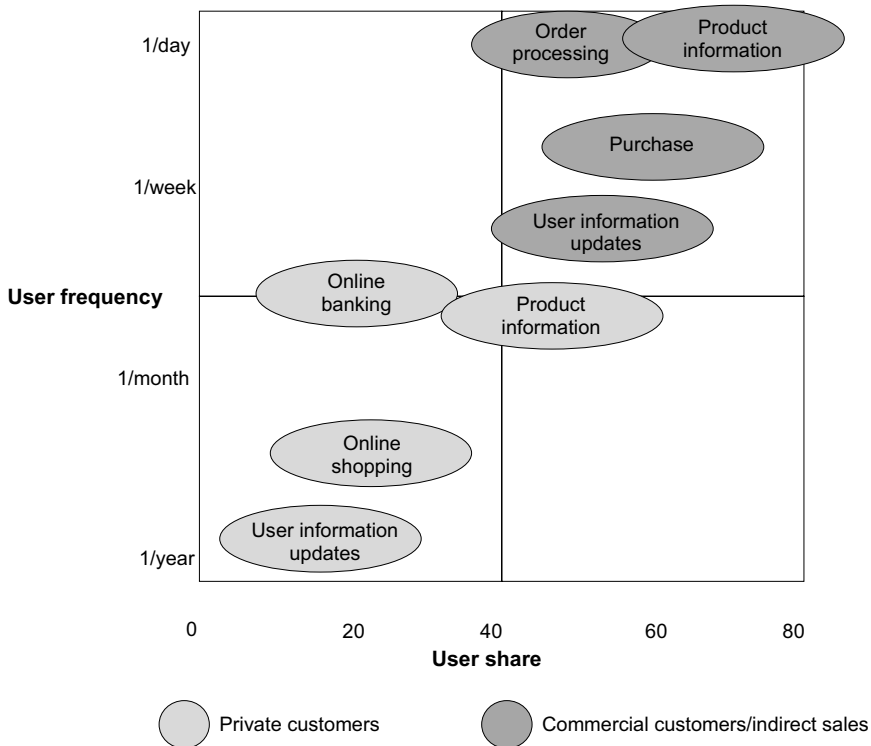
Self-service functions on a website open up possibilities for automating transactions in online sales, making the self-service functions an interactive feature for the customer. These functions make it possible for the customer to transact with the company by himself, without the active help of a sales person.

The basic problem with using such self-service modules is the complexity of the user interface; the online process is often more complicated than making a quick call to a service centre. Companies can offer incentives to those customers who resist self-service functions. As a rule of thumb, the incentive must be proportional to the user's frequency as well as the complexity of the self-service task. Here are some examples of incentives to use self-service functionalities (Laue 2004, p. 81):

- 24/7 availability of the Internet vs. call centre opening hours
- Free accounts or brokering terms
- Lower shipping costs
- Articles that are available only on the Internet
- Special prices for select products on the Internet
- Ability to avoid expensive calls to service numbers

Figure 3-15: Typical online user behaviour without incentives

Source: Laue 2004, p. 87



If a customer doesn't use the self-service portal at least once a week, it can be assumed that an online retailer won't make an incentive available for the long term. Experience shows that commercial customers receive higher value by using a site more frequently than do individual customers. Private customers cite transaction simplification (e.g.

online banking) as well as additional product information as reasons for use, as shown in Figure 3-15. Some users also use self-service functions without explicit incentives.

It is important to gather empirical data about constant users, in order to calculate the cost/benefit ratio of incentive systems. For users who receive incentives, use rates can increase substantially. For instance, for those users who have their shipping fees waived, the number of transaction usually rises significantly. In some cases, however, each incentive feature should be calculated anew (Laue 2004, p. 87).

3.4.5 Pre- and Post-Sales Services

From the customer's perspective, the online buying process consists of four steps (see Figure 3-16). These sub-processes, ranging from searching for a supplier to delivery, have become so standardised that only differences in content are palpable.

Online vendors can set themselves apart from competitors especially well by enhancing customer care and service. Online retailers are often able to offer their customers substantial additional value in the pre- and post-sale phases. At the same time, products should be described in detail and, if possible, displayed in a multimedia format before the sale. Related material or other interesting information can be provided as a download or external link. Another option is a trial delivery.

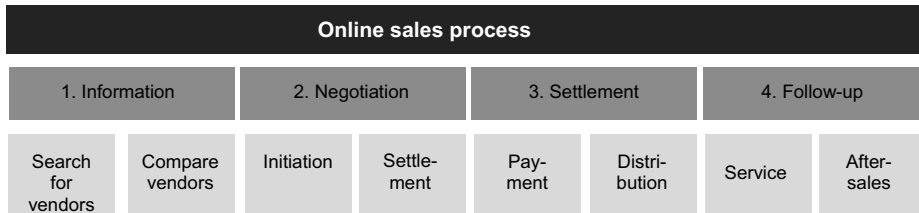
Additionally, the seller should guarantee maximum transparency. During the ordering process as well as in the initial stages, the actual expected cost should be displayed. Hidden charges or additional service charges (shipping, etc.) introduced at the conclusion of a purchase lead to anger or negative responses. To ease the customer's decision taking process, the seller can make online tools available in the pre-sale phase, such as financial advising, cost-effectiveness evaluations, application for public financial assistance, or e-learning (HMWVL 2007, p. 62 ff.).

In the post-sales phase, the seller should present the customer with offers for newsletters and additional information that may be of use. These could include, for example, operating or assembly instructions. Technical information in the form of data sheet archives, operation manuals, overview charts or conversion information raise the perceived quality of service and can be retained for future use by the customer.

Exchange services, returns, complaint management, warranty and repair services are very sensitive subjects in mail-order shopping that must be handled in an obliging manner (HMWVL 2007, p. 63). Under all circumstances, this should be defined for Internet sales in the general terms and conditions agreed upon by both parties.

Figure 3-16: The role of services in the online selling process

Source: HMWVL 2007, p. 57



Online help systems for diagnosing and correcting errors are very welcome with online customers. Positive experiences with self-help sections raise customer satisfaction and reduce the amount of work for both the customer and the vendor. To strengthen this business relationship, it can also make sense to display the customer's order history. This gives the customer an overview of his recent orders, which he can use when considering future purchases (for example in online wine sales).

3.4.6 Customer Feedback

Fulfilling customer requests is especially beneficial for strengthening customer loyalty, which makes a significant difference in online selling at this stage. In this context, the Internet offers excellent opportunities to identify and meet customers' needs. Correspondingly, feedback forms and online questionnaires help to gauge customer satisfaction and identify potential for improvement. The questionnaire should be displayed prominently to gain the highest number of responses.

More and more, independent market research companies are making Web surveys available that can be integrated into the seller's website or made available by the market research provider. Using access codes, the customer's participation can be managed and developed (HMWVL 2007, p. 65 ff.).

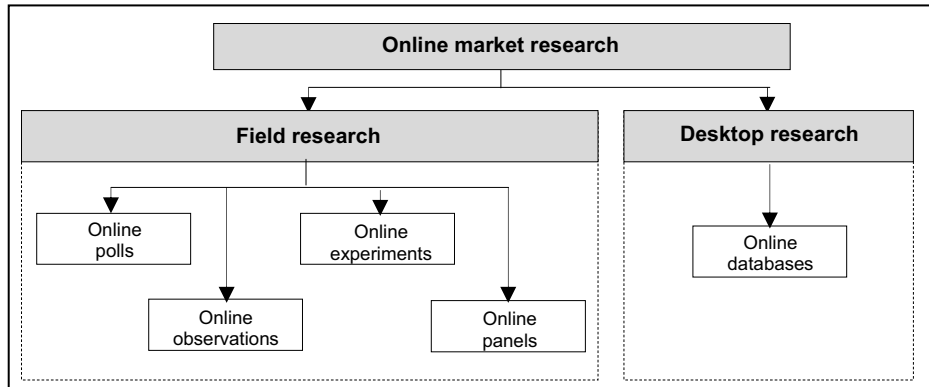
Since comprehensive information doesn't exist on potential customers, sellers would do well to collect and analyse all data that concerns interactions with Internet users (enquiries, newsletters, complaints). This data can be saved automatically and used for compiling so-called customer profiles.

In addition, the seller should assemble external data about the market, competitors and preferences of consumer groups in order to get a clear picture of the target market. This user information can then be stored systematically in a data warehouse, where both the automated internal data and the externally collected data can be consolidated.

In time, the process will give rise to a data pool that can be used for advertising and marketing through data mining techniques (Kollmann 2007, p. 193).

Figure 3-17: *Methods of online market research*

Source: Kollmann 2007, p. 195, with reference to Fritz 2004, p. 144



With the help of Web surveys, saved data can be analysed on a server, and every search on the server can be saved as a Web log and analysed according to different questions (Web mining).

Online questionnaires are, however, only one of many possible methods of data collection. As shown in Figure 3-17, online market research involves, in principle, the same form of data collection as classical market research, with the exception that the former is more efficient due to the nature of online transactions (Kollmann 2007, p. 194 ff.).

Furthermore, many online databases offer comprehensive information that goes far beyond what was traditionally possible with desktop research. Besides databases, researchers have search engines, mailing lists, catalogues, informational sites and ranking lists of all sorts at their disposal. One subsidiary of Amazon, Alexa (alexa.com – "The Web Information Company"), offers free traffic rankings for frequently visited websites within different product categories, as well as various analyses of key indicators.

Consequently, there are more than enough tools available to the online seller for gathering customer feedback. "Online observation", which makes use of tracking tools, is especially meaningful here (Lammenett 2006, p. 28 ff.; Kollmann 2007, p. 189 ff.).

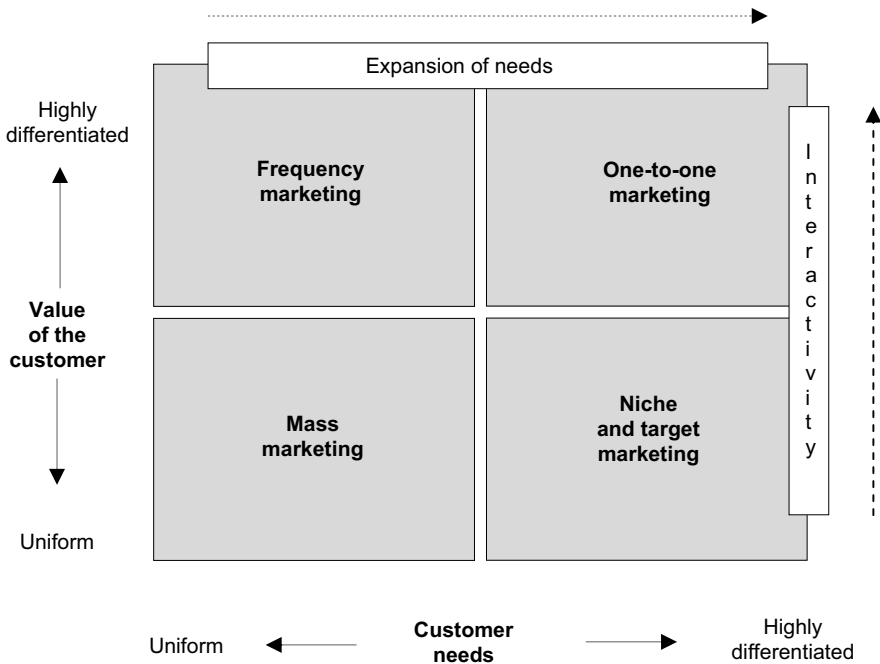
Apart from these, there are numerous Internet-specific indicators that can and should be monitored, which include the number of requested pages (page impressions) and

the number of visits. Using these tools, a company can analyse browsing activities (click stream) to identify navigation problems. An analysis of the preceding page shows which paths or search terms were favoured by the user. This also gives an indication of the effect of advertising such as banners and search engine ads.

Often the Internet service provider will offer a basic analysis within professional user services if the website is not operated independently (Web hosting). Web mining can also be outsourced to specialised (ASP model) service providers such as eTracker, Intares, HotTracker or Netstat. Web mining requires a certain understanding of current concepts and methods. The pertinent software (Mescalero, Clicktracks, etc.) is available starting at 100 euros, depending on the version (HMWVL 2007, p. 67 ff.).

Figure 3-18: Classification of one-to-one marketing

Source: Peppers/Rogers 1997, p. 65



3.5 Singularity Customisation and Personalisation as Success Factor No. 4

Online customers expect targeted and personalised satisfaction of their needs. This goes hand in hand with the trend toward individualisation. One possible approach for a company to set itself apart from the competition, permanently securing its market share and strengthening interaction with its own customers, lies without a doubt in the ability to individualise products, a trend that is currently being discussed in conjunction with Internet technology and is known as mass customisation or open innovation.

Apart from product individualisation, successful online sellers distinguish themselves above all by increasingly orienting their services toward "handling individual customers in a unique way", in other words through "customisation and personalisation".

The technical possibilities that are a reality with the Internet allow the growing trend of individualisation by end users to be taken into account through innovative marketing strategies. Due to the large amount of information available about customers – and therefore knowledge about their behaviour, needs and habits – individualised marketing strategies have become relatively easy to use. The related label "one-to-one-marketing" already signals the realisation of a one-to-one relationship with the customer.

3.5.1 One-to-One Marketing

One-to-one marketing focuses on meeting customers' needs in the most individual and interactive way possible. Customer needs are handled in a highly differentiated way on the basis of personalised offers (Figure 3-18). Interactivity goes hand in hand with the Internet's ability to generate customer data automatically and promptly. One-to-one-marketing therefore makes use of comprehensive information about the preferences and behaviour of the customer.

This lends itself well to online market research using profiling or detailed customer descriptions. Permanent interaction allows for widening and deepening of the level of individualisation over time (dynamic profiling). Target marketing, along with the subdivision of markets into homogenous subgroups, works closely with profiling, which due to the cost efficiency and up-to-date nature of digital data can now be done relatively inexpensively, in contrast to earlier costs.

However, the specific technology necessary for the assembly and management of customer data should not be underestimated, as this is always an important cost factor. This should be considered an investment that simplifies the automation of processes and reduces marketing waste (Kollmann 2007, p. 210 ff.).

Figure 3-19: Individual newsletter

Source: HMWVL 2007, p. 33

Regionally categorised newsletter

Rock in the Rhineland or oldies in the Black Forest – what's happening where you are? Everdirm regional newsletter keeps you informed of the current events in your area – naturally only the kinds you're interested in.

Yes, I would like to receive my personalised regional newsletter.

Please choose at least one and no more than three categories:

<p>Concerts</p> <p><input type="checkbox"/> Rock & pop</p> <p><input type="checkbox"/> Hard rock & metal</p> <p><input type="checkbox"/> Hip hop</p> <p><input type="checkbox"/> Jazz & blues</p> <p><input type="checkbox"/> Oldies & folk</p> <p><input type="checkbox"/> Other concerts</p>	<p>Other</p> <p><input type="checkbox"/> Comedy& cabaret</p> <p><input type="checkbox"/> Musical</p> <p><input type="checkbox"/> Festivals</p> <p><input type="checkbox"/> Children</p> <p><input type="checkbox"/> Other</p>
<p>Classical</p> <p><input type="checkbox"/> Classical concerts</p> <p><input type="checkbox"/> Musicals</p> <p><input type="checkbox"/> Opera & operetta</p> <p><input type="checkbox"/> Theatre</p> <p><input type="checkbox"/> Readings</p> <p><input type="checkbox"/> Other cultural</p>	<p>More</p> <p><input type="checkbox"/> Readings</p> <p><input type="checkbox"/> Gala</p> <p><input type="checkbox"/> Revue & chorus line</p> <p><input type="checkbox"/> Circus</p> <p><input type="checkbox"/> Revues</p>
<p>Sports</p> <p><input type="checkbox"/> Soccer</p> <p><input type="checkbox"/> Motorsport</p> <p><input type="checkbox"/> Tennis</p> <p><input type="checkbox"/> Ice sports</p> <p><input type="checkbox"/> Handball</p> <p><input type="checkbox"/> Other sports</p>	<p>Merchandising</p> <p><input type="checkbox"/> Variety</p>

In the context of one-to-one marketing, the registered user is personally greeted after log-in. Since the system already knows the buyer's spending habits, his favourite product is listed as the first option in his shopping basket. The customer is consulted and other products are presented in a personalised way and payment is processed by credit card without the customer needing to re-enter his data (Booz, 2000, p. 87).

In most cases, the customer's email address and other information are available to the online seller in case he needs to get in touch with the buyer or in order to send a personalised newsletter or mailing. If the buyer has various interests, such as sport, tour-

ism or culinary offers, it can be useful to offer him the chance to create his own newsletter by selecting individual subjects of interest (Figure 3-19).

Additional individualised offers such as personalised coupons improve the effectiveness of the newsletter. Coupons are not yet as widely used in Germany as in the United States, where they have been a great hit (Heinemann 2008, p. 65):

- 87 percent of U.S. consumers use coupons and
- 8 percent of the advertising budget in the United States is devoted to coupons.

Five billion coupons are used annually in the United States. A similar trend is occurring in Germany. Already every second German consumer is prepared to use coupons. The number of returning customers among those who use coupons is 64 percent and the sales volume connected with coupons is between 30 and 60 percent higher than with special discount offers. Areas where customers use coupons are groceries (64 percent), CDs/DVDs (59 percent), gasoline (45 percent), and clothing (44 percent).

Individualised coupons and e-mails are considered the most ideal way to reach customers. Practical examples of couponing in Germany include Tchibo and Bonusnet. Tchibo combines couponing with a "private program" club in which customers pay an annual fee of 10 euros and receive four coupons, each for 3 euros, which are redeemable each quarter. Club membership includes an exclusive magazine, which informs members in advance of special offers. There are also additional coupons for coffee, TCM products, exclusive events, special discounts, as well as lotteries and travel offers.

One year after its founding in September 2003, Bonusnet already had 40,000 members. The goal for 2004 was 300,000 customers, for which an advertising campaign was carried out at a cost of over 8 million euros. Bonusnet is essentially an Internet rebate club, in which customers pay a monthly premium of 5 euros for the chance to receive discounts from 350 online partners, as well as to have rebates directly deposited to their bank accounts (for example, 30 percent off their telephone bills). The customer gets additional monthly coupons valued at up to 100 euros.

3.5.2 Individualised Offers

Personalisation of the shopper's experience should include product offers and product selection. Ideally, the site would offer the wine drinker shopping for wine in an online store a corkscrew along with the wine, or an enthusiast of a particular kind of wine a new variety to try. Beyond that, by evaluating the customer's preference data, a seller could offer the customer literature on a certain wine-growing region or display a selection of meals that complement the wine.

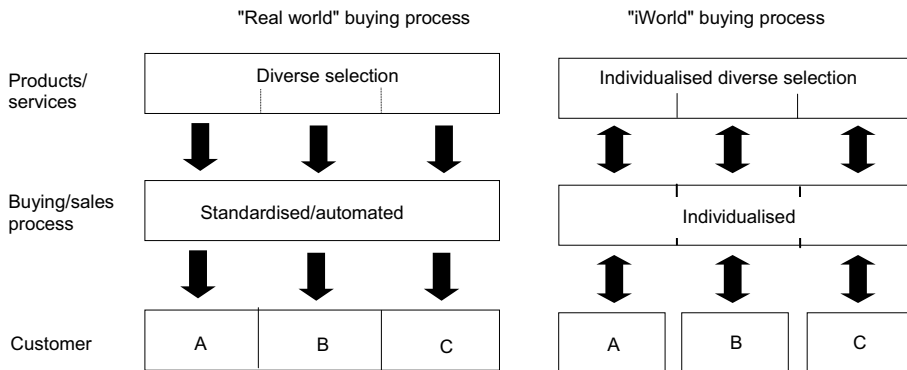
Individualised offers can be presented in a personally designed shop where items that are less popular with the customer are masked and an enticing and creative core product group can be displayed. This would prevent a red wine enthusiast who hasn't had white wine in years from being bombarded with advertisements for white wine.

Personalised offers call for the integration of product, process and customer. In this respect, customers and sellers are both involved in the exchange of goods and services (Figure 3-20). Both the online seller and the user profit from this interaction. The customer receives products tailored to his needs, while the online seller gains sustainable added value and efficiency by outsourcing certain functions to partners (Booz 2000, p. 88).

The more intensive the dialogue between the online seller and the customer, the more the seller learns about the latter's spending habits, and the more precisely he can tailor his products and service packs for him.

Figure 3-20: Individualised e-buying

Source: Booz 2000, p. 88



The online customer profits from his engagement in the process in more ways than one. First, in the pre-buying phase, he gets a fast and easy-to-understand overview of the services via an interactive and easy-to-navigate user guide. Second, he can use his individually designed product criteria to find the offer that fits his specifications and price range. In addition, he receives other offers that may interest him or finds out about other complementary products. The buyer should also be guided through the entire transaction until the final payment by a clearly arranged user interface.

Ideally, these steps also present different payment and financing options (Booz 2000, p. 90) and the seller offers the customer an individualised price model and payment options. Using credit information from credit reporting agencies (Equifax, Experian, etc.), the seller can get an impression of the creditworthiness of the customer, leading

to smoother product returns or payment options and finally greater trust and customer loyalty.

It is also possible to create loyalty for the business among what appear to be "risky" customers (e.g. they live in the wrong neighbourhood) through flexible offers. If the seller knows the risky customers personally, he can arrange a partial delivery through a calculated 1:1 risk limitation strategy. For the customer who has been rejected by other sellers, this approach can lead to extreme loyalty (HMWVL 2007, p. 38 ff.).

3.5.3 Personalised Consultation and Presentation

Since the social component of purchase transactions is lacking in the realm of online selling, an Internet-based consultation is offered as compensation. There are still many ways to support customers on an individual level and to direct them to products that meet their needs.

In the online fashion market, customer-oriented assistance is often employed, such as figure and problem area consultancy. More abstractly, consultancy can take the form of recommendations and ratings from other customers, since these often give shoppers a first impression of the product. Another option is the virtual salesperson, a so-called avatar, which can be used as a simulated clothing model (Rathgeber/Weining 2008, p. 78 ff.).

- **Customer-oriented assistance** refers to any form of consultation by the online seller on matters such as fit, style, problem area, colour or size. These can later be differentiated if the customer requests a personal recommendation from the seller.
- **Recommendation systems** refer to customer ratings. The five-star rating system, also in use by Amazon, has become the standard. Often customers are given the possibility not only to give products a star rating, but also to leave comments and read those of other buyers. Therefore, it is becoming possible more often to exchange personal experiences in corporate blogs (Klein 2006, p. 7), in which different topics are discussed in conjunction with a particular product, which necessitates an independent and authentic report by the commentator.
- **Avatars** with a selling function are animated figures that take the place of real people in the digital world (as in Second Life, etc.), although these can be utilised for consultation purposes as well. They are assigned synonyms such as "virtual agent", "bot", "lingubot", or "chatterbot" (Rathgeber/Weining 2008, p. 80). In the rather impersonal virtual world, avatars should give e-shops a personal touch with functions such as those in Figure 3-21.
- **Apparel simulation avatars** don't have a selling function, but rather they make it possible for the customer to virtually "try on" clothing. This allows customers to

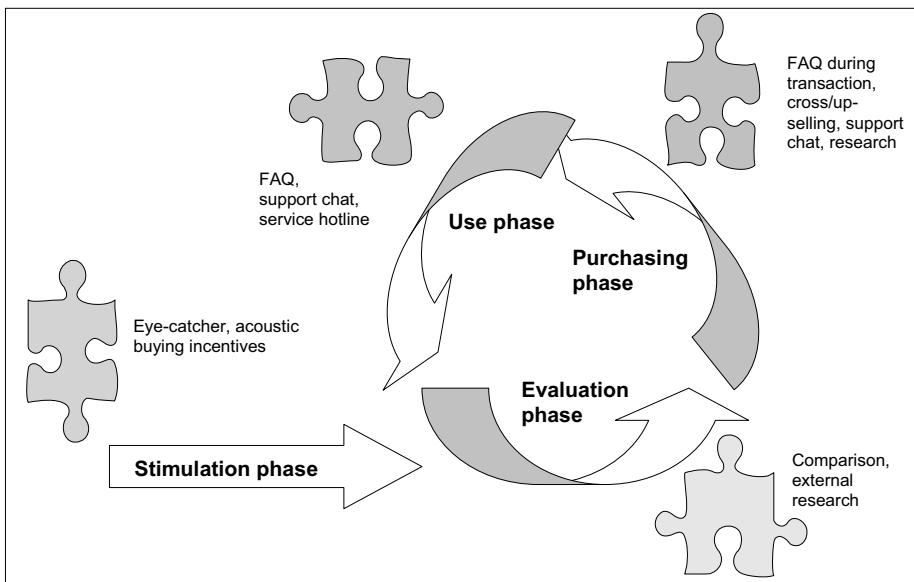
view clothing against their personal features, such as skin, hair and eye colour. They can also try on different combinations of clothing, which is usually not possible with a purely photographic product display.

- **Uploading a self-portrait** is another way to display products, which can be viewed as they would look "on the customer", also raising the customer's personal identification with the product.

Avatars serve as a gateway to the user and act as a guide, helping the customer navigate the website. They can also support users throughout the entire purchasing process by giving additional incentives, answering questions (support chat) or presenting other offers (cross/up-selling). Generally, avatars understand natural language and are able to answer questions in real time.

Figure 3-21: Use of input fields for avatars in online selling

Source: Rathgeber/Weining 2008, p. 81



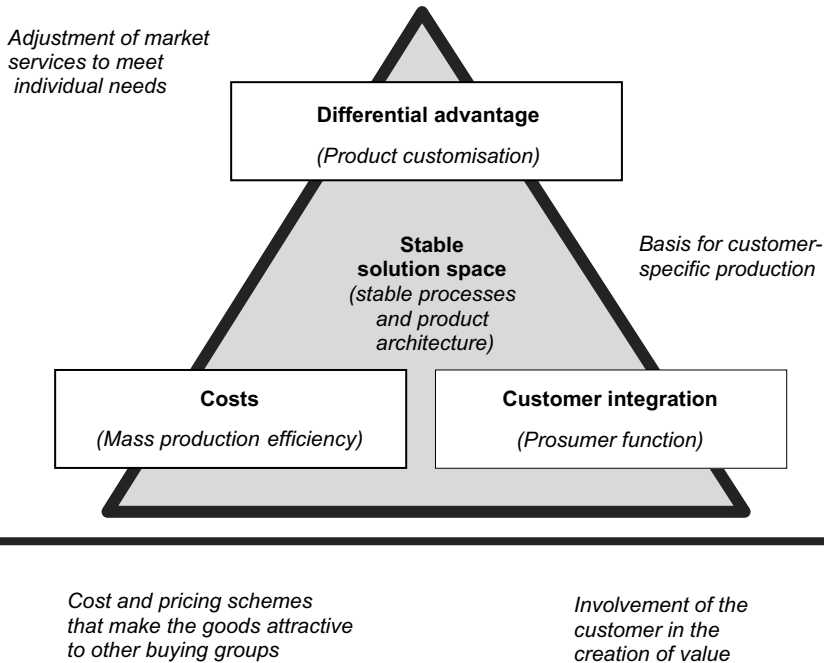
3.5.4 Mass Customisation

In the early years of the Internet, the individualisation trend led to the fashion industry's concept of made-to-measure sizing (Ahlert 2001, p. 15). This innovation is the apparel-specific implementation of a mass customisation strategy within the framework of customer-specific mass production of complex clothing goods, with respect to individual body size and dimension.

Mass customisation (customer-specific mass production) takes the traditional method of individual production and combines it with the cost-effectiveness of mass market production (Reichwald/Piller, 2006, p. 5 ff.; Schnäbele, 1997, p. 1 ff.). At the same time, it makes use of the possibilities of Internet technology to engage the buyer in the customisation in the form of "interactive value creation". Mass customisation is the production of goods and services for a (relatively) large market, which meets the various needs of every single buyer.

Figure 3-22: Principles of mass customisation

Source: Based on Reichwald/Piller 2006, p. 200



This should happen at a cost that is approximately the same as for mass-produced standard goods. Mass customisation thus identifies the production of individualised goods and services with the efficiency of comparable mass or serial production.

The information gathered in the process of individualisation helps establish a permanent, personal relationship with every customer (Reichwald/Piller 2006, p. 65). Piller's definition has practical relevance due to its strong focus on consumer needs and the firm establishment of cost dimensions.

The principles of mass customisation are displayed in Figure 3-22. Apart from the previously described product individualisation and mass production efficiency, customer integration (prosumer function) and stable product architectures are of vital importance. The customer's development from consumer to prosumer through "interactive value creation" has only been possible as a result of Internet technology, while the principle of customer integration is also effective within the framework of customer-generated advertising (Unterberg 2008, p. 203). The criterion of a "stable solution space" means that the process and product architectures must be fixed and therefore standardised (Reichwald/Piller 2006, p. 203 ff.).

The success of the online seller who uses mass customisation lies in the fulfilment of needs of individual customers, who demand high-quality personalised products at a comparable price level to standard products (Piller/Reichwald 2006, p. 1 ff.). Mass customisation in connection with the possibilities of Internet technology and the resulting opportunity for "interactive value creation" has made a breakthrough possible.

The fundamental goals of mass customisation are to set the seller apart from the competition and to permanently secure market share, while at the same time strengthening interactions with the seller's own customers. This creates added value for end-users as well as for the company. Following the principle of open source, external creative potential can thereby be activated. Through vendors such as Spreadshirt (T-shirts) or Sellaband (music), the consumer becomes the producer and, in the spirit of open investment, can also market his own products using these platforms.

Mass customisation and the resulting product individualisation have become a current trend, as various studies show. The "German Delphi Study" hinted at the growing importance of mass customisation even in 1998 (Fraunhofer 2008). A study by Gartner from 2001 showed that mass customisation had already gained third place in a CRM trend ranking (4managers 2008). And the most recent survey of 546 practitioners in this area by Förster & Kreuz in 2003, showed that 50 percent of those surveyed were already familiar with the concept of mass customisation and that 34 percent had heard of it.

Product individualisation is certainly not a new development. As an example, consumers have been able to buy custom embroidered linens for many years. What is innovative, however, is the fact that this can now be done online for a wide market of end customers using the seller's existing stock.

Examples of this are:

- Esprit (embroidery on baby clothes and hand towels)
- Freitag (bags made from truck tarpaulins)
- Nike, Vans (personalised athletic shoes) and
- Apple (iPod engraving).

A further departure is the online sale of exclusively individualised products, as offered by timbuk2 for bags or Spreadshirt for clothing and accessories. This trend is supported by the almost nationwide coverage of broadband Internet connections, which make large data transfers possible around the clock. For most households, loading time for online applications that display selections of print and text options in high-definition is no longer an issue.

Individualisation doesn't lend itself exclusively to "pure online selling" as a service enhancement, since multi-channel sellers profit from this option as well. Customer ties can be greatly strengthened at the point of sale. The two main challenges for vendors to solve are the problems of time and quantity.

The Challenge of Time

In distance sales, consumers have become accustomed over the years to shorter and shorter delivery times. Sellers of individualised products must also take this into account. Time is saved through proximity to the customer and speedy processing.

Distributors face the challenge that an increasing number of products are manufactured outside of Germany's or even Europe's target markets. For this reason, individualisation should take place with pre-produced goods that are already available on the market. In contrast to manufacturers or vertically integrated systems, online sellers can therefore do without individualising the product's functionality (intended purposes) and concentrate instead on sensory qualities such as design, colour and pattern. Pre-production of raw materials or components then becomes the focus, as these must be ready and stored in a warehouse.

The Challenge of Quantity

The second challenge of individualised products lies in planning target quantities. As a rule, the quantity of individualised products won't reach critical mass, meaning that a seller won't likely be able to break even on investments in his own production machinery.

An alternative is the use of finishing services. The difficulty here lies in finding a supplier who can offer competitive prices for uncertain quantities of goods. The number of products needed at the outset is not easy to plan.

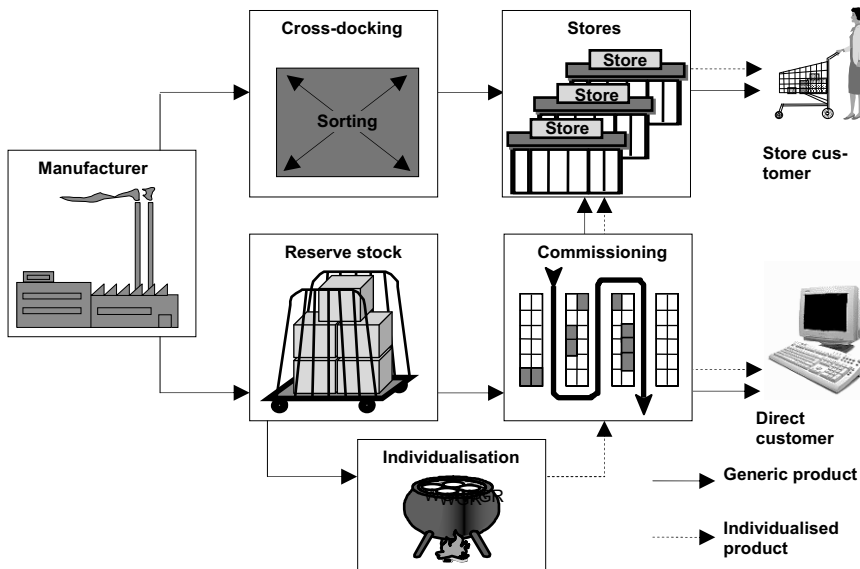
Because individualisation in the mid-range price segment is under pressure from competitors in the discount segment, which present a real competitive advantage, there is not much leeway for sellers. What is more, conventional service providers limit themselves to customising particular product lines and groups, such as textiles.

Customisation through Fulfilment Service Providers

Hermes Warehousing Solutions GmbH (HWS) has recognised this problem and offers its customers an innovative new service. The Hamburg fulfilment centre is a subsidiary of the Otto Group and specialises in services for the European distance and store-based retailers who work with business customers and end users. It is considered a best practice operator for its back-office functions and supply chains (see description in Chapter 4).

Figure 3-23: HWS operational structure for mass customisation

Source: HWS 2008



Thanks to its many diverse customers, HWS offers order bundling for sellers, meaning that groups of smaller orders can reach a critical mass for individualisation. In this way, fluctuations in individual orders can be compensated for, and a wide spectrum of different technologies is available. The methods and demands of these technologies must, however, be communicated to the customer up front, since the customer knows best under which conditions his products should be used and sold in an individualised way, according to HWS (Figure 3-23).

HWS bundles this information and uses it to make the technology and custom-made processes available. The required quantity can then be shipped from the central stock. After customisation, the individualised products are delivered to the store or end customer.

This service has the advantage that only the number of products needed in the marketing period are manufactured, making planning easier. None of the inventory that could otherwise be sold needs to be held at a subcontractor. Post-processing via HWS can be used as an "on-demand" service, which is advantageous in small series of products and special sales, and sales-driven production is possible as well. Multiple designs can therefore be tested on a single product and the design of the bestseller can be generated quickly from the raw material.

HWS's broad range of operations makes it possible for sellers to offer a wide variety of products without the cumbersome task of managing orders with multiple subcontractors. In this way, fashion companies can offer personalised non-textile items and hard goods retailers can offer individualisation via the fulfilment service.

3.5.5 Open Innovation

More and more, "prosumers" expect to be involved in the entire value chain process and are prepared to honour their involvement, as seen in the new "success startups" within the fashion industry (e.g. threadless.com and spreadshirt.com). The foundation of the value chain process is thus a co-design process by virtue of the individualised service inherent in the interaction of the vendor and the end customer, which has also been called "open innovation" (Piller/Reichwald, 2006 p. 95 ff.). The main difference between this and mass customisation is that the customer becomes involved in the manufacturing process earlier on.

As shown in Figure 3-24, the customer can be integrated to various degrees and in various ways. Similar to consumer-generated advertising, the customer can be integrated as early as during the process of idea generation. With regard to the starting points for product individualisation, three concepts of the co-design process can be identified, depending on the effective point of customer integration.

- **Develop-to-order (engineer-to-order):** The highest form of value chain integration, with customers integrated into the product design process. Individualised redesigns are realised. This is done in terms of classical made-to-order production that, from the perspective of the company, is still efficiency-driven.
- **Assemble-to-order and make-to-order (build-to-order):** The vendor integrates the customer into the product's individualisation at an opportune time, giving the customer a stake in the production activities ("special requests"). However, there is no customer integration in the production of custom-made commodities. A typical ex-

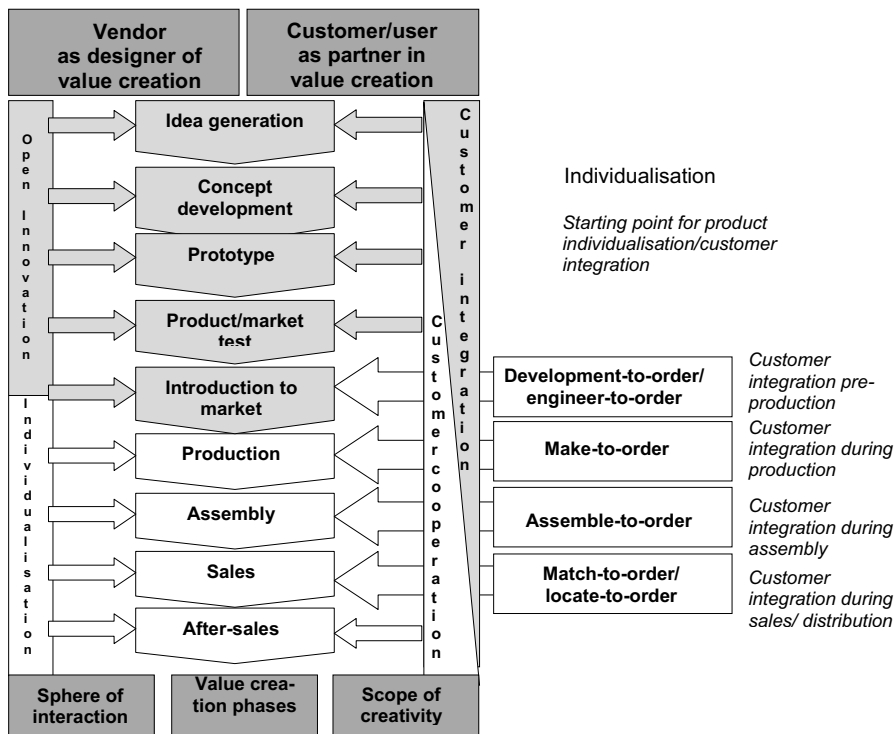
ample of this starting point for product individualisation can be seen in product configuration.

- **Match-to-order and locate-to-order (soft customisation):** Customers are integrated using existing value chains, in which an interaction tool collects and organises requests from a spectrum of standard services. This form of product individualisation isn't based on production, but rather on already existing functions in customer service and marketing.

Match-to-order and locate-to-order, or soft customisation, lend themselves well for the classical seller that is not vertically integrated and therefore cannot influence production and the production of upstream value chains.

Figure 3-24: Analysis of open innovation

Source: Reichwald/Piller 2006, p. 209



3.6 System and Supply Chain Excellence as Success Factor No. 5

A major prerequisite for success in online sales is effective complexity management that simultaneously ensures the fastest possible execution in the Internet channel (cycle time reduction). The success factor "system and supply chain excellence" relates above all to the Internet retailer's "inside-out" complexity. Relevant challenges include maximum automation (IT and system management) as well as making sure that channel-specific processes are as fast and optimal as possible.

During the Internet's early days, the reduction of cycle time was discussed exclusively in terms of complexity reduction. The potential to work virtually with the Internet, however, makes handling complexity possible without resorting to lowering system quality or scope. This could more accurately be called "complexity performance".

3.6.1 Complexity Performance

As so-called "Wikinomics" progress, the importance of vertical integration will decrease. Instead, the focus will shift to an individual Internet business' core competencies (Tapscott 2008, p. 14). Due to the changing market as well as customer expectations regarding time and pricing, online sellers will inevitably be forced to improve performance. The speed of internal decision-making and operations, for example, will play a key role in determining success.

The "traditional" seller must accept the fact that customer service-oriented business practices and total customer orientation are the most important conditions for success online. Speed, transparency and service orientation are concepts that have yet to be understood in the "customer service desert" that is Germany.

This need can only be fulfilled through a process-oriented redevelopment to render online organisations leaner, faster and more powerful. Uncompromised customer service orientation, with a drastic reduction in reaction time, is a basic requirement for corporate competitiveness; it is also the basis for growth potential.

Studies have demonstrated that radical process optimisation can lead to greater efficiency, with reductions of between 20 percent and, in some cases, 60 percent in throughput time. This happens via faster inventory turnover, increased productivity, stock reduction and the distinct minimisation of non-sales-related activity (Management Engineers 2008). But this improvement is only possible when not only the cost structures but the entire business structure are tailored to the demands of online business.

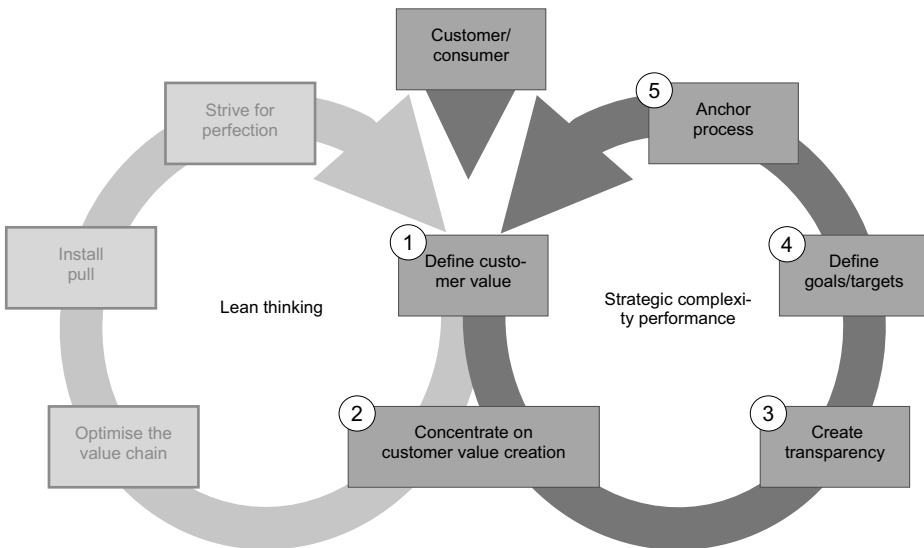
Indeed, "traditional" retail firms are rife with inefficiency, both structural and procedural. Inadequate interlocking of core competencies and suboptimal regulation of responsibilities as well as structurally-determined delays are all indications of substantial potential for improvement.

Within the bounds of customer-oriented redevelopment, all core competencies must be questioned in terms of time, quality and cost. The goal is to focus on core functions in terms of both cost advantage and volume. Key points for process optimisation in core competencies include marketing and logistics, centralised logistics, distribution and allocation, and retroactive distribution. In this regard, all process operations must be examined and re-evaluated according to how critical they are to the business' success.

Retailers must do away with barriers to the seamless and efficient rendering of services. It is important to distinguish amongst material barriers (including inadequate MMS instruments) procedural barriers (for example, the lack of a clear chain of responsibility for MMS processes), and cultural barriers (for example, a business culture that does not emphasise the importance of team work).

Figure 3-25: Complexity performance in five steps

Source: With reference to Management Engineers 2008



For help with customer-oriented redevelopment, online retailers should consider the legendary five steps of "lean thinking", as well as the five phases of complexity performance shown in Figure 3-25 (Womack/Jones 2003, p. 9 ff.).

The starting point is the concept of "customer value". This concept is of central importance for the attractiveness of online retailers' marketing. The next step involves reorganising all of a business' processes so that they provide good customer value. This makes adequate transparency possible, which in turn enables the clear definition of goals (for example, process speed, cycle time, etc.), as well as the implementation of sustainable processes. This in turn makes possible an Internet-specific business system that provides holistic customer-oriented processing in accordance with the principles of business reengineering (Osterloh/Frost 2003, p. 31).

In contrast to previous theories of complexity management, complexity performance is not about reducing complexity. Rather, complexity performance is about achieving "irreducible complexity". While one of the core principles of "lean thinking" is that complexity must be reduced at all costs in order to bring down price, the complexity performance approach is not bound by this postulation.

Instead, this approach takes as a given that the business world will grow continually more complex, and that the ever-increasing differentiation between market requirements can only be met through solutions of likewise increasing complexity. Networked or virtual organisations create new possibilities for companies that can operate at a level of complexity commensurate with that of the market (Zentes/Swoboda/ Morschett 2004, p. 295 ff.).

3.6.2 Acceleration and Cycle Time Reduction

Successful online retailers such as Amazon consult comparison standards, especially data clusters from rivals, thereby engaging in external benchmarking with the help of process drivers. The "primary goal" is cycle time, which is to say optimal net process time.

For Amazon, customer services such as "one click to buy", "24-hour delivery", or "e-mail in 24 hours or phone call in a minute" are a given. This is often not the case for German companies. Options such as "three clicks to purchase", "telephone response in no more than an hour", and "delivery in under 48 hours" are "state of the art" in online retailing, and level the playing field with traditional businesses that make the move to online. "Cycle time reduction" is the central principle that, along with the "customer service supply chain", forms the basis for Amazon's business strategy. This can be seen in Figure 3-26.

A prerequisite for a reduction in cycle time is process optimisation that eliminates less than optimal processes or makes them more efficient. In order to assure the long term

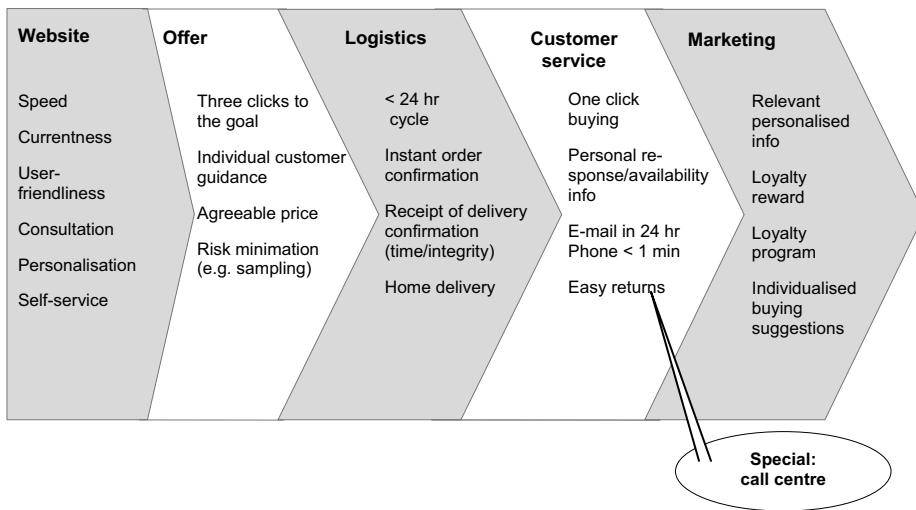
success of the optimisation, it is highly advisable to regularly measure the status of eliminated barriers in core and individual processes.

Process drivers such as cycle time, hit rate and adherence to delivery dates should be measured regularly as part of the restructuring project. As the indicators change, new barriers are identified and the targeted process optimisation becomes visible (Droege & Comp. 2000). Potential volume and price impacts (20 to 40 percent), stock reduction (25 to 35 percent) productivity increases (15 to 30 percent) and customer satisfaction (30 to 50 percent) can then be achieved with a time delay.

Clear delineation and documentation of the relevant values of process drivers and results allow for the direct integration of each step in the project hierarchy. In the course of a restructuring project, the measurement of improvements leads to a better understanding of the retailer's capacities, and therefore serves as a motivation for everyone involved.

Figure 3-26: Amazon's customer supply chain

Source: H&P 2004



3.6.3 Strategic IT Deployment

In online commerce, customers communicate with a business via a software interface. This highlights the importance of the development of information technology (IT) and its infrastructure so that it supports all the core functions of the venture, as well as being integrated with its value and process. The deployment of IT has become a central condition for success for online commerce. Above all, the system should be comprised of the following three elements derived from business requirements (Booz 2000, p. 157):

- **Optimum integration** with existing systems, which depends on the organisational integration of the Internet channel (e.g. founding of a new company, greenfield, startup versus organisational embedding). The integration should be designed to eliminate as many manual processes as possible (gaps in the IT process chain). In the first years of the new economy, Internet ventures that did not have integrated systems and suffered from gaps in the IT process chain failed.
- **Maximum degree of standardisation** of Internet solutions within the business: On one hand, this means compatibility, while on the other, it involves process efficiency, transparency and the ability to maintain. Isolated applications usually break the rules of optimum integration.
- **Most extensive IT coverage possible** of all value-chain processes and support. It is also important here to guarantee that processes can be completed without gaps in the process chain to create the basis for speed and full automation. Internet ventures that did not try to integrate existing back-office systems and instead developed a completely new system architecture – from customer interface to production and logistics – have been successful.

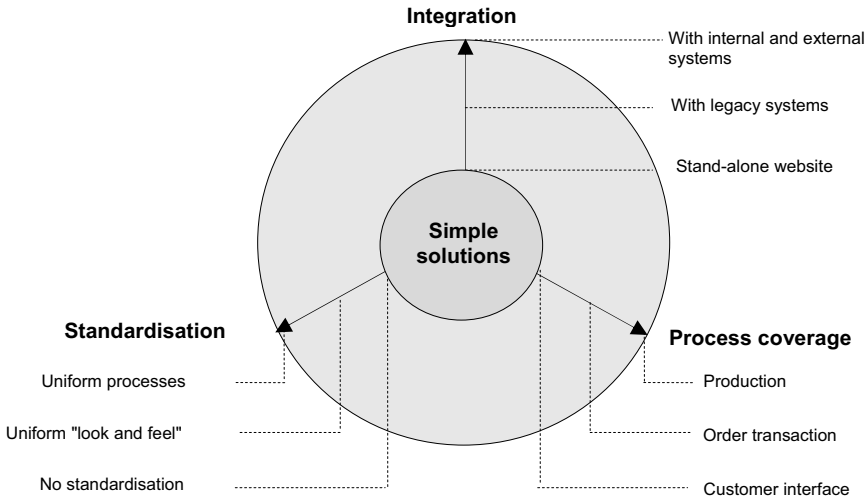
All three elements can quickly develop into complex problems when neglected. Figure 3-27 shows how they work together. The further away the necessary IT architecture is from these three axes, the higher the need to change it, which also requires more investment. These requirements are dictated by the market and the business model and increase complexity.

Because of the high real time requirements of digitalised products (such as e-books, downloads, etc.), a back-office integration is always required. With material products (such as clothing, furniture, etc.), these requirements are not as important due to time-delayed distribution.

However, even in this industry the customer's expectations of quick delivery are rising so that today a 48-hour delivery system must be established. Those online retailers with a 24-hour delivery system see even more success. Both require back-office integration.

Figure 3-27: Complexity drivers of IT architecture

Source: Booz 2000, p. 158



3.6.4 Automation

The immediate transmission of all data resulting from the sales process permits a real-time analysis of users and their needs, which can give clues to problems that can occur during any given transaction (Kollman 2007, p. 167). This suggests that data transmission should happen automatically at as many points possible throughout the user experience. This supports not only the venture's sales, but also eases the shopping process for the customer.

Amazon has become the best example of how service quality improves through automation. Through "1-click shopping", the effort the customer has to make in order to complete a purchase is significantly reduced, as the customer only has to enter delivery details once and payment data is saved using a login and cookies. By activating the "1-click" feature, the Internet user can eliminate all of the single steps that are normally part of the shopping process for all future purchases. As a result, shopping is easier and faster for the customer and the online retailer can minimise the risk of obstacles in the sales process holding the customer back from making purchases (Kollman 2007, p. 169).

Not only time and personal effort are minimised through automation, but quality can also be improved through the elimination of errors. Handling transactions efficiently means sales increase even while the sales department has less work to do.

This presupposes, however, a standardisation of transactions so that these sales can be handled independent of time and the number of sales. It also presupposes larger transaction volumes without increased costs for making the sale. This is a typical scale effect (economies of scale).

However, these kinds of economies of scale require that transactions be designed to happen as efficiently as possible. This only works when automation takes over all of the tasks that can be standardised. It is then possible to offer the customer information (such as online advice) promptly, making a sale more likely. Thus, the basic goal that is pursued by the automation of the shopping process and its sub-processes (e.g. information search, order procedure, payment, product delivery) is achieved (Kollman 2007, p. 170).

To a large extent, buch.de also uses automation for sales promotion. In 2007, it introduced an e-mail system with which its workflow and user-friendliness could be arranged more effectively for the production of mass mailings. This e-mail system was integrated into the inventory control system and online shops.

The new system makes it possible for the newsletter editor to import all product information by entering a short item code from the e-shop or the ERP system directly into the e-mail. This is how the name, description of an item, pictures and price, as well as the URL, are automatically integrated into the e-mail. A newsletter design template formats all of the newsletters that are sent (Schwarz 2008, p. 43).

3.7 Security Standards and Reputation as Success Factor No. 6

The automation, simplification and acceleration of the purchasing process bring with them certain risks. For instance, by eliminating individual steps and activating the "1-click" feature for all subsequent purchases, a user account is more susceptible to misuse if other people have access to the fixed settings.

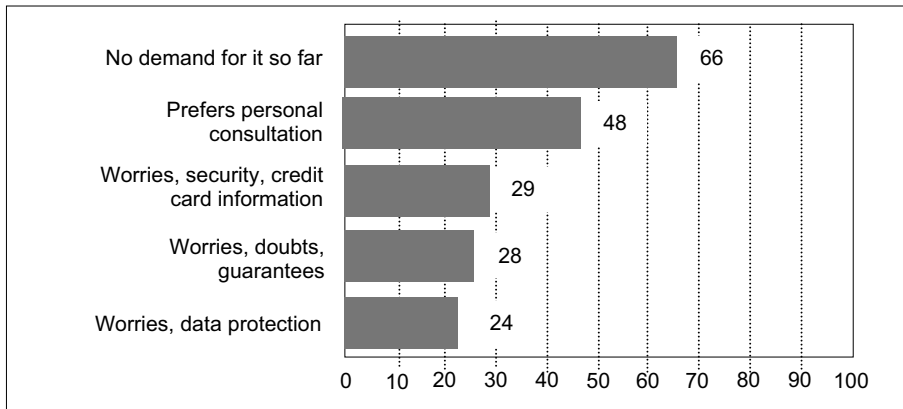
Such dangers and the customer's perception of "the malice of shopping on the Internet" (Fründt 2008, p. 55) have massive influence on the user and the security image of the online retailer. Given the anonymity of the Internet and its worldwide access possibilities, customers still question the seriousness and validity of online ventures, especially those that may not be known (yet).

Safety image is becoming increasingly central to the success of an online retailer. It is affected by the customer's current risk perception and is determined by payment security and flexibility, data protection as well as security regarding legal issues and general terms and conditions (Ludowig 2007, p. 31).

The Federal Statistics Office conducted a survey of those who do not purchase items online to find out their reasons for not shopping on the Internet. The survey confirmed the points already mentioned. The most common excuses for not shopping online are security, no need and the desire for a personal consultation (Figure 3-28).

Figure 3-28: Reasons for not purchasing online

Source: Statistisches Bundesamt 2006; Lochmann 2007, p. 64

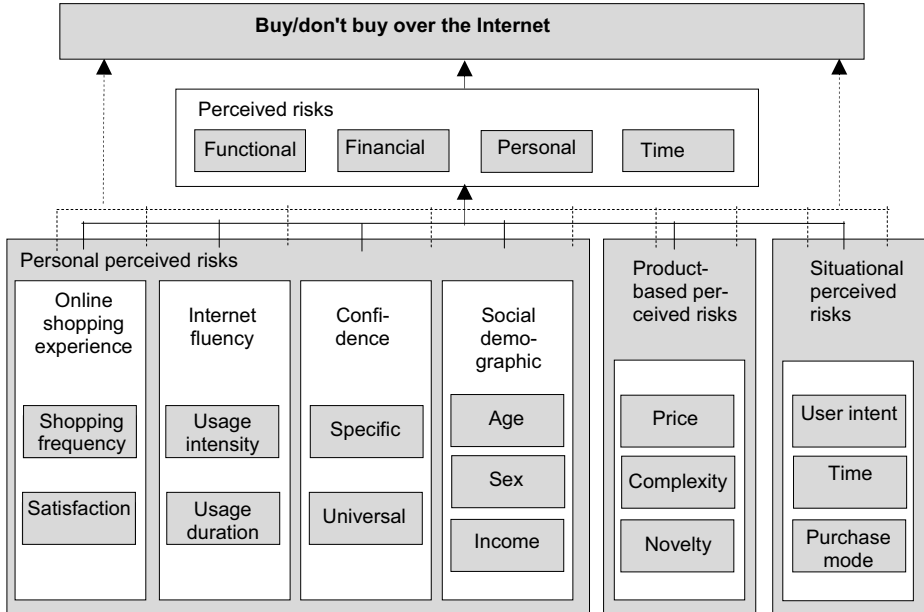


3.7.1 Risk Perception in Online Commerce

A multitude of different influences affect perceived risk for Internet shopping. They include product-related influence variables, personal data influence variables (which depend on the type of customer), situational influence variables (which result from the circumstances of the purchase – e.g. time pressure) and the purchase mode (such as purchases from hybrid online retailers). These influence variables are tied together closely and mutually influence each other, and they can indeed result in widely varying perceptions of risk, depending on the impact of functional, financial, personal or time risk. This correlation is shown in Figure 3-29.

Figure 3-29: Magnitude of influence of perceived risks in online shopping

Source: Kollmann 2007, p. 83



- **Functional risk** is perceived in online retail since neither the quality nor the functionality of a product can be physically examined before purchase. The only possibility for online retailers to solve this problem is to eliminate the information deficit through the type of the offer (e.g. brand-name products), assurances (e.g. the possibility to return goods) and by strengthening the retailer's own reputation (e.g. through public relations campaigns).
- **Financial risk** exists for customers if they have to return goods and through the use of credit cards, even though elaborate systems to increase data security are now available. The online retailer can work against this by employing generous terms and conditions as well as offering alternative payment methods (e.g. bank transfer).
- **Personal risk** comes into play when Internet users fear the abuse of their personal data that they must enter in order to complete a transaction. They are particularly disturbed by cases of unauthorised access to personal data (e.g. publishing of e-mail addresses). Online retailers must make privacy a top priority, including a guarantee of anonymity to their customers.

- **Time risk** is when the customer fears long delivery times, especially when he is under a deadline to purchase something as a gift. This is often the case in orders made before Christmas, when longer-than-average delivery times are expected and can cause stress for the customer. The online retailer can work against this by adjusting capacity. The risks related to customer complaints and returns should not be underestimated, especially when customers are forced to deal with hard-to-reach call centres (e.g. Telekom) or have to travel a fair distance to the next post office. The cost of returning something is part of the financial risk.

Empirical studies show that financial risk has the most influence on buying decisions. Shopping frequency, satisfaction and confidence have the biggest influence on risk perception. Thus, online retailers should take every possible opportunity to maximise customer satisfaction (Kollman 2007, p. 85).

3.7.2 Payment Security and Flexibility

Recent headlines include "Instances of fraud in cash transactions increase dramatically" (Billhardt/Borst/Johann/Koerner 2008, p. 117) and "Boom times for Internet criminals" (WZ 2008, p. 5). One aspect of this is that the number of money transfers from home PCs has increased, since they can be carried out comfortably and quickly. As Figure 3-30 shows, more than 42 percent of all German current accounts are online accounts. In 2006, German citizens transferred money over the Internet 1.8 billion times, and in 2009 the number of transactions rose to almost 2.4 billion.

Another aspect is that it is increasingly enticing for criminals to commit crimes from the comfort of their own homes. The most common "tricks of the trade" include the "phishing e-mail", the "Trojan horse", "keystroke logging", the fake "pharming website" and the "middleman attack", which are used for criminal activities and forgeries, attacks and manipulations that are frequently unidentifiable (Focus 4/2008, p. 123). The most readily used is phishing, which is the attempt to gather Internet user data through the use of fake websites or mass e-mails (spam).

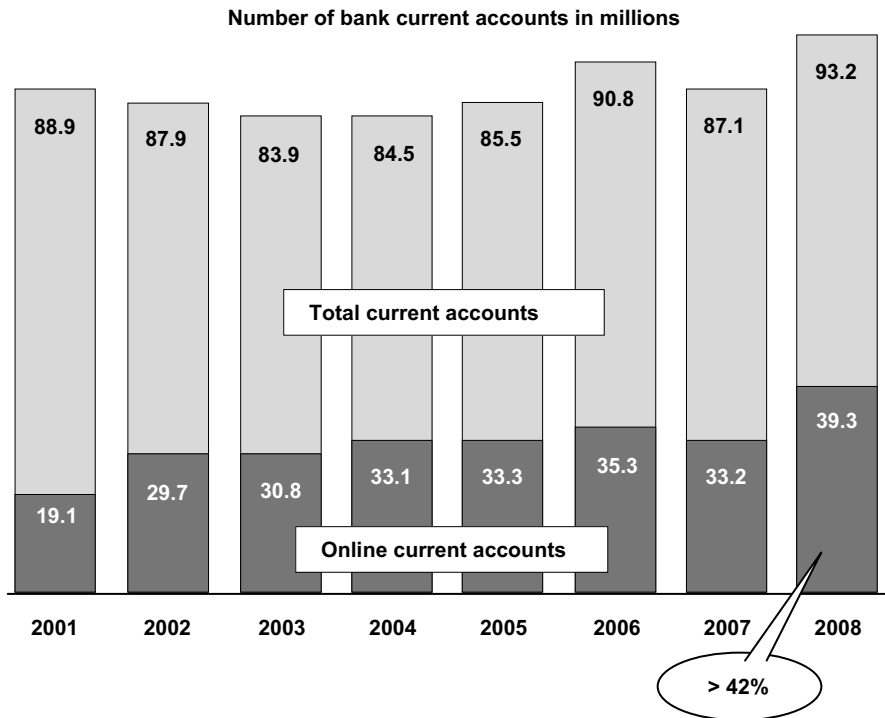
In 2007, there were approximately 4,100 cases of Internet fraud in Germany. Internet security firm Symantec estimates that global damages reach approximately 7 billion dollars (WZ 2008, p. 5). "However, in 2008, banks and users openly took preventative measures and for the first time in years, there was a sharp decline in the number of so-called phishing attacks, according to the available data from the industry association BITKOM. Statistically, the numbers dropped in half. Tips are available on the Internet at www.bitkom.org" (RP 3 September 2008, p. B1). Often, a complex password can protect against abuse.

Established online retailers usually offer various methods of payment. Standards include bank transfer, payment via invoice and credit card payments. Smaller online

retailers or private sellers (e.g. at an online auction) often request payment for the product in advance. To an extent, this can be viewed as precarious for the buyer as there might be a chance of non-delivery of goods they have already paid for. If the venture is dependent on prepayments, the online retailer must offer obliging provisions in its terms and conditions.

Figure 3-30: Online bank accounts in Germany

Source: Deutsche Bundesbank 2010



It is often the case that customers do not allow enough time for the money to arrive in the retailer or private dealer's account, especially in cases of Christmas stress. It is thus recommended that sellers confirm the money transfer via e-mail or send dispatch information. Customers should also have the opportunity to enquire with the online-retailer about the payment status.

In terms of credit card payments, customers fear security holes and worry that hackers can read and misuse their credit card information. These incidents can be very costly for the Internet buyer. Therefore, experts say that online customers must be sure that

the relevant payment information is transferred in a securely coded manner. All of the given transfer data is made unreadable using a code, until it reaches the online-retailer, who should be the only one who knows how to decode it.

An increasing number of shoppers look for an Internet address that starts with `https://`, instead of `http://`, as the "s" stands for "secure". Internet users are also told to look for the little lock symbol in the bottom right corner of the browser window.

The reigning safest payment method remains direct debit as customers can then ask their banks to reclaim the money as much as six weeks after the transaction was made.

With payment transfer methods such as Giro pay, Firstgate or Paypal, the money is transferred nearly in real time, so that the goods are promptly paid for and available immediately for shipping. These payment systems have become established and are also seen by customers as secure, quick and trustworthy.

3.7.3 Data Security and Protection

"Embarrassing mishap at Beate Uhse: The erotic retailer Beate Uhse has suffered a breakdown in data security. Trusted customer data – including thousands of e-mail addresses – were available on the Internet for everyone to see for months. A journalist accidentally discovered the contact data. Meanwhile, access has been denied" (T-Online, 2 September 2008). The illegal distribution of customer data is not only legally problematic, but can also cause serious damage in customer confidence. Many Internet users were clueless to the fact that they leave behind a permanent data trail when surfing the Web.

In a typical online purchasing process, a customer's address as well as bank data and personal information are registered. Additionally, a user's preferred websites and products are stored. Customers are increasingly aware of this and acknowledge the fact that their data cannot be deleted. "The Internet never sleeps. One can have the copyright for one's picture and can delete a compromising photograph. But once on the Internet, it can be copied a million times and even resurface 20 years later" (Breitkopf 2008, p. E3).

Data protectors advise entering personal data on the Internet only when necessary. "Anything that's not on the Internet cannot be misused. It is best to give out personal information only reluctantly" (Breitkopf 2008, p. E3). Furthermore, experts suggest using a different password and not the name of a boyfriend or girlfriend for every account.

Online retailers should not stick their heads in the sand and ignore their customer's anxiety, but take the offensive and provide information instead. They can use the tips from data protectors for themselves and proactively pass them on to their customers.

Additionally, confidence-building measures should be taken and existing laws should be regarded as an opportunity rather than an obligation.

The German Telecommunications Law (TMG) stipulates that online retailers should inform their customers about the use, purpose and extent of personal data collection (section 13, TMG). The online retailer must also disclose to Internet users when their data is passed on to other companies. This should also be stated clearly on the website. Otherwise, online retailers run the risk that customers assume they passed along their address and telephone numbers, forcing customers to receive unwanted advertisements (Ludowig 2007, p. 31).

Transparency, openness, proactive initiatives, detailed information and aptitude for learning are attributes that all online retailers should possess in the sensitive field of customer data.

3.7.4 Following Basic Legal Conditions

Online retailers should follow basic legal requirements and avoid making online shopping seem risky by ignoring them. The special conditions of remote sales should also be considered in online commerce. Methods of online marketing especially may break copyright and competition laws or brand and data protection rules, or go against personal rights. Along with the cost of fines, matters can quickly escalate into large demands for payment of damages.

Liability risks concerning content presentation already exist in matters of copyright on protected works such as texts, music, photos, films, maps or charts. These can only be used with the creator's consent. Invalid links, such as those leading to anti-copy-protection programs or programs which illegally use brands, should also be avoided. In addition, advertising restrictions should be adhered to for certain products (e.g. pharmaceuticals and alcoholic beverages) as well as for specific professions (e.g. pharmacists, opticians, doctors and lawyers) (HMWVL 2997, p. 81).

In particular, the laws for e-mail marketing are specific and must be followed. E-mails sent for advertising purposes are considered an unreasonable harassment when delivered without the customer's prior consent. There are exceptions to the rule, such as when the e-mail addresses are bought and the customer did not specifically say he did not want to receive e-mails for advertising purposes.

Still, online retailers should always keep in mind the risk that the customer perceives, instead of clinging to the use of a "legal loophole", especially since the sender and purpose of the advertising e-mail must always be recognisable. Disguising the advertisement as a private e-mail is forbidden, and access to information should not depend on personal data. For data protection reasons, senders must tell e-mail recipients if their online behaviours are being logged by a response tracking system.

Just as in traditional retailing, the virtual world has a duty to supply information regarding retailers (company details), prices and general terms and conditions (GTC).

3.7.5 Security Regarding General Terms and Conditions

With the development of the Internet and the expansion of online commerce, the question arises of how to provide a legal outline of the general terms and conditions for these new retail channels. According to Magdeburg-based law firm Kanzlei Heineemann, which specialise in this area, general terms and conditions are – in a legal sense – formally stated regulations designed as a guideline for multiple contracts and are provided by one contract partner for the other (305, Paragraph 1, p. 1 BGB).

General terms and conditions can also be defined for Internet retailers as specific, pre-formulated contractual conditions, which are made available at the conclusion of a contract with the other party. It is not important whether the general terms and conditions are a separate component of the contract or are written into the contract itself. The scope of the general terms and conditions as well as the font are also irrelevant.

If there is no general terms and conditions agreement present, then the terms and conditions of the individual contracts are negotiated on a case-by-case basis.

Many online retailers are unaware of the impact of a false and unspecific general terms and conditions agreement and its resulting potential for conflict. As a result, in accordance with §305 Paragraph 2 of Germany's Civil Code (BGB), the general terms and conditions agreement only becomes part of a contract when the user refers to it during contract closing.

Moreover, the user must have the possibility to acknowledge that the general terms and conditions agreement exists and the other contract party must agree with its application. Blanket consent about using the general terms and conditions suffices here.

However, so-called unexpected clauses, in accordance with § 305c Paragraph 1 of the Civil Code (BGB) in no way become part of the contract. A clause is considered unexpected when it is so unusual that the user's contract partner does not expect it. The unexpected effect can also result from the appearance of the contract. A clause can be considered unexpected, for example, if it requires the buyer of a camera to bring pictures that have been taken to the same vendor for developing.

The application of the general terms and conditions agreement is often used to modify legal provisions in order to balance out potential deficiencies. The general terms and conditions agreement usually leads to rationalisation, completion and risk transfer.

When no general terms and conditions agreement is made, other general rules come into effect, for example those of a partnership organised under the Civil Code (BGB) or the commercial code (HGB). This can, in some circumstances, be disadvantageous for

the Internet vendor. On the other hand, the general terms and conditions agreement can be turned into a powerful tool that can put the contract partner – typically the online customer – at a significant disadvantage.

For these reasons, regulators provided a legal framework in §§ 307 – 309 the Civil Code (BGB) to which vendor-specific provisions must comply. This is meant to ensure that the general terms and conditions agreement doesn't improperly disadvantage the contract partner. According to this, for example, a clause that aims to strip the buyer of a new item of his warranty rights would be considered in violation of § 309 No. 8 b) aa) and therefore invalid.

When general terms and conditions agreement clauses are considered unexpected or found in violation of the legal framework in §§ 307 – 309 of the Civil Code (BGB), they become invalid. In this regard, the content of the contract follows general legal regulations (§ 306 Paragraph 2 BGB).

When the general terms and conditions agreement is applied on the Internet, it is especially important to consider that customers have the following rights outlined in accordance with § 312e Paragraph 1 p. 1 No. 4 BGB:

- the option to access and
- the option to save data in a reproducible format, for example as a PDF file.

In addition, in accordance with general transparency requirements, vendors must strive to create a well-arranged and meaningful outline. They must also ensure that the general terms and conditions agreement can be reached easily, i.e. through a few clicks. This is the only way to assure "reasonable acknowledgement".

Vendors can consider this requirement met when customers can find the general terms and conditions agreement after two clicks at most, as the Federal Court of Justice decided in its judgment dated 20 July 2006 (I ZR 228/03), on a comparable question about easy access to the vendor's company details.

In order to avoid doubts about whether the general terms and conditions agreement should be included, a notice about the general terms and conditions agreement or the entire general terms and conditions agreement should be shown to the customer prior to the customer's agreement to the contract (order).

Ideally, permission for the general terms and conditions agreement should be requested in a separate window, in which case the customer can't move forward in the menu unless he hits the "confirm" button. By fulfilling the requirements in § 312e Paragraph 1 p. 1 No. 4 BGB, the user is at the same time meeting his obligations in § 305 Paragraph 2 BGB.

In online commerce, the general terms and conditions agreement should expediently and expressly settle the terms of three aspects in particular: shipping, delivery costs and payment.

- **Shipping:** The online vendor is responsible for damages while goods are being shipped to the consumer (B2C) under § 474 Paragraph 2 BGB. That makes shipping insurance advisable. Costs incurred for this may not be added to the purchase price. Adding these as "service fees" or other similar fees would likely be considered invalid because this doesn't offer the customer enough transparency, according to § 307 CCP.
- **Delivery costs:** In long-distance commerce, and therefore also in online commerce, customers may be assessed delivery fees. Often, vendors will assume these costs when the order reaches a certain size; Amazon for example offers free shipping for orders that are more than 20 euros. It's also common to levy additional fees for express deliveries. In cases when the customer wishes to return items, it's permissible under § 357 Paragraph 2 p. 3 CCP to require him to pay for return shipments.
- **Payment:** Customers are offered various payment options online; for example, they can pay by credit card, invoice or prepayment. If the customer delays payment, interest is usually charged. Note that § 309 No. 5 BGB must be heeded if the rate exceeds the legal interest rate.

3.8 Supplementary and Support Channel Strategy as Success Factor No. 7

Carrying out a product search on the Internet, comparing offers and price, ordering by mobile phone or buying an item during a casual shopping trip: These behaviours have become the norm for many consumers. The Internet as an information medium is influencing traditional information behaviours more than ever. As such, it has become a central component of a commercial universe that is increasingly employing multi-channel strategies.

It shouldn't come as a surprise, then, that 60 percent of all Internet turnover comes from multi-channel vendors. There is no doubt that multi-channel retailers can fulfil customer needs better and offer them broader utility than "pure Internet" vendors (Zaharia 2006, p. 2):

- Changing customer needs are met with multi-channel commerce. Customers are offered many different access points and thus options to meet their needs. This means that customers, who today are increasingly behaving in a "multi-optional" way, have more opportunities to fulfil different kinds of needs at different locations and at different times. They can, depending on which needs top the list, choose between convenience, experience, or price-oriented stores. Multi-channel retailing helps vendors to meet the many different demands that customers make of them.

- Multi-channel retailing offers customers a wider utility range than that offered by single-channel vendors. This means that customers can combine different channels in their shopping process, giving them more choice and control over the process. Depending on the purchase stage and the needs that might come up, customers choose and use the most appropriate channel. This in turn allows the multi-channel business to design channels in a way that improves customer interactions, which in turn boosts sales potential. The online channel is granted a central role as an information source for the initiation of new purchases.

Through the availability of additional supplementary or support channels, online vendors have the opportunity to get to know their customers better and to build value-focused customer relationships. They can also pursue an integrated multi-channel strategy and thereby actively influence the channel choices that customers make – if this influence can then make the customer more profitable.

More than anything, the tangible uses of various sales channels are what guide customers to one channel over another. Customers will most likely choose the channel that offers them the highest utility. Several elements define this utility: the perceived quality of a channel, its perceived convenience, as well as its perceived risks combined with its prices – that is to say the purchasing costs associated with it.

It should be noted that sales channels might fulfil different tasks depending on which stage – the information-gathering stage, purchasing stage or product use stage – the customer is in (Gensler, Böhm 2006, p. 31). There are three basic types of customers in this regard. The first type more or less uses the same channel, for example physical stores, for the entire purchasing process. The second type completes the entire purchasing process in one channel, but switches channels depending on the influence factors listed here. The third type typically uses multiple channels to complete purchases (Schröder 2005, p. 64). It is important for the online vendor to find out:

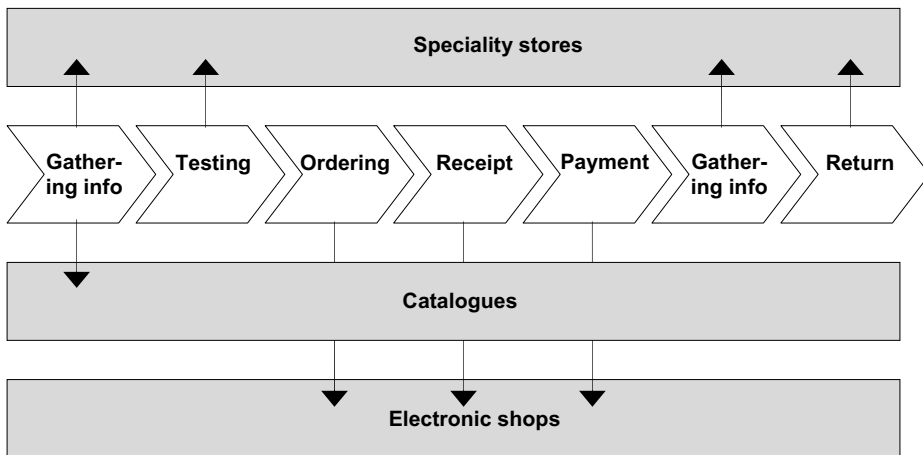
- which customers buy what products through what channel and when
- which channels customers use for which phase of the purchase and when
- how customers distribute their budget across each channel
- why certain channels are used
- which risks customers perceive in various channels
- how customers evaluate various channels and
- how satisfied customers are with the performances of various channels.

Overall, it can be said that 35 percent of customers who gather information at a vendor's online shop also shop in the physical store. More specifically, 31 percent buy the same product and the same brand, while 4 percent switch to a different product or brand. Notably, 65 percent of consumers switch vendors – and make their purchase

from a competitor – after obtaining their information (Schröder 2005, p. 69). Finally, roughly 30 percent of customers fall into the opposite camp, i.e. they gather their information in physical stores, but complete the purchase online. In those cases, less than 3 percent complete their purchase with the same vendor (Dach 2002a, p. 7).

Figure 3-31: Multi-optional shopping behaviours

Source: Wegener 2004, p. 211



3.8.1 The Channel Hopping Option as Customer Added Value

Multi-channel retailing focuses on multi-optional customers who switch between channels during the purchasing process. This can be called "channel hopping" or "channel zapping". The sales channels exist alongside each other and allow multi-optional customers to satisfy many different needs. These customers try in their shopping – much as they do in other areas of life – to tap the benefits of all the available options.

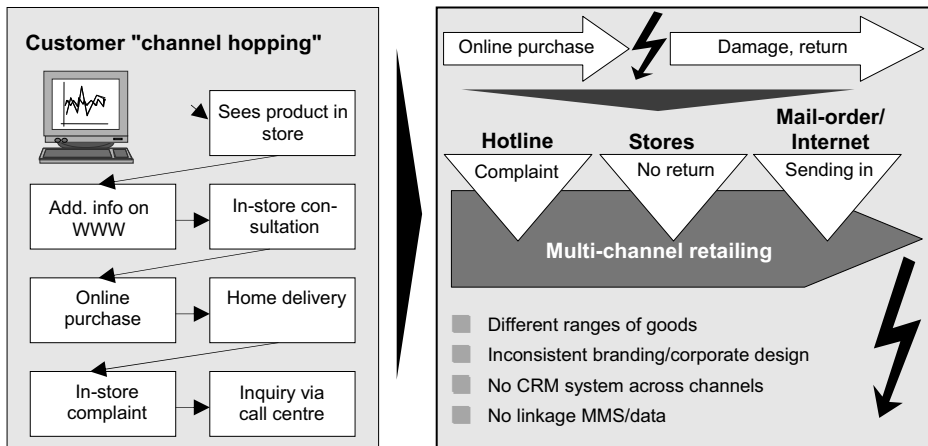
It's typical for such customers, for example, to begin the shopping process with an information search on the Internet. They then examine the product in the physical shop and later order it online, pay for it and track its delivery on the Internet (order tracking). If customers find the merchandise damaged or decide they don't like it, they return it to a physical store (Wegener 2004, p. 211).

Figure 3-31 shows what this kind of multi-optional shopping behaviour can look like. Experience shows that the original store benefits when customers are offered the opportunity to "channel hop" (OC&C 2001, p. 2):

- **Multi-channel customers buy more:** Successful multi-channel vendors in the United States and England see 200-400 percent more turnover from multi-channel customers than they do from "single channel" customers. Instead of cannibalising the original store, the choice of channels adds to "customer value". It also makes it easier, in the rapidly growing online market, to win new customers.
- **Multi-channel customers are more loyal:** The vendor's heightened presence allows it to fulfil a customer's wishes anytime and anywhere. This increases customer loyalty and satisfaction, while the personal contact with the customer reduces his readiness to switch over to the competition. Intensive customer relationship management uses information about customer preferences to create tailored offers.

Figure 3-32: Channel hopping options

Source: With reference to Ahlert/Hesse/Jullens/Smend 2003, p. 12 ff.



Regardless of the degree to which customers use the various channels, it cannot be denied that channel hopping takes place, particularly among customers who are focused on convenience. A customer may first notice a product in a printed catalogue and then search the Internet for more information. It's also conceivable that he then locates the vendor's store to order the desired product. Or the customer may order the product on the Internet and have it delivered to his house by post.

However, if the channels are not integrated, a situation could easily arise in which the customer is not able to return the product he bought online at the physical store. Poor communication with the customer and insufficient integration of the merchandise management system within the various sales channels make such a scenario all too possible.

In such cases, it's not possible to meet a customer's need to channel hop. (Figure 3-32). Other problems are also inevitable in this case; a customer might find different selections of merchandise in the various channels. Multi-channel strategies present the grave danger that the customer will transfer his negative experiences to the remaining sales channels.

In view of the challenges outlined here, it's surprising that most multi-channel businesses fail to consistently coordinate their channels. Only a small portion of vendors are set up for channel hopping, even though customers prefer this type of behaviour. Consumers who are not able to buy a highly sought-after product in a Tchibo store, for example, in most cases then try to buy it by phone or over the Internet. Online shoppers also often have questions they would like answered in a phone call with a representative.

Multi-channel businesses find returns through other channels particularly challenging. Few businesses are really set up for such a situation. These situations are particularly difficult when control over the process doesn't lie in the vendor's own hands, i.e. when it involves external partners. For example, a D2 mobile phone customer will probably also complain to Vodafone, even if he has signed his contract with an independent provider (Schneider 2001, p. 174 ff.).

If it is the objective of the enterprise to construct separate, unconnected distribution channels and therefore offer channel-specific product groups, then these should not be presented to the customer under the same label (Ahlert/Hesse/Jullens/Smed 2003, p. 11 ff.). By doing so, however, the online retailer forfeits a chance to profit from supplementary or support channels during customers' channel hopping.

Still, there are many different options for developing a multi-channel strategy. Not every case requires an integrated multi-channel system in which the different channels run equally and parallel to each other. It is also possible for the additional channels each to take on different roles.

For pure online retailers, it makes sense to make the Internet channel the "lead channel" and give that brand jurisdiction over the other channels, which are subordinate to the online channel and help to round it out. In doing so, the lead Internet channel dominates, while the brick and mortar channel predominantly functions as a support for the online business and may have a market share of less than 10 percent of the business.

3.8.2 Internet as Lead Channel with Additional Brick and Mortar Channels

Historically, there has been an imbalance within most multi-channel companies regarding the priority of individual channels. However, this should in no way result in the channels drifting apart. Customers only recognise a single brand and evaluate all channels using the same criteria. They only get a consistent picture if the multi-channel business conveys the brand promise across all channels (Wegener 2004, p. 216).

If the brick and mortar channel is not intended to be national, since it would require about 200 branches in Germany, then the exact role of the brick and mortar channel must be defined and communicated to the customers. The following are plausible roles for brick and mortar channels.

- **Pick-up and service stations:** This concerns services in which customers have physical contact to the seller and his products, although customers have to put up with a certain amount of driving time. In this case, the relaying of a buying experience is less important than the opportunity for customers to physically purchase goods, ask questions about repairs, make complaints or return products. This is less about brick and mortar businesses and instead concerns branches or representative offices, for which a network of 30-50 stations would suffice for Germany. These don't require prime locations and can be positioned in industrial areas. The greatest mistake a multi-channel retailer can make in the supplementary channel role is to open a flagship store in a prime location the company can hardly afford, as well as to fail to clearly and effectively communicate the "reduced" role of the location to customers (e.g. book club shops in prime locations).
- **Show rooms:** The customer is given the opportunity to view the product "live" to remove the risk of not being able to physically evaluate its quality and functionality. Because the purchase can be made online at any time, there does not need to be a purchase option here, although the installation of user-friendly terminals should be considered for taking advantage of purchase impulses "on the spot". For showrooms of this kind that are combined with pick-up and service stations, a network of 30-50 locations is sufficient in Germany and a top location is not necessary.

The failure of Neckermann and Quelle's brick and mortar "experiment" is certainly due to the companies' failure to define the exact role of the stationary "mail-order" businesses and to communicate this clearly to their customers. When the name of the shipper is used as the store brand for a brick and mortar business in a prime location, shoppers build up expectations that can never be fulfilled and the business racks up rental costs that can't be paid due to insufficient shop appeal.

3.8.3 Integrated Multi-Channel Systems

In contrast to the approach that involves the Internet as the main channel, with the brick and mortar channel as "optional", multi-channel retailers must allow purchases and real transactions in the operative online and offline channels, thereby achieving the goal of reaching the broadest range and coverage in both channels. The portion of sales contributed by the brick and mortar branch is thus also high, since it should account for more than half of the turnover in this case.

In legal terms, all channels then portray a binding specification about the transfer of goods as this relates to quantity, price, payment conditions, shipment, warranties, etc. If catalogue-based companies in combination with brick and mortar subsidiaries are available but no Internet shop is available, this is not considered true multi-channel trade, but simply using various channels in a traditional way. (An example is the SOR-Rusche clothing company).

Classical multi-channel retail was first superseded by multi-channel retail through the Internet. Multi-channel trade denotes the relatively new and innovative linking of brick and mortar businesses and online trade, plus the possible addition of catalogue-based shopping.

According to the definition of multi-channel trade, Karstadt Warenhaus GmbH and Karstadt.de, or Tchibo GmbH and Tchibo.de, are typical multi-channel businesses. The same does not apply to Thalia Holding GmbH (as a 75 percent subsidiary of Douglas Holding AG) and buch.de, which is 35.2 percent owned by the Thalia Group.

Mere shareholding or being an independent subsidiary of an affiliated group of companies does not justify the term multi-channel trade. Both channels must operatively be run by the same business, which includes the entrepreneurial leadership in the case of a joint venture. Bogner Homeshopping, which is operated in part by Bogner (50 percent) and partly by the Primondo Group/Quelle, can, in contrast, absolutely be viewed as a part of the Bogner multi-channel system, since some of Bogner's managers also manage the Internet business.

The two must not necessarily have similar names and the channels of the multi-channel business can have completely different branding, although this is less than ideal. A pure communication channel that doesn't allow transactions doesn't constitute a distribution channel in this sense, and is therefore not a "sales pillar" of a multi-channel retail business (Bohlmann 2007, p. 21).

The decision about which channels a retail business should actually use is most successful when based on a multi-channel matrix, in which all business areas and distribution channels of the business in question are mapped out. This matrix helps in visualising the multi-channel strategy.

Figure 3-33 shows an example of a clothing retail business making use of five divisions. Here diverse multi-channel relationships result between shops, catalogues and the Internet, for example.

Figure 3-33: Multi-channel matrix in the example of a fashion retailer

Source: With reference to Schneider 2002, p. 40

	Division A Basics	Division B Junior fashion	Division C Designer fashion	Division D Discount	Division E Home textiles
Brick & mortar channels					
-Stores	X	X		X	X
-Shop-in-store				X	
Mail-order channels					
-Print catalogue			X		
-Internet catalogue	X	X	X		
-Telephone sales		X	X		
Advertising contacts					
-Enclosures/literature				X	X
-Ads	X	X		X	X
-Radio	X				
-Website	X	X		X	X

Furthermore, within a retail business, horizontal relationships between different divisions are also possible, and these should be considered when designing the channels (Schneider 2002, p. 39 ff.). Once the kind and quantity of distribution channels have been determined with the help of the multi-channel matrix, the appropriate course of action for the multi-channel retailer must be explored.

However, the potential for systematic expansion and cooperation between channels can scarcely be developed simultaneously. Instead, a time-consuming integration process must be performed, as shown in the example of most existing "real" multi-channel retailers.

"Real" multi-channel systems exist when the channels run alongside each other equally and the "matching" controlling systems within single channels are synchronised. Under the condition of given financial means and their corresponding customer and product structures, it can generally be assumed that a consistent presence in as many integrated channels as possible is advantageous. In the media, this is referred to as so-

called "cross-property" content marketing. In the United States, Martha Stewart and Oprah Winfrey have built up lifestyle brands that operate across all media and shopping channels, even within TV, radio, magazines, books and the Internet (Schneider 2001, p. 177).

Even though cost and complexity increase in the beginning, a company today should decide in favour of as many channels as possible, since customers have come to expect companies to have ubiquitous accessibility and constant presence.

The point is for customers to have a unified and consistent impression of the value proposition through all relevant channels and points of contact. The fully integrated approach for a multi-channel system involves the complete coordination and calibration of all channels together. The channels are dependent on each other, practically speaking, and operate one single branding and pricing policy. Success then begins to be measured not in terms of the channel but in terms of the customer.

Since tasks and roles are clearly defined, there is no competition and therefore no conflicts. Inventory management and information systems work comprehensively in all channels and make the same data available to each channel (Schobesberger 2007, p. 35 ff.).

This form of multi-channel retail is promising thanks to synergies and cross-selling potential, but it is not yet status quo for German multi-channel retailers (Heinemann 2008g, p. 156 ff.). Processes and functions between the channels have yet to be integrated intensely. Generally, connections between the channels are only in the form of communication or information-sharing, and actions are largely uncoordinated between channels. Especially in inventory management, goods processing interactions among different channels, such as returns or availability checks, are seldom implemented. The main reason for this is certainly the complexity of the back-end processes involved. A largely integrated and comprehensive use of this is seen only in the case of loyalty cards (Zentes/Schramm-Klein 2006, p. 9).

Overall, we can recognise a tendency to unify marketing mix concepts in multi-channel retail. There have been efforts to harmonise channels by reducing the variety of retail brands. While this method is consistently put to use in all retail formats of brick and mortar food stores, as seen with AVA, Marktkauf, Rewe and Toom, the textile industry has seen the opposite trend (Zentes/Schramm-Klein, 2006, p. 9). In this case, different concepts are used to address different target groups with the help of different retail brand designs, e.g. for the mail-order companies Otto Group and Quelle.

A recognisable trend in the German textile industry is indeed one of integrated systems, in which very similar concepts of product lines and pricing policies are integrated into one unified retail brand. However, differences exist between channels in the range and depth of goods available, due to fundamentally different approaches in determining product ranges.

Often, additional product lines from different product groups are offered via the Internet channel but not in brick and mortar channels. However, as a rule, the range of goods available online is far more reduced than in brick and mortar businesses, despite the essentially "limitless shelf capacity".

Not infrequently, differences also exist in pricing policy, which has its basis in differing price campaigns. The main reason for this is a still fairly widespread "wallflower mentality" in the Internet channel, which is often (still) not categorised as a valid channel and therefore outsourced or operated separately. Price differences incurred through shipping costs are generally not a problem from the customer's perspective. However, if the price differences are too large, as is often observed in the entertainment industry, it can lead to loss of customers' trust and satisfaction, as shown in empirical surveys (Zentes/Schramm-Klein 2006, p. 9).

Figure 3-34: Attractiveness offline vs. online

Source: Based on Schobesberger 2007, p. 23

Dimensions	Store	Catalogue	Internet shop
Entertainment	Medium to high	Very low	Medium to high
Social interaction	High	Very low	Very low
Personal security	High	Medium	Marginal to medium
Data security	Medium to high	Medium	Low to medium
Points of contact/order charging options	Low	Everywhere	Many
Delivery time	Immediate	Within days	Within days
Product range selection	Very low to high	Limited	Middle to high
Information offers - Quantity - Quality	Medium High	Medium Medium	High High
Time spent on purchase	High	Very low	Very low
Delivery costs	Very low	High	High

3.8.4 Comparison of Channel Attributes

For comparisons between "offline" and "online", the focus should be on entertainment, social interaction, safety, points of contact, selection, information possibilities and fulfilment (use of time and cost). Figure 3-34 compares the advantages and benefits in the sense of "relative attractiveness" of the different retail formats (Schobesberger 2007, p. 23).

- **The level of entertainment** is higher in stores than with catalogues because of the personal components and diverse possibilities for staging or production. The wide variety of animation possibilities in the Internet shop also makes this form relatively entertaining. Experts confirm, however, that the "real" shopping world of brick and mortar channels outperforms distance retail's virtual shopping world thanks to its multi-sensory format (e.g. shopping atmosphere or store design).
- **Social interaction** is practically non-existent with catalogues and Internet shops, and is therefore very low in comparison to stores that allow for personal contact.
- **Personal security** is generally viewed as greater in brick-and-mortar channels than in purchases using a distance channel, as the customers can appraise, touch and try out products before buying them. Additionally, they have the option of paying in cash, can take the product with them right away and are able to return purchases more easily.
- Even **data security** is higher in purchases at brick and mortar channels, as the customer is able to remain anonymous if he wishes. In contrast, distance retail requires that the individual's data be collected, which can instil a fear of an Orwellian society. From the customer's point of view, he also risks his data being handed over to a third party.
- While **points of contact** in brick and mortar channels are limited due to their number of fixed locations, these restrictions do not exist in distance retail. It can be assumed that the spatial proximity and therefore accessibility of distance channels is much higher than in brick and mortar shopping.
- **Delivery times** do not generally apply to store customers if the product is in stock and available to be taken home right away. In contrast, distance retail without delivery times is impossible in practice, since there is always a span of time between placement of the order and its delivery. Only with e-books and digital products is immediate delivery possible.
- In terms of **selection**, the online shop can potentially offer a broader and deeper range of products due to the lack of spatial restrictions (e.g. presentation and storage space). On the other hand, goods with lower profit margins are often omitted. The selection in stores and Internet shops tends to be larger than in catalogues.

- The way customers receive **information** varies. While the customer in the brick and mortar channel can appraise, touch and try out products in a multi-sensory way before making a purchase, this is not possible in distance retail. Equally significant is that customers are able to use store personnel and window displays as information sources, while distance customers are dependent on visual presentations and textual product descriptions. On the other hand, they can receive personalised information via mailings, phone or e-mail and can also have direct contact to sales personnel by telephone (with a call-back option or call-now option). Furthermore, the "interactive" means of gathering product information is an indisputable advantage of buying online.
- Use of **time** is closely related to the topic of bridging locations. When customers seek out stores, the time they spend doing this is generally high if the stores are not local. This "bridging time" does not apply to distance trade channels, although time is lost on deliveries.

Figure 3-35: Comparison of online and offline acquisition costs

Source: Bohlmann 2007, p. 39, with reference to Schröder 2005, p. 13

Cost of purchase in...	
Brick and mortar retailer	Online shop
<ul style="list-style-type: none"> • Transport costs/initiation costs • Time (opportunity costs) • Cost of transport 	<ul style="list-style-type: none"> • Initiation costs • Time (opportunity costs) • Costs of Internet connection
Cost for transport packaging <ul style="list-style-type: none"> • One-time use • Multi-use 	Delivery costs, dependent on: <ul style="list-style-type: none"> • Order • Product group • Product items • Transport packaging • Delivery time • Delivery area • Type of payment
Cost of complaint management/controlling costs (do not apply as long as the complaint is registered, and defects corrected, through controlling before completion of the purchasing process)	Complaint costs for inadequate deliveries/controlling costs: <ul style="list-style-type: none"> • Time (opportunity costs) • Costs of Internet connection • Other costs incurred by inadequate delivery • Foregone benefits • Costs for alternative products
Return costs for unsatisfactory products: transport costs if the product was taken home – otherwise, none	Return costs for unsatisfactory products: regular costs in case of right of return/cancellation can legally be imposed on orders up to 40 euros (§357 Paragraph 2 German Civil Code)

- The **costs** that may be associated with the purchase and which are not associated with the product price are diverse and impact every level of the purchasing process. This can mean the so-called transaction costs, such as travel costs, delivery and shipping costs, costs for transport packaging, complaint costs, money-back guarantees or opportunity costs (e.g. benefits forgone or time loss). These costs are summarised in Figure 3-35.

Besides these characteristics, which can be used to make comparisons between channels, convenience and payment also come into play. There can be no assumption made about the convenience level of both channels, as the aspects different people deem important in different situations cannot be defined. It is also possible that different features counteract each other in different channels, such as the "order now" option on the Internet versus the product's non-availability.

It is also difficult to draw general conclusions about payment. It is true that cash payment is most common in brick-and-mortar sales, although credit card payment in stores, which is typical of online retail, is increasing. In contrast to store purchases, customers must receive a receipt for online purchases and payment upon delivery is fairly common. This may offer a more comfortable solution for customers who want to avoid potential misuse of data. All in all, the aspects associated with payment correlate to the above-mentioned safety features (Bohlmann 2007, p. 43-45).

3.9 Sourcing Concept and Strategic Alliances as Success Factor No. 8

Sourcing, which can be defined as "all of an organisation's activities in source markets with the aim of influencing them" (Liebmann/Zentes 2001, p. 709 ff.) has become an important driver of success for online businesses. Reflecting the business maxim that "profit lies in the purchase", sourcing principally strives to meet customer-, supplier- and competition-focused goals.

- **Customer-focused** goals are those that aim to fulfil the customer's needs. This category is about finding solutions to customers' increasingly sophisticated demands. To fulfil these goals, it's no longer enough to rate suppliers according to price and product criteria – other aspects have to be taken into consideration as well.
- **Supplier-focused** goals are designed to gain improvements in delivery times with higher volumes and stable and trusting relationships with suppliers. This also involves the supplier's ability to innovate. Supplier focus is also increasingly becoming more important in view of "efficient consumer response". This not only addresses optimal procurement but also increasingly involves using partnerships to

build an efficient procurement system. ECR efforts thereby lead to a significant reduction in the number of suppliers, which can also raise dependence on suppliers.

- **Competition-focused** goals are those that focus on setting up competitive boundaries, which may lead to signing exclusivity contracts. The business' competitive position is decisive here. A business that is not large enough to meaningfully influence procurement terms should consider cooperative procurement instead.

Sourcing is not generally applicable and is predetermined largely by the merchandise selection strategy. If a clothing vendor is forced – due to the popularity of strong brands such as Boss, Adidas and Puma – to include these in his selection, then the business has little influence over the management of suppliers, procurement and negotiations.

This argument doesn't apply to second and third-tier brands or to proprietary brand suppliers, however. For these brands, sourcing is the preferred tool. Since most merchandise in the clothing sector is unbranded or private label, sourcing plays a large role in this sector.

The sourcing toolbox shown in Figure 3-36 can be used to assist with the systemisation of sourcing strategies (Liebmann/Zentes 2001, p. 712 ff.). As the graphic shows, sourcing strategies consist of six sub-strategies, each of which focuses on a specific area. In the sub-strategy "procurement range", the emphasis is on the range of the merchandise selection, which can be either narrow (narrow sourcing) or wide (wide sourcing).

Under the sub-strategy "procurement influence", a clothing vendor for example must determine whether it wants to actively influence the manufacturer's product design ("active sourcing") or not ("passive sourcing"). In the sub-strategy "supplier", we see that the number of suppliers dictates the strategy. If there is only one supplier with a quasi-monopoly, who mainly deals in a single product (for example strongly branded merchandise), then we speak of "sole sourcing". "Single sourcing", by contrast, is when the online vendor voluntarily decides to procure merchandise from a single supplier. "Dual sourcing", by extension, refers to dealing with two suppliers, while "multiple sourcing" refers to dealing with many suppliers.

In regard to "procurement time", the business must examine how much time passes between the procurement and the sale of a product. On the one hand, some procurement is designed to meet customer needs immediately (stockless) and some is not as closely tied to demand (stock). These two are distinguished in extreme cases.

The sub-strategy "procurement subject" differentiates between an isolationist approach ("independence") and a cooperative approach ("cooperative").

Finally, the sub-strategy "procurement area" determines the international reach of procurement markets, which can be local, domestic or global.

Figure 3-36: Sourcing toolbox

Source: Liebmann/Zentes 2001, p. 712; Arnold, 1998, p. 247

Procurement range	Wide		Narrow	
Procurement influence	Passive		Active	
Supplier	Sole	Single	Dual	Multiple
Procurement time	Stock	Stock-reduced		Stockless
Procurement subject	Individual		Cooperative	
Procurement area	Local	Domestic		Global

A business must thoroughly examine which of these sourcing strategies makes the most sense. For example, by concentrating on one or two suppliers, an international company can use its demand leverage to negotiate better prices. However, this can also hurt the security of its deliveries if a sub-supplier drops out (for example due to a strike). Meanwhile, partnerships are not possible in multiple sourcing (Zentes/Swoboda/Morschett 2004, p. 341 f.).

Regardless of the chosen sourcing strategy, one unsolved core problem in international procurement has been that there is no comprehensive concept that can capture all the many aspects of the complex procurement universe. As a result, newer approaches to multi-channel sourcing try to secure a comprehensive view of international procurement and to draw out the relevant levers that can be used to guide company-specific multi-channel procurement systems (Rudolph/Loos 2006, p. 726 ff.).

The idiosyncratic nature of the "online commerce" system adds additional dimensions to sourcing, since a company's mere presence on the World Wide Web puts it under the global umbrella and thus within the domain of global sourcing. New forms of e-sourcing are inseparable from global sourcing, which aims, among other things, to integrate e-procurement systems into global sourcing.

Outsourcing – the transfer of a company's tasks to a third party – has also gained increased significance in online commerce. Hardly a single online vendor can now do without the services of fulfilment vendors.

In 2006, the words "outsourcing" and "crowd" were put together and the term "crowd-sourcing" was coined. Crowdsourcing consists of shifting business functions to cus-

tomers, in order to capture "the intelligence and the labour of a mass of leisure workers" on the Internet (Unterberg 2008, p. 210). Crowdsourcing is primarily used in mass customisation and open innovation, but is also reflected in self-service functionalities and in consumer-generated advertising.

3.9.1 Global Sourcing

A significant driver for the globalisation of the procurement market clearly comes from the focus on total cost, which is reflected in vertical value creation partnerships with manufacturers. Companies can optimise their business completely and achieve efficiency gains across the entire value chain with modern supply concepts and newer logistic concepts (Zentes/Hilt/Domma 2007, p. 56).

"Global sourcing can be defined as a strategy that systematically expands purchasing to worldwide procurement sources and involves an active, strategically-led business policy that contributes to creating strategic inroads into target markets not previously accessed" (Zentes/Swoboda 2001, p. 183). In this way, global sourcing contributes to the realisation of four sourcing goals (see Figure 3-37): innovation capability, vertical networking effects, integration capability and horizontal networking effects (Zentes/Swoboda/Morschett 2004, p. 319).

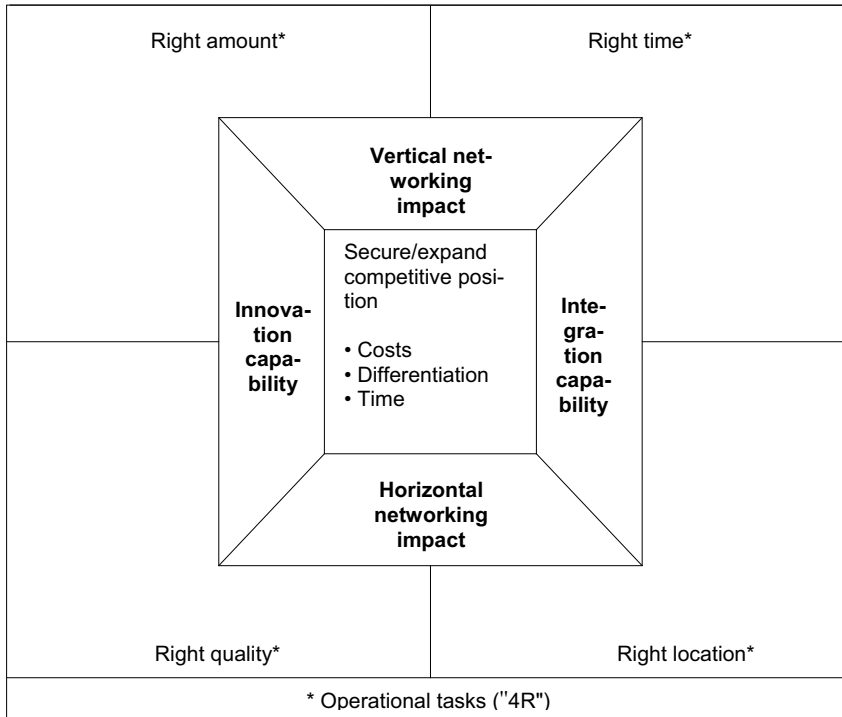
Global sourcing can contribute to an online business' ability to innovate by allowing it to introduce new, previously unknown products (for example killer products) from foreign supply sources. Global sourcing can also realise vertical networking advantages or even supply potential by fostering tighter cooperation with international suppliers. Global sourcing can also help suppliers in new product development, if the proximity to customers or proprietary know-how can be used due to the right information and logistics.

The integration capacity of products and materials is closely tied to the vertical networking impact, for example in the areas of product lines or product line policy. Companies only have the potential to acquire new customers when products are linked into a product line that is considered attractive by customers.

Physical integration advantages are also conceivable, for example the saving of transaction costs. Horizontal networking impacts arise through improved coordination by businesses that are on the same market level or value-creation level. A typical example here is shopping cooperatives, which appear as a single institution in order to realise horizontal networking advantages. They also play an especially significant role in the opening of international procurement markets.

Figure 3-37: Procurement goals of global sourcing

Source: Zentes/Swoboda/Morschett 2004, p. 319.



Global sourcing is increasingly seeing two trends develop, which are also of great relevance to online commerce (Zentes/Hilt/Domma 2007, p. 85):

- Low-cost country sourcing:** Very low wages are the main drivers of a shift toward procuring merchandise from countries such as China, India, Taiwan, Korea, Pakistan, Brazil, Vietnam, Morocco, Algeria, Egypt, Thailand and Bangladesh. These countries are therefore known as low-cost countries (LCC), from which goods are ordered as part of a low-cost country sourcing strategy (Zentes/Hilt/Domma 2007, p. 85). The advantages gained through energy, capital or administrative cost savings can be a determining factor in favour of an LCC. However, while LCCs play a crucial role in price/value ratios, low-cost prices and low overall procurement costs, procurement from non-LCCs results in better service from suppliers, higher quality of products and clearly shorter procurement times (Zentes/Hilt/Domma 2007, p. 85). The dominance of LCCs on the cost front, combined with continually rising cost pressures in commerce, has turned LCC procurement into a permanent

feature of commerce. We must assume that clothing vendors in the future will distribute their procurement even further geographically, in order to benefit from all procurement advantages (Zentes/Hilt/Domma 2007, p. 85).

- **Speed sourcing:** Despite the trend toward LCC sourcing, geographically close procurement regions will also retain or perhaps even gain importance. Online businesses can't succeed without being able to react quickly to change, adjust the number of collections per season and quickly identify and act on trends. Real-time procurement and delivery turnaround are crucial. An expedited delivery from China, for example, can only take place relatively expensively by air, which can quickly destroy any labour cost savings that may have been achieved. In online commerce, the conflict between "cost and time" can be found especially in the sale of fashionable merchandise. This conflict lends importance to procurement regions that are geographically close and as a result reduce supply times. In the context of so-called speed sourcing (Zentes/Hilt/Domma 2007, p. 85 ff.), speed determines not only which countries are chosen, but also the selection of suppliers. Speed increasingly dictates the intensity and extent of information exchanges, which more and more are taking place electronically by EDI (electronic data interchange) or on the Internet. Here, modern supply chain concepts, for example VMI or Quick Response, are also gaining importance.

In short, we can say that procurement markets for fashionable merchandise are increasingly chosen based on their geographic proximity and delivery speed, while companies dealing with "time uncritical" standard merchandise (for example basics), continue to rely on LCCs.

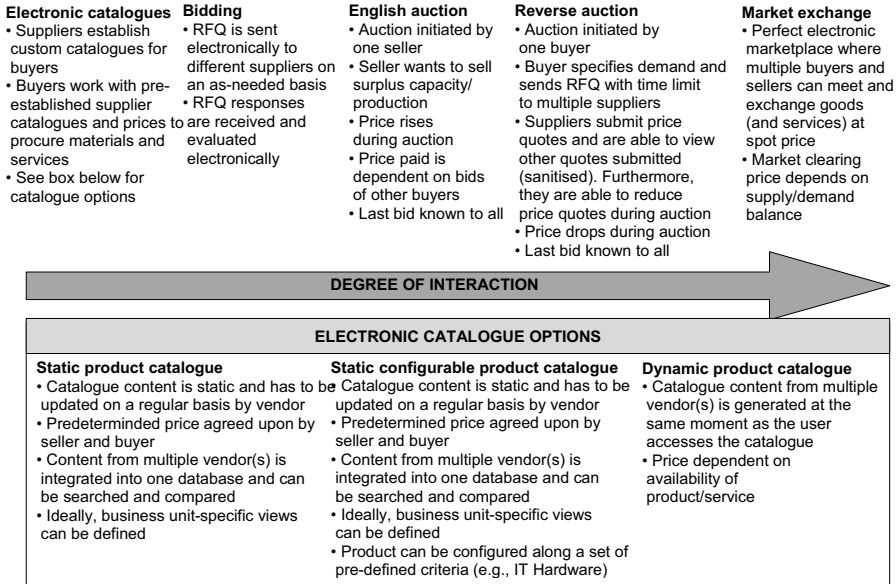
3.9.2 E-Sourcing

E-sourcing, which fits excellently into the business model of an online vendor, offers further procurement possibilities. The underlying fact is that procurement in online commerce is largely burdened by process costs. As a result, costs can be reduced by simplifying these processes. By integrating e-procurement systems, businesses can make processes more effective and efficient. First, however, a thorough analysis of the processes and their costs must take place. E-sourcing can be defined as all the measures or activities of a business that use Web-based purchasing tools with the goal of improving efficiency and effectiveness (Booz 2003, p. 3).

As Figure 3-38 shows, e-sourcing can take many different forms. First of all, there are so-called e-catalogues in which suppliers present their products. These can vary according to the availability of goods and configuration options. This form of e-sourcing starts out with a relatively low degree of interaction, but interaction can be increased by adding the option to receive targeted bids through the Internet (bidding and tender).

Figure 3-38: Types of e-sourcing

Source: Booz 2003, p. 3



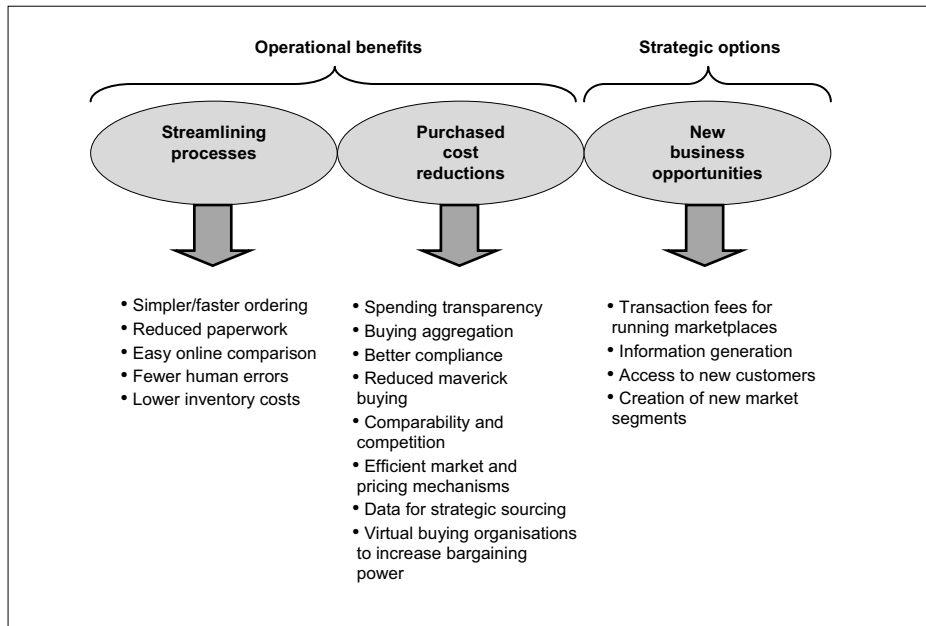
These Internet-based procurement systems allow smaller businesses, which do not necessarily have the necessary market knowledge and know-how, to submit orders easily with competent manufacturers. In recent years, a number of such systems have become well-established. Large clothing companies can use proprietary Internet platforms to show planned merchandise to suppliers, thereby sharing with them the necessary information.

The most interesting version here is a sort of supplier auction in which vendors can invite certain or all suppliers to bid through a platform. There are English auctions, which are initiated when the seller asks for bids, as well as reverse auctions, which are led by buyers.

In addition to auctions, e-procurement platforms also offer tools that allow businesses to gather information about suppliers that can be used to evaluate them. All in all, e-procurement offers a wide range of applications, which up until now have been used by only a few fashion businesses.

Figure 3-39: Advantages of e-sourcing

Source: Booz 2003, p. 4



The virtual marketplace offers significant advantages for the procurement side. A business can compare all suppliers that make offers, taking into account country-specific facts. Processes are made transparent for everyone, which in turn increases competitive pressures on suppliers. As a result, e-sourcing saves procurement managers not only time but also money.

These mechanisms only take hold, however, when a capable e-sourcing platform can actually be used as an electronic marketplace. Here it's crucial to understand whether the situation involves neutral exchange systems or those driven by the business, the buyer, the industry or the seller. The choice of an appropriate provider is an important decision here, since the provider, as an active market participant, can quickly exploit information on the platform for his own benefit by manipulating his own supply and demand behaviours (Bergauer/Wierlemann 2008, p. 13).

The main advantages of e-sourcing are depicted in Figure 3-39. According to this, e-sourcing can, among other things, reduce transaction costs and speed up the ordering process. While the advantages are obvious, e-sourcing is not without risks. Experience tells us that e-sourcing projects still pose problems regarding security, unforeseen

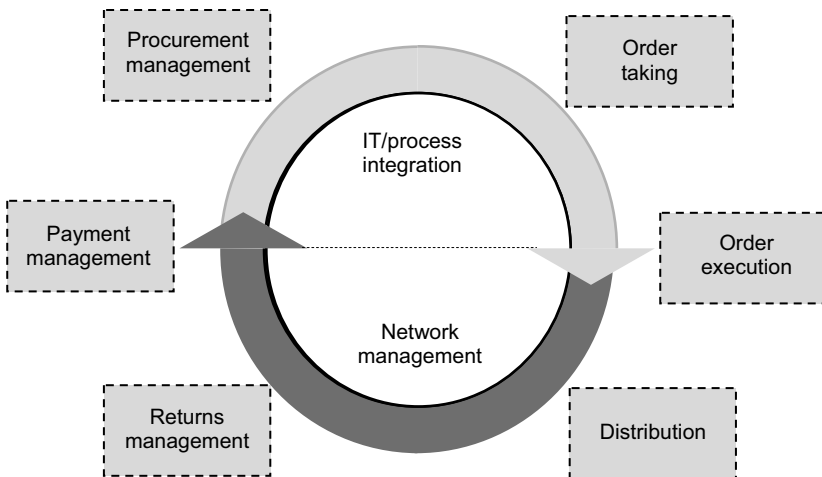
costs and in the new buyer-seller relationship. In addition, it's impossible to ignore the fact that e-sourcing leads to significant changes and puts high demands on professional change management processes.

3.9.3 Outsourcing

Today's successful Internet businesses "are the naked ones. An Internet business builds a business network around what it knows how to do best, with partners that do what they do best. Additionally, the point is to make use of the power of self-organisation for the benefit of the business, internally as well as externally. This makes businesses less hierarchical on many levels. By outsourcing and cooperating with customers and stakeholders, Internet businesses enter the next level of progress" (Tapscott 2008, p. 14). This means that every single activity in the value chain of an online business raises the question of the most appropriate transaction form.

Figure 3-40: Service spectrum of DHL Fulfillment GmbH

Source: HMWVL 2007, p. 47



Online commerce exists in a world in which professional fulfilment service providers are available for almost every activity in the value chain. These service providers often don't just perform services better, they also do it more cheaply. Online businesses today can take advantage of standard offers from specialised fulfilment vendors, whose services cover the entire spectrum, from pure shipment all the way to full service. These vendors also take on other operational tasks, for example order execution, collection or return management. Figure 3-40 shows the service spectrum of DHL Fulfillment GmbH as an example.

By delivering a binding offer, such fulfilment vendors allow businesses to estimate their operational costs precisely and to use these for business planning. The outsourcing of certain activities to logistics service providers is especially common. (Zentes/Swoboda/Morschett 2004, p. 185). European logistics flows are now dominated by logistics service providers.

A significant driver of this development is doubtless internationalisation – in the sense of stronger cross-border value creation – and strengthening of foreign markets. Furthermore, the tendency to focus on core competencies also leads to the outsourcing of non-core activities. The Internet, with its development of new information and communications technology, is a significant contributor to this trend (Zentes/Swoboda/Morschett 2004, p. 496).

In online commerce especially, logistics service providers take on an important role in optimising the supply chain. They are expected not only to fulfil these logistical tasks more cheaply, but also more quickly. Nonetheless, it's important here not to overlook the fact that this outsourcing not only carries advantages, but also has some serious disadvantages.

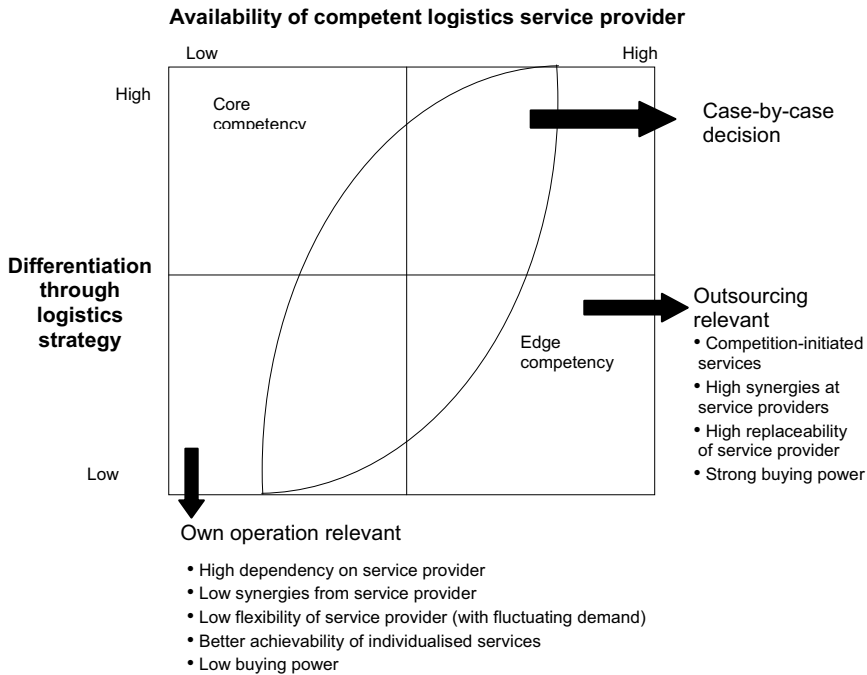
Disadvantages include potential interface problems, but especially dependence and insufficient control over differentiating processes. (The buyers' last point of contact during delivery, for example, is with a sub-deliverer.) The decision to outsource must be carefully prepared in this respect, with a detailed definition of service levels that are critical to success.

Figure 3-41 outlines the logistics outsourcing decision process. This decision is tied closely to the question of to what extent logistics is a core competence for business. The more selections and products are highly interchangeable with those of other providers, the more significant logistics are. As a result, the outsourcing decision depends on the differentiation potential of the business' logistics processes.

In the consumer goods industry, for example, the types of cooperation and therefore the divisions of labour between manufacturing and commercial businesses have fundamentally changed, which can be traced not only to outsourcing, but also to insourcing decisions. As a result, the choice between performing or buying a service can also refer to the re-integration of services (insourcing).

Figure 3-41: Logistics outsourcing decisions in online commerce

Source: Zentes/Swoboda/Morschett 2004, p. 498



3.9.4 Strategic and Virtual Partnerships

While in the past, businesses only cultivated relationships with their end-customers, today strategic partnerships with providers of all functions in online trade have become indispensable. Carefully cultivated relationship networks are a major competitive advantage in today's quickly moving Internet industry. Such relationships allow businesses to obtain information more easily and more quickly and then to use this information more efficiently. "Networking has become an important factor in online commerce and, in our experience, is founded in reliability, fairness and utility for both sides" (Heinemann/Puhlmann, 1999, p. 312 ff.).

Due to the international interconnectedness of online commerce, it's important for businesses to update their technical knowledge constantly, while showing understanding for partners from other countries. This includes negotiations with business partners from different hierarchical levels as well as cultural origins and requires a

modicum of empathy on the professional level, but also on the intercultural and social levels. It's not surprising, therefore, that intercultural management is becoming an increasingly important part of the education of a new generation of managers.

Since every business follows its own strategies in the value chain process, a minimum level of transparency is necessary in relationship management in order to optimise the entire supply chain process (Heinemann/Puhlmann, 1999, p. 312 ff.). This also relates to the product, not just regarding its design and quality, but also its final price.

Businesses must open up their doors to their partners and ensure a certain transparency in business processes. Suppliers can coordinate their own processes more efficiently if they understand their customers' processes in detail.

The concept of strategic partnership is not new. In 1985, for example, the apparel company Willy Bogner founded an association called "Dialog Textil". This circle of businesses from all parts of the textile supply chain includes 140 members from eight European countries and deals largely with quality control, ecology in the manufacturing process and improving communication within the supply chain.

"Dialog Textil" allows businesses to resolve current problems quickly. In the area of product quality, but also in other areas, having information about the problems that other businesses are facing allows companies to make appropriate and timely decisions in their own business.

Figure 3-42: Advantages of virtual partnerships

Source: HMWVL 2007, p. 69

Advantages of virtual partnerships

- Opening up to new customer groups
- Targeting of group-specific focus
- Added value for customers through synergies
- Shared costs
- Central site promotion
- Standardised Web performance
- Economies of scale

Current examples of vertical partnerships on the supplier side in online commerce are Amazon and Libri. Libri is Amazon's supplier and a strategic partner. The same applies to Electronic Partner and buch.de. To the users of Electronic Partner's online

channel, it's not evident that the entire book selection is delivered by buch.de. In addition, buch.de also acts as a fulfilment partner for Thalia's Internet channel (www.thalia.de).

"Virtual partnerships" represent a special form of strategic partnership in online commerce. The idea behind virtual partnerships is for online businesses to gain access to a wider audience, as it is not easy to garner attention on the Internet across regions or internationally. A virtual union allows businesses to overcome this obstacle and introduce themselves to new customers. If these partnerships also allow businesses to add value such as "tested quality" or "24-hour service", then a further strategic advantage can be generated (HMWVL 2007, p. 69). Figure 3-42 shows the advantages of virtual cooperation.

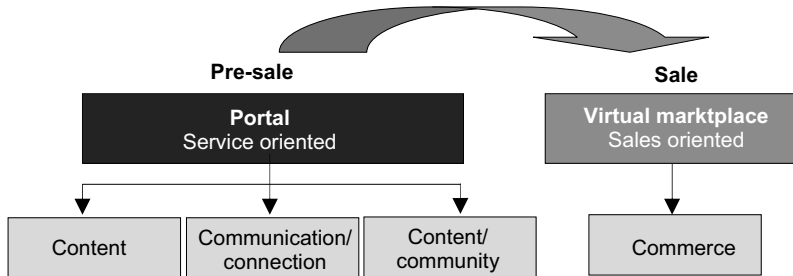
Typical forms of virtual partnerships on the Web are virtual consolidators such as portals, virtual shopping malls or product finders (HMWVL 2007, p. 70):

- **Portals** are without a doubt the most well-known form of virtual cooperation. They're often operated by associations, business developers or by individuals, and aim to provide Internet users with orientation and help fulfil their requests. The idea is to provide offers or information quickly and dependably. Portals often involve partner companies, which are in turn provided with an attractive platform with high visitor frequency. They can appear in the form of a general-interest portal, which then functions for Internet users as an entry site to the Internet and reaches a high number of users with broad appeal. Examples of such portals are t-online.de, yahoo.de, web.de or spiegel.de.
- **Virtual shopping malls** bundle the offer of goods and services into a Web presence, thereby supporting active sales (e-commerce). Often, portals also integrate marketplaces. This can also be done the other way around, with product offers presented as content on marketplaces, so that the differences are largely blurred to the customer. Smaller online retailers benefit particularly, since their own offers are more widely noticed in such an association. Larger Internet providers, meanwhile, are glad to profit from the traffic generated by attractive shopping malls. The fundamental difference between portals and virtual shopping malls is pictured in Figure 3-43. Even eBay has established itself as a marketplace for commercial merchants in B2C online retail. Here the auction platform can be used flexibly as an alternative sales channel for special offers (e.g. for the sale of used goods) or as a global main sales channel (in more than 30 countries).
- **Pangora or product search engines** help online merchants get their products onto the marketplace. The cooperation happens between technology provider Pangora, well-known portal operators (e.g. aol.de, gmx.de, web.de, t-online.de or bild.de), shop software and rental shop providers (e.g. 1&1/1und1.de, epages.de or strato.de) and online shops. In the process, product data is sent to the Google product finder Froogle. While the portals integrate the Pangora product finder into

their offer, the affiliated online shops transmit their product data to Pangora's system (HMWVL 2007, p. 69 ff.).

Figure 3-43: Portals and virtual marketplaces

Source: HMWVL 2007, p. 70



4 Best Practices in New Online Retailing

4.1 Success Stories in New Online Retailing

Online merchants should be evaluated by which online retail format they follow. Successful examples of online commerce are highly varied, depending on whether pure online retail is used or whether multi-channel retail, hybrid online retail or vertical online retail are the operative forms.

The following best practices were identified through online research conducted for the master's thesis "Benchmarking of International Online Retailers", which was carried out during the winter semester of 2009/2010 at the Niederrhein University of Applied Sciences under the supervision of the authors. The data, figures and facts were largely taken from business reports that were current as of 2009 or were gathered from websites and the press.

4.1.1 Best Practices in Pure Online Retailing

Online merchants can only be described as "pure players" if they operate, as a supplementary channel, a warehouse at which goods can be picked up. In this respect, the difference between them and combined distance retailers is not entirely clear, considering that pure online retailers also frequently resort to direct marketing measures in paper form by regular post. They usually have offers made for short periods of time (a maximum of two weeks), while the main catalogue of a mail-order merchant is usually valid for half a year.

Furthermore, more and more originally pure online retailers are moving toward the format of portals to engage in cooperative online commerce. Amazon, for example, already works together with 1.2 million smaller merchants, which account for almost a third of Amazon's revenue.

The best practices in the category of pure online retailers result from the best possible implementation of the eight success factors, which the retailers also confirm. In this light, online fashion merchants such as Vente Privée, Zappos, Asos, Net-A-Porter and Yoox emerge as the most notable success stores. Vente Privée is a prominent representative of club shopping that currently has the largest growth rates among pure online retailers.

The following best practices were established just as the Internet bubble burst in 2000, following the hype of the "new economy". The companies that emerged after the bubble burst were considered second-generation Internet companies. They were subjected to stronger controls by investors after these investors had experienced the high "cash burn" rates of first-generation companies and banned those startups:

- **Vente Privée** (www.venteprivee.com) in France has succeeded in establishing a new business model and independent market segment within e-commerce in the past seven years using the club shopping concept. In 2009, Vente Privée had a Europe-wide turnover of more than 680 million euros, was profitable and, as market leader, was projected to reach the billion-euro revenue mark in 2010. The business was founded in 2001 in Paris by now-CEO Jacques-Antoine Granjon and seven other partners with many years of experience in the stock clearance business. Drawing on this experience, the concept involves the sale of over-produced and excess stocks of well-known brands in limited-time sales in an online club shop. The website went online in France in 2001 and finally had its breakthrough in 2004 with the sale of a well-known lingerie brand, following an arduous, continuous process of system optimisation. The concept, which has been successfully copied by the German sites BuyVip and Brands4Friends, schedules rotating, limited-time sales of different brands and organises daily sales in direct collaboration with brand manufacturers. Only registered members have access to the online sales, which last between two and four days and offer the wares at prices 50 to 70 percent lower than the retail price. Membership is free and non-binding, and happens when another registered member invites the newcomer to join. The items for sale include products from the fashion industry, accessories, toys, sportswear, watches, household goods, high-tech goods, wine, garden furniture and automobiles. Fashion and sportswear bring in the largest amount of revenue. Shortly before the beginning of a sale, members receive an invitation and sales trailer by e-mail, featuring the products in the sale. The shopping events begin on weekday mornings at 7 a.m. and on weekends at 9 a.m., ending two to four days later at midnight. Customers may return all products and receive their money back. Vente Privée's concept is a prime example of the first successes of new online retailing, namely shop attractions and unique selling propositions. The highly attractive and deeply reduced prices for brand-name goods exemplify a killer product, bolstered by a killer price. At the same time, the attraction effect is strengthened through the closed-shop principle. Customer acquisition is effectively and efficiently taken care of by the members themselves, thus fulfilling a second success factor in new online retailing: social targeting and societing. Vente Privée's enormous success since 2004 led to the company's ability to sell 20 percent of its shares to the venture capital firm Summit Partners in July 2007. Since then, Summit Partners has supported the club shop with its international development efforts and has been successful in doing so, as the numbers show. By the end of 2008, Vente Privée had more than 7 mil-

lion members in Europe, 3.5 million of them active. More than a million unique visits daily and 28 million items sold in 2008 help to round out the picture. An average of 250 of a brand's products were presented in the campaigns, which totalled 1,250 sales promotions in 2008 and were expected to reach 1,800 in 2009. Single promotions can include up to 450 products, each individually staged. Outside of France, Vente Privée has also been successful in Germany, Spain, Italy and Great Britain. In 2008, the company was nominated as one of six international finalists for the "World Retail Award" in the category "E-tailer of the Year". CEO Jacques-Antoine Granjon was also voted "Man of the Year in E-commerce" by the French magazine "E-commerce" and its readers. On the occasion of the 50th anniversary of FEVAD (the French Federation for E-commerce and Distance Trade), Granjon was honoured with the "Favor'i d'Honneur" as one of the most important people in distance retail in the last 50 years. The website itself was voted a favourite of Internet users in the category of online shopping events. Vente Privée has already grown to become France's third-largest mail-order fashion retailer. In Germany, the club shop reached around 20 million euros in revenue in 2008, which is approximately the same sales volume it had in France in 2004. Considering that the revenue figure in France rose to 110 million euros one year later, Jacques-Antoine Granjon is optimistic that Germany will be able to jump past the 100 million euro mark as well.

- **Zappos** (www.zappos.com) was founded in 1999 in San Francisco by Nick Swinburn as an online retailer for shoes. In 2000, Tony Hsieh, who had guided the founder as an advisor and investor, took over leadership of Zappos ("zapatitos" being the Spanish word for shoes) and became CEO. The business' concept was to create a website with the best selection of shoes in regard to brands, styles, colours and sizes, offering customers a unique added value. Zappos has not only become the No. 1 online footwear retailer and the "category killer" for shoes, but it also offers fashion and lifestyle products. In addition, Zappos is still proving to be profitable in its eighth year. Zappos' main goal is to have a share in the Internet boom of the coming years. The company's underlying vision is that in the near future, 30 percent of all retail purchases in the United States will occur online. The key to success for Zappos, which saw a growth in turnover from 1.6 million dollars in 2000 to 370 million dollars in 2005 and 1.2 billion dollars in 2009, lies in its consistent implementation of all eight success factors. Zappos has enormous shop appeal thanks to clear communication concerning its USP and customer value (offering "hassle-free online shoe shopping" and the "best selection in shoes"). It makes use of all levels of social targeting and societing in terms of communities and direct links to YouTube. The goal is to become the worldwide online service leader (to "deliver WOW through service", offer a 365-day return policy, make returns free, and offer 24-hour customer service). Another business principle is to be the fastest online retailer with regard to self-service (easy to use website), shipping (overnight shipping) and current selection (daily shoe digest, new styles, etc.). The company follows the rule of thumb that speed is more important than perfection. Indeed, the

Zappos website has the fastest loading time, at .879 seconds, of all Top 50 online retailers in the United States. Zappos is also perfecting the concept of personal shopping through its responsiveness and wide selection of shoes, with the frequently-used shopping cart providing help in customer relations management. Accordingly, the company follows a long-term customer retention strategy. Still, even the system and supply chain methods are being constantly perfected and trimmed to achieve the highest possible reduction in processing time. With regard to Zappos' reputation for security, the actual risk is reduced as much as possible through real-time videos with testimonials and customers, as well as current photos of employee teams and business facilities. The homepage also lists the business' strong ethical principles. Finally, vertical implementation of unique product line policies is achieved through decisive sourcing, while maximum flexibility and cost reduction are realised through consistent outsourcing of supply chain functions. The company also makes broad virtual partnerships with its affiliates.

- **Asos** (www.asos.com) was founded in 2000 as an Internet fashion store in London. It has developed into one of the fastest-growing pure online fashion merchants, with a revenue of 165 million pounds in 2008/2009 (+104 percent) and pre-tax profit of at least 17 million pounds (greater than +104 percent) at the close of the 2008/2009 fiscal year, which ended on 31 March. For 2009/2010, on the basis of the first 42 weeks of that fiscal year, revenue was projected at approximately 230 million pounds. The company's core target group is between 16 and 34 years of age and labels include not only Asos' own brands, but also "high street" brands for women's wear and men's and boys' wear. Asos strives for speed and completely changes its inventory every eight weeks. The site has 5,000 items available at any given time, including not only fashion, but also jewellery, cosmetics and accessories, which can be viewed in detail by Internet users with the help of the zoom function. All items can also be viewed in different colours and customers can forward pictures of items to friends via e-mail. Besides excellent shop appeal, the company's marketing concept involves weekly newsletters and a high-quality fashion magazine, which help to win over more customers. Asos' recipe for success, along with its marketing strategy, involves well-thought-out one-to-one marketing and fulfilment based on consistently aligned processing time reduction. These factors have made Asos the second most highly visited online fashion store in Great Britain, with more than 2 million visitors per month and more than 1.6 million registered users. Asos has also been recognised multiple times with awards such as the "Drapers E-tailor" in 2006, the "Retail Week Online Retailer" in 2007 and as "Business XL Company" of 2007 (Master's project 2008, p. 120). All in all, Asos uses almost all of the success factors identified, excluding supplementary channels. Instead, it specifically employs fashion as an instrument to target customers.
- **Net-A-Porter** (www.net-a-porter.com) was founded in London in 2000 by fashion journalist Natalie Massenet. Net-A-Porter clearly holds a premium position within the women's fashion industry. Revenue for 2009 was approximately 120 million

pounds, corresponding to a gain of 50 percent from the previous year. This makes Net-A-Porter one of the fastest-growing private firms in Great Britain, having taken 42nd place in the 2006 Sunday Times "Fast Track 100". Earnings before interest and tax lie at around 5.5 percent, despite the accelerated growth. The reason for its success is unequivocally Net-A-Porter's attraction and target marketing, using its own fashion magazine called NOTES, to transmit the company's lifestyle philosophy to customers twice a year. NOTES magazine is also clearly visible on the Net-A-Porter homepage and can be viewed there as well. Web content is updated weekly, generating considerable visit frequency. Content of the highest quality plays a decisive role in the company's marketing concept. Along with interviews with top fashion designers and trend reports, the magazine discusses current lifestyle topics and the latest fashion trends. The selection represents luxury fashion labels from London, Paris, Milan, New York and Los Angeles such as Roland Mouret, Corto Moltedo, Vera Wang, Issa, Jovovich Hawk and Burberry. The high-quality clothing items can be viewed in 3-D or with a true-to-detail zoom function, and Internet users are encouraged to try on the item at home and return it for free if it doesn't fit. The site also gives recommendations about which clothing items are appropriate for which occasions, for example what to wear in California in the winter. The central success factor, besides shop appeal and customer value, is social targeting in the luxury market. The site manages to gain 3,000 new customers each month in this challenging premium market. On average, customers spend more than 630 euros per order. Without a doubt, Net-A-Porter has proven that premium items can also be sold online successfully. At the same time, Net-A-Porter is the only online luxury fashion retailer with a global delivery service that has the corresponding shipping forms available on its homepage and in compliance with international trade regulations. A large part of the company's revenue has been gained through exports, although a new distribution centre is being built in the United States.

- **Yoox** (www.yoox.com), an online boutique, had sales of around 1 million euros in its first year in 2000. This increased to 152 million euros by the end of 2009 (an increase of 50 percent compared to the year before). Yoox has been profitable since 2004. The 38-year-old founder and chief executive of the Milan online retailer, Frederico Marchetti, brings to the business his experience as an investment banker and consultant, obtained following his study of economics. He emphasises again and again, nearly as a mantra, that, as a service company, Yoox is focused on e-service, e-service and more e-service. Yoox places value on having friendly people at its call centre, an error-free logistics chain and free, uncomplicated return options. The online shop is conceived as an e-flagship store and possesses 3-D displays and zoom functions for each product. Speed on the website as well as in turnaround are also important, with shipping time advertised as being between one and two days. In this way, Yoox has won 300,000 customers in 25 countries. The selection consists of exclusive fashion from 300 suppliers. Well-known luxury

brands as well as articles from smaller and relatively unknown labels that are only available through Yoox are on offer, which makes for a fundamentally unique selling point in matters of sourcing. The killer product character is however based much more on the core selection, which is composed of items from past seasons that can be bought inexpensively through Yoox. Additions are individual current killer products such as a T-shirt by Stella McCartney. In total, the selection exhibits a "mix and match" of different labels and styles to accommodate the trend that customers don't want to run around covered from head to toe in one single brand. Another pillar consists of single-brand shops that are currently being created on the Internet and purport to have a market share of 20 to 30 percent. In order to completely represent the fashion industry, a virtual mall with individual brand nooks needs to be created.

4.1.2 Best Practices in Cooperative Online Commerce

Cooperative online retailers generally consist of industry-specific portals run by wholesalers, associations, manufacturers or independent institutions. Best practice examples include Amazon, Etsy and Libri:

- **Amazon** (www.amazon.com) is the pioneer enterprise in online retailing, par excellence. In 2009, Amazon's sales rose 28 percent to more than 24.5 billion dollars. Profit rose 39 percent to 902 million dollars. Amazon's German business accounted for more than 10 percent of the company's total sales with revenue of approximately 1.8 billion euros, making Amazon the leading online retailer in Germany. The largest portion of sales growth can be traced back to virtual partnerships. Amazon is currently building its business system into a cooperative Internet portal, and at a high speed. Every third product that Amazon sells comes from the 1.2 million online retailers that sell their goods through Amazon, causing the proportion of book and media products that Amazon sells to decrease to less than 50 percent (Amazon 2010). Amazon CEO Jeff Bezos has been rapidly investing in new technologies, spending approximately 1.2 billion dollars on new systems in 2009. These investments serve above all to develop Amazon into a universal shopping platform where customers can find any imaginable product. Excluding supplementary channels, practically all of the success factors are being implemented in state-of-the-art ways. Amazon's success is no coincidence. Its formation in Seattle in 1995 was already driven by the visions of a manager with experience in the financial world. Early on, Jeff Bezos recognised how the enormous potential of the Internet for marketing products in a retail business should best be harnessed. In the initial years, he was assertive about using it to sell books and media products, which have more economies of scale than other products when sold in different countries and languages. The choice of location for the warehouse was generally influenced by the location of larger distributors, such as Ingram in the United States, which

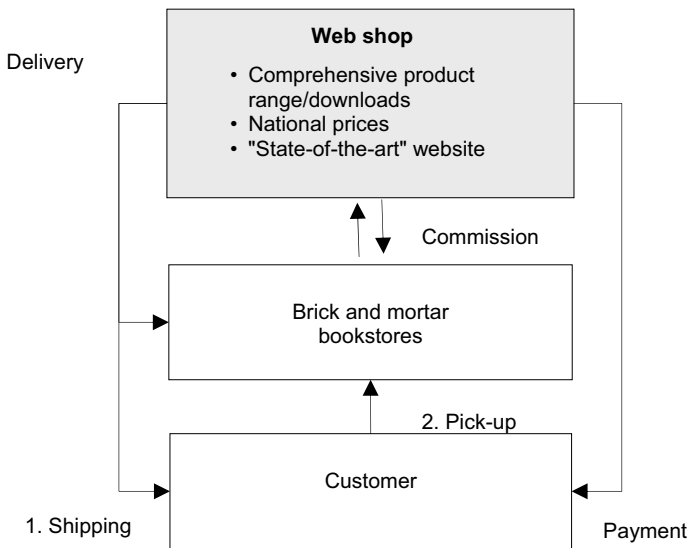
permanently stocks around 400,000 items. This meant that Amazon would only need a small warehouse for its most current products and would be able to use the distributor's extensive infrastructure. This strategy is also used in Germany in Amazon's collaboration with distributor Libri. With its single-source practices and product bundling, Amazon is able to do business at great discounts. A fundamental reason for its resounding market success is uncompromising customer orientation, a targeted skills makeup and enormous investment in technology. A fundamental success factor is without a doubt Amazon's system and supply chain excellence and the high degree of automation. Amazon's net company earnings are more than 600 million dollars, which is an increase of more than 50 percent from the previous year.

- **Etsy** (www.etsy.com) is a true Web 2.0 portal that offers handmade products to buy and sell. Etsy was founded in June 2005. The Etsy community spans the globe with buyers and sellers from more than 150 countries. Etsy sellers number in the hundreds of thousands and therefore represent a true "born global" company and community. In December 2009, the community reported record sales of 25.6 million dollars, resulting in revenue of 181 million dollars for the fiscal year 2009. (The previous year's revenue was 88 million dollars.) Etsy is profitable, although the company is seen as a typical social commerce trading community with the mission "to enable people to make a living making things, and to reconnect makers with buyers" and "to build a new economy and present a better choice: Buy, Sell, and Live Handmade" (Etsy 2010). Rob Kalin, founder and CEO of Etsy, emphasises social commerce rather than e-commerce. While e-commerce focuses on products, social commerce places its focus on people. "We are focused on our service: building the best tools and supporting this community. If we do this well, revenue will follow. Now that we are profitable, we can redouble our efforts here, and I'm really excited about this. Our success as a company follows your success as members," Rob Kalin said (Excitingcommerce 2010). To make life easier for its users, Etsy offers search functions for products based on predefined categories such as colour, materials or sellers. Hundreds of small niche players thus benefit from the community as a way to run worldwide ads promoting their handcrafted goods.
- **Libri.de** (www.libri.de) is one of the trade portal pioneers in the book industry. Libri was founded in Hamburg in 1928 by Georg Lingenbrink and has had a leading role in the book wholesale industry for more than 75 years. As a consolidated company, Libri GmbH has about 1,000 employees with a turnover of around 500 million euros. With the Libri distribution centre in Bad Hersfeld, it is the technology leader in the field of book trade logistics, as documented in its partnership with Amazon. Worldwide, Libri is the largest distribution centre for small-scale logistics and fulfils even future demands on the book market with speed, dependability, breadth and depth of offers and quality of service. In the early days of the Internet, Libri was already offering its retail customers an e-commerce platform, which they could use under their own names or co-branded to offer another distri-

bution channel. In Figure 4-1, the Libri model is shown as an example of an industry portal, similar to the portals run by ElectronicPartner and Hagebau/Zeus.

Figure 4-1: The Libri model

Source: Based on H&P 2004



Processing/handling

- Individualised Web shop for booksellers (monthly fee less than 50 euros)
- Commission for Libri (5 percent in Libri's sphere of influence), 10-15 percent commission on own sales
- Libri receives a logistics commission from booksellers for pick-ups from bookstores
- Book retailers take part in central branding events by staging promotional sales
- Buyers pay Libri for direct shipping or retailers for pick-up

4.1.3 Best Practices in Multi-Channel Retailing

Multi-channel systems exist when Internet channels, brick and mortar channels and possibly mail-order channels run parallel to one another and are synchronised into one single control system. This also manifests itself in appreciable online turnover shares and generally above-average growth rates for the online store.

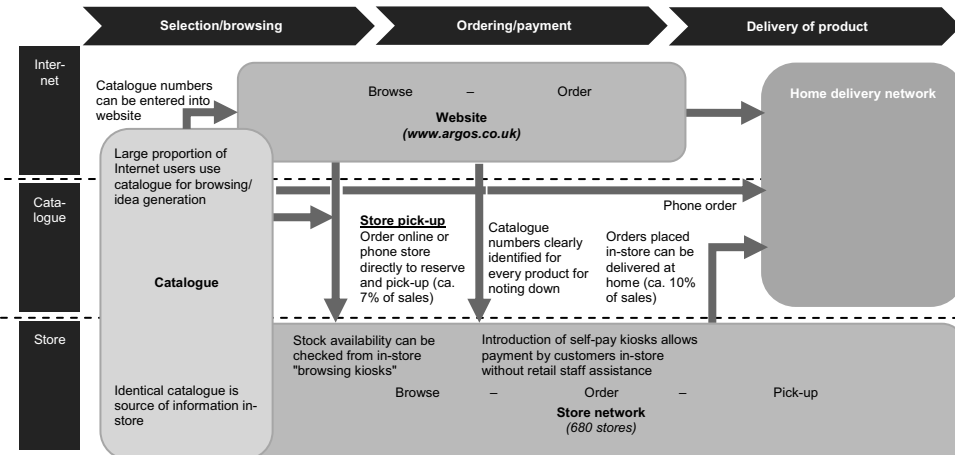
It must be stated that true multi-channel concepts are found almost exclusively in the English-speaking world (OC&C 2005). Six "true" multi-channel systems can be identified. The multi-channel retailers mentioned have had high growth rates in the past years in terms of cumulative average growth rate. Two of them have even grown more than 30 percent, according to CAGR accounting.

The "true" multi-channel providers have been highly profitable despite their enormous growth, a fact that is notable about the success stories listed here. Their concepts show a high level of integration across channels. Their customer value proposition across these channels is nearly identical in regard to pricing, core selection and service levels.

Although some customers migrate from the print catalogue to the online shop, both channels are highly complementary to each other, thus the online channel is growing considerably faster than the others. In the eyes of customers, it is a cost-effective and comfortable way to order.

Figure 4-2: Argos' multi-channel network architecture

Source: OC&C 2005



Besides high integration, the successful multi-channel vendor uses the specific advantages of different channels through "individually-designed" channel offers. The afore-

mentioned six multi-channel companies are described in brief below (Heinemann 2008g, p. 156):

- **Argos** (www.argos.co.uk) is without a doubt the leading multi-channel retailer. With its 4.3 billion pounds in revenue posted per year, it is the pillar of the home retail group, belonging to the leading group of electronic, household and hardware merchants in Great Britain. At 8.7 percent, Argos' operating margin is clearly higher than the yield of German companies in this sector. Founded as a catalogue merchant in 1973, the company has built up a network of more than 700 store-fronts, with plans to expand to around 800. Around 17 million British households receive Argos catalogues regularly. The catalogues include roughly 17,000 household items, furniture and electronics. All of the items can be ordered online and are also available in the stores. Recent figures show Argos' Internet orders increasing by 50 percent in one fiscal year to 900 million pounds, representing 21 percent of the company's turnover. A further 6 percent of revenue comes from catalogue orders. Notably, more than 10 percent of turnover is earned from mail orders that are ordered from physical stores, so roughly one third of all sales are generated through customers who use more than one distribution channel. The fully integrated multi-channel system provides a unique competitive edge for Argos, secured through a highly complex supply chain system that can't be copied easily by competitors. Also notable is the 50 percent increase of "online check & reserve". Figure 4-2 illustrates Argos' multi-channel network. Combining channels and central management of customer data allow customer purchases to be tracked in all of the channels. Targeted relations management initiatives can be introduced in combination with loyalty cards. The goal is to make shopping in all of the channels as comfortable and easy for the customer as possible. The same goes for the more than 7 million home deliveries Argos makes each year, making it the largest non-food distributor in Great Britain. Argos' multi-channel capabilities are increasingly used by Homebase, the second pillar of the Home Retail Group. For these reasons, Argos was voted "Online Retailer of the Year" in 2006 and was the winner of the "Customer Service Initiative Award".
- **The White Company** (www.thewhitecompany.com) was founded in 1994 as a mail-order merchant for lifestyle-oriented products. After the company was established, the first brick and mortar store opened in 2001. Internet sales started in 2004 with an innovative "flickable page" format. Today, the White Company has more than 14 of its own stores and three franchises in Great Britain, as well as two franchises in Dubai. The mail-order channel sends out 10 catalogues per year to its 625,000 customers and each catalogue has between 36 and 72 pages. The company is one of the fastest growing multi-channel retailers in Great Britain, with 40 percent annual growth since 1997, according to CAGR accounting. In 2009, the company had turnover of 80 million pounds, which reflected double-digit growth compared to the previous year. The online shop grew by 32 percent and accounted for around half of mail-order revenue, which in turn amounted to approximately

50 percent of turnover. The operating margin was 8 percent. The White Company also has a high level of integration and harmonises its channels excellently. Customers cannot only channel hop easily, they are actually encouraged to do so. Value is placed on good service in all of the channels, regulated by a cross-channel service monitor. The company's business philosophy makes it clear that the brand embodies the mottos "best quality" and "outstanding value for money" both in appearance and across all channels.

- **Next** (www.next.co.uk) came into being with the takeover of the Kendalls Rainwear Shop in 1981 as a retail business for women's clothing. It has also offered men's clothing since 1984. In 1988, the Next Directory became the company's mail-order business, and it expanded to an Internet shop in 1999. Next operates around 500 retail stores as a multi-channel retail business for apparel and living, and in 2009/2010 it posted 3.4 billion pounds in revenue, with a profit margin of 15 percent before taxes (operating profit). The Next Directory made around 900 million pounds in revenue, or 27 percent of sales, in the 2009/2010 fiscal year, with the Internet shop accounting for more than one third. With a profit margin (operating profit) of more than 20 percent, Next Directory makes above-average returns. The company's high level of integration is characterised by extremely well-tuned channels. This is expressed in its consistent product offers and harmonised pricing strategy among channels. Catalogue searches on the Web, as well as ordering, pick-up and returns, are possible in all channels. At the same time, the company makes the most use possible of its channel-specific capabilities. As a result, the channels reveal a broad and growing range of products and service levels that are highly defined. Shipping within 24 hours was already standard in 2000. The catalogue supports customers in browsing and choosing colours. Finally, customer service is conducted online or in the store for the sake of efficiency.
- **Topshop** (www.topshop.com) has become synonymous with young British fashion. The company started in 1964, was taken over in 2002 by Philipp Green and is now a part of the Arcadia Group Ltd., to which Dorothy Perkins and Burton also belong. Arcadia had a profit margin of 14 percent in 2009, with around 1.9 billion pounds in turnover. Topshop has more than 300 stores in Great Britain and 125 more outlets abroad. Topshop.com was re-launched in November 2006 and began its internationalisation in 2007. With daily updates and more than 3,000 products, Topshop.com is one of the largest online retailers in Great Britain. According to the number of visitors, the company's market share was at 6.25 percent in 2007, putting it at second place among U.K. websites and just behind the Next website, which held a 7.94 percent market share. Topshop.com communicates with its customers through its weekly "Style Notes" e-mail, a magazine-like reminder with roughly 350,000 subscribers, two RSS feeds ("Style Blog" and "Daily Fix"), a widget and video podcasts of nine London runway films, which are released 24 hours after a show. Topshop reaches out to a young and dynamic customer base in an appropriately targeted way. The layout is attractive and accessible. If customers don't like

an item or if it doesn't fit, it can be returned easily by post or at a store. Students receive 10 percent discounts when paying with a special credit card from the National Union of Students. Topshop.com also generates online traffic through extensive social networking. In 2008, around 5 percent of all visits to its online stores were generated by the business' MySpace profile, twice as many as from MSN and Yahoo searches combined. No other U.K. online retailer reaches these rates. Topshop's success is the result of widespread social networking and societal.

- **REI** (www.rei.com) or Recreational Equipment Inc. is an integrated multi-channel merchant for sport and fitness that made 1.46 billion dollars in revenue in 2009, posting an operating income of 100.6 million dollars (an increase of 37 percent compared to the previous year) and a net income of 29.8 million dollars (+106 percent). Operating income was largely distributed to members and customers in the form of "patronage refunds". A cooperative shareholding model similar to the German model of cooperative, REI creates enthusiasm for memberships and thus customer profit participation. In 2008, more than 64 million dollars were given out to customers in the form of patronage refunds. The brick and mortar business, which opened in 1938, consists of 105 franchises in the United States, with an average sales floor area of about 1,500 square meters, but there are also flagship stores as large as 10,000 square meters. The focus is on multiple kinds of retail formats and concentration on the target group. Since 1996, the online channel has complemented the catalogue's offers. At least a third of REI's revenue, or about 500 million dollars, is obtained online. Branch stores include call centres and Internet terminals, and the company maintains excellent customer ties and loyalty through its service concept. Besides products for sport, outdoor, lifestyle and leisure, customers can also book attractive events, seminars, travel or courses. Services include extensive try-out opportunities (e.g. climbing walls, bike trail, running/hiking path, cold zone, canoe routes), ample options for returns and competent assistance. Through assertive community reciprocity, customer loyalty is constantly strengthened and satisfaction increased.
- **Lakeland** (www.lakeland.co.uk) was founded in 1963 and is a niche market vendor for kitchen items and household goods in Great Britain. The store, which had its start in 1999, records 200 million euros in revenue annually, with an operating margin of approximately 10 percent. The company operates its online shop and 35 Lakeland stores and sends out more than 18 catalogues per year. Its selection of 4,000 items is accessible from all channels. Channels are completely integrated and are also used for customer acquisition. A fundamental pillar of the company's success is the level of service it offers in each channel. It is noteworthy that half of revenue is earned in-store, while the other half comes from mail-order trade. The Internet channel shares 10 percent of the business.

4.1.4 Best Practices in Hybrid Online Commerce

Nearly all classical mail-order retailers have begun working as combined distance traders, exemplifying hybrid online commerce. While the largest German companies have astonishing online market shares of up to 60 percent, they haven't managed to increase total turnover despite the ostensible online boom. The best practices can be seen in NBrown, JP Boden and Lands' End, companies that haven't cannibalised their mail-order business with an Internet channel, but have instead succeeded in stimulating it:

- **NBrown** (www.nbrown.co.uk) was founded in 1859 in Manchester, originally as a travelling sales business, and developed over the years into a mail-order retail business for clothing, until the website was launched in 2000. In the 2009 fiscal year, the company recorded more than 662 million pounds in turnover, marking growth of 8.4 percent. The largest part of this growth has come from the company's Internet channel, which was able to record sales of 272 million pounds, an increase of 21 percent. Despite this accelerated growth, the profit margin grew by 14 percent (operating profit), an increase of 18.3 percent. NBrown is distinguished by its excellent customer database management, which it uses for clever social targeting. This clear niche positioning allows the company to focus on product ranges for certain age groups and styles, and it offers its own special catalogues and separate brands. In contrast to many other mail-order retailers, NBrown has managed to accelerate Internet growth without penalising the catalogue business and to generate substantial growth in both distance retail channels.
- **JP Boden** (www.jpboden.com) was founded in 1991 as a mail-order retail business in the UK. The website was launched in 1999. With a compounded annual growth rate of approximately 30 percent since the launch of the Internet channel, the company posted around 150 million pounds in revenue, with roughly a 9 percent margin (operating margin) in 2008. Projected revenue for 2009/2010 was approximately 180 million pounds, an increase of 15 percent. The online channel makes up around one third of total turnover and so far has not cannibalised the catalogue business. JP Boden is one of the most successful privately-owned mail-order retailers in Great Britain. A key factor is ultimately the company's customer orientation. Products are laid out in a classic style for mid-range target groups. Catalogue expansion is subsequently done through the publication of niche catalogues. JP Boden is also doing well at not growing the online business at the expense of the catalogue business, but generating clear growth in both distance trade channels.
- **Lands' End** (www.landsend.com) was founded in 1963 in Chicago and posted more than 3 billion dollars (estimate) in revenue in 2009, 40 percent of that from Internet sales. Lands' End is one of the leading direct retailers for casual clothing and is known for its excellent price-quality ratio. However, Lands' End is also an Internet pioneer, as its website was already functional in 1995, the same year Ama-

zon was launched, making it one of the first Internet companies. It started with 100 products and today its Internet channel offers the same lines as the catalogue. Lands' End's strategy is targeted at synergetic processes and mutual enrichment of the catalogue and Internet businesses, which means it is necessary for both channels to display the same stock. The website is very user-friendly and displays the current catalogue. Additionally, services are actively illustrated, for example the customer's right to return products without having to declare a reason. With "My Virtual Model", Lands' End became the first clothing retailer to use 3-D animation on its website. Today's widely-used "My Personal Shopper" originated with Lands' End, as did the "shop with my friend" option (Zentes/Swoboda 2004, p. 409). In 2002, Lands' End was taken over by the department store giant Sears Roebuck.

4.1.5 Best Practices in Vertical Online Commerce

Vertical online retail monitors the entire value creation process and is superior to traditional retail formats in terms of availability, variety, staging and identification. The newest players in vertical online retail are the mass customisation merchants, who offer their customers product configuration ("mass customisation") or co-design options ("open innovation"). These "new generation" online retailers constitute the best practice cases for vertical online retail due to their enormous individualisation and personalisation capabilities:

- **Custom tailoring – Tailor Store** (www.tailor-store.com): Since its founding three years ago, the Swedish company Tailor Store has developed into a prize-winning shop with an online selection of custom-made shirts at affordable prices. The online service portal is available in five languages in more than 30 countries.
- **Printing online – dieDruckerei.de** (www.diedruckerei.de): This online merchant sells print materials such as flyers, posters, brochures, catalogues, stationery and business cards. The printed items are produced as high-quality offset prints or digital prints.
- **PC combinations – AGANDO** (www.agando.de): Agando offers complete and individually configurable PC systems/laptops. Customers can design their dream system online. Very high individuality allows for personalised requests and preferences.
- **Jewellery – Juwelon** (www.juwelon.de): Juwelon allows customers to assemble their own jewellery using a tool kit system. Customers can choose material, design and different kinds of jewels. Sizing is customised on all pieces.
- **Design your own T-shirts – Spreadshirt** (www.spreadshirt.de): First founded by students in Leipzig in 2002, this group now has almost 300 employees in Europe and the United States. Instead of stockpiling, the products (shirts, cups, hats) are

produced on demand via the Internet. Customers use a virtual design studio to display their designs and offer them for sale on their own homepages.

- **Print your own photos and books – Pixum.de** (www.pixum.de): Besides printing cards, Pixum's product range includes printing digital images as photos, photo posters or photo calendars, as well as individual photo gifts such as cups, puzzles, T-shirts and stuffed animals. Pixum was awarded a "Fast 50 Award" by Capital and others in October 2007 and named one of the fifty fastest-growing technology companies in Germany.
- **Factory121** (www.factory121.com): This Internet merchant from Switzerland offers individually designed watches. Users have a choice between 82 different watch models. By using a search tool, they can narrow the choices down to those that meet their specifications. With the help of a user-friendly configuration, the customer chooses the casing, numeral design, arm band and colour according to his own taste. All options can be modified and compared at any time with a real-time high-quality 3-D display.
- **LEGO Factory** (<http://factory.lego.com>): LEGO Factory is a highly developed tool kit for user innovation and co-design ("LEGO Designers"). The tool kit is a free download featuring a 3-D modelling program with which the user can design his own models using a digital collection of blocks. In the process, users develop their own LEGO models, while the software helps to solve engineering problems and combine new ideas with fundamental ones (e.g. building blocks). Afterward, the factory manufactures the blocks needed for the new models and sends them to the user, who can then put them together. Customers can also purchase the blocks they need for building new designs on the website.
- **My Müsli** (www.mymuseli.com): This Passau-based company was founded in 2007 by three students and offers customers the option of creating their own cereal on the Internet from over 70 different ingredients. MyMüsli was awarded several prizes in recent years, including the Founder Prize from the Financial Times.
- **Personal Novel** (www.personalnovel.de): This online merchant has been selling personalised books since 2003. With it, users play the leading roles, meaning that customers configure characters, places and animals with personalised names. PersonalNovel now has 70 titles available.
- **Nike iD** (<http://nikeid.nike.com>): With Nike iD, customers can design their own shoes, bags and sports watches. The models are the same ones offered in the regular product line, although colours and engraving are customisable.
- **Cays** (www.cays.de): In Cays' online shop, customers can make their own bags from transport tarpaulins, choosing between different bag designs and designing the look themselves.

- **Julie&Grace** (www.julie-grace.de): In this online shop, customers can make their own bracelets, necklaces and earrings. The drag and drop function lets the user choose between different closures, beads and chain lengths. Materials and colours can be combined. The site also offers the option to have the finished design rated by other users and offered for sale in the public showroom.
- **Eterna** (<http://hemden-meister.de>): The dress shirt maker Eterna lets customers create their own custom dress shirts in an online shop. Customers design their shirts using a tool kit, combining different cuffs, torso lengths, sleeve lengths, sizes and fabrics. The custom shirts are available in a wide selection of colours and designs.

4.2 Examples of Successful Online Management

In Internet management, besides continuously optimising front-office functions, integrating backend processes is critical (Heinemann 2008g, p. 162). While front-office functions are concerned with presenting a "coherent image" to the customer, backend ("back-office") processes such as optimisation of synergy perspectives are important for success online. The primary goals here are securing smooth business traffic and cost reductions through efficient processes and the use of synergies (e.g. central scheduling, stock development, etc.). The more channels there are to assimilate, the more complex the task.

4.2.1 Best Practices in Front-Office Functions

Here, successful examples of front-office sub-functions will be discussed. These are displayed on the University of Cologne's E-Commerce Center Handel homepage and originate from an independent study in 2005 by OC&C (www.ecc-handel.de/OC&C 2005/Heinemann 2008, p. 153). Best practice cases in front-office functions are The Gap, Comet, Tesco, Bogner Homeshopping, Douglas and Tchibo, despite the fact that these businesses have completely different approaches:

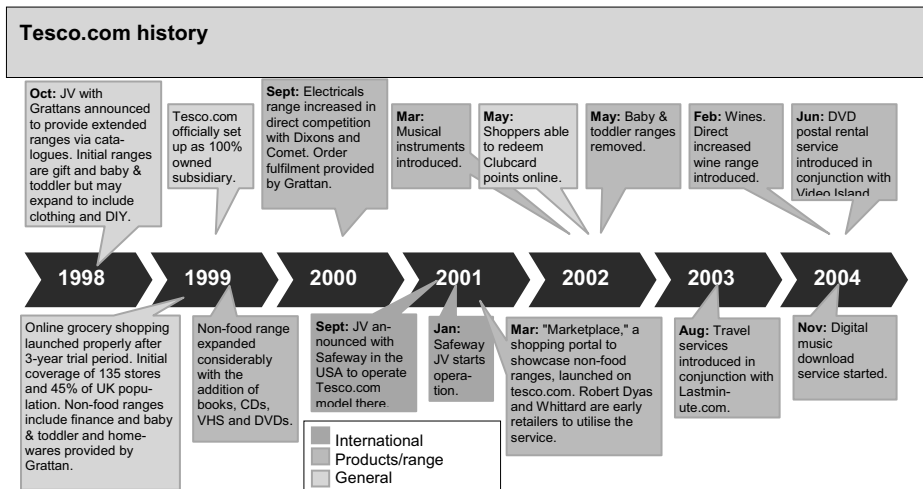
- **The Gap** (www.gap.com) was founded in 1969 with the first Gap shop in San Francisco and is today the second largest clothing retailer worldwide, after Inditex. The Gap brands include Banana Republic, Old Navy and Piperlime. Internet sales began in 1999 with BananaRepublic.com. In 2000, this was expanded with the Internet channels Oldnavy.com and Gap.com. Gap.com also includes the company's maternity collection. Online retailing accounts for 6 percent of the business. In its multi-channel concept, The Gap highlights its channel-specific customer elements. Its success is based on an understanding of its target group in different

channels and an ability to customise the selection accordingly, for example with the maternity shop or online sales. Additionally, specific incentives such as coupons or special prices and promotions encourage customers to use other channels.

- Tesco** (www.tesco.com), the largest food retailer in Great Britain and arguably the most lucrative one, earns more than half of its turnover abroad, mainly in Europe and Asia. Tesco.com started its online retail scheme in 1999 after two years of testing and has made itself a success story. As shown in Figure 4-3, the online channel was built systematically and strategically through high levels of investment. The share of business conducted online amounts to almost 4 percent and plainly exceeds that of the business as a whole. The strong point of the online channel is the non-food selection, which was synchronised with that of the brick-and-mortar stores and now includes around 11,000 items. Orders can be placed online, by phone or in selected stores. Goods can be home-delivered or picked up in one of Tesco's 200 stores. Emphasis is placed on extremely short processing times and a high level of service. A fundamental pillar of Tesco's online success is its excellent customer and data management, with the widely-used Tesco Clubcard, which plays a key role. In 2007, a third channel was established: the catalogue company Tesco Direct.

Figure 4-3: The history of Tesco.com

Source: OC&C 2005



- **Bogner Homeshopping** (www.bogner-homeshopping.de) provides an excellent addition to Bogner's 50 lifestyle stores and approximately 1,600 retail partner shops. As a self-contained channel, Bogner Homeshopping is operated as a joint venture company with Promondo/Quelle. To support its goal of "content enhancement", the company publishes a lifestyle magazine/catalogue that communicates the latest lifestyle information and detailed product descriptions for premium products that are available on all channels. In addition to the magazine/catalogue, exclusive offers are also displayed with 3-D animation in the online lifestyle shop. Bogner has succeeded in turning women's jackets priced at more than 8,000 euros into "must-haves" in the top premium segment, for example. It can therefore be seen as an excellent example of a "lifestyle multi-channel" approach that has also become a great success according to company numbers. Bogner Homeshopping's B2C distance trade contributes more than a third of the Bogner group's revenue.
- **Douglas** (www.douglas.de), the strongest division of Douglas Holding AG and German and European market leader in the perfume industry, boasts online revenue shares of just under 1.8 percent. The entire line of fragrances and care products is available to online customers. Furthermore, the lingerie and linen departments are also enjoying growing popularity in the online shop, as is online TV, which streams a new episode of Douglas TV every Tuesday. This innovative ability to showcase special brands or products on the Internet is being expanded, as was noted in the annual report. Douglas' Internet channel distinguishes itself through its excellent communication of the online brand. The success factors here are unified communication of brand content across all channels and the use of many varied communication elements such as TV/print, online and direct marketing. Added to these factors is excellent handling of customer contacts within the online process, such as with delivery receipts, invoicing and packaging. With this, Douglas has succeeded in transferring its special brick and mortar buying experience to its Internet channel. Additionally, it has enormous online marketing potential, made possible by the more than six million holders of the Douglas Card.
- **Comet** (www.comet.co.uk) was founded in Hull in 1933 and belonged to the Kingfisher Group between 1984 and 2003. The company is the second largest retailer for electronics in Great Britain and features a strongly growing online channel which has the most visitors of any electronics website. Besides the company's 250 retail stores, it operates 15 logistics platforms that are used to deliver 1.3 million packages to houses each year. The online shop contributes 4 percent of total sales and this figure is growing. Comet has managed to distinguish itself from the competition through its excellent service. It is the only electronics vendor to offer online an optional installation service. A clear pricing message is presented on the Internet channel, since Comet offers price guarantees in comparison to its eight largest online competitors. Finally, Comet uses the Internet channel for auctions of goods in its warehouses. Almost 35 percent of Comet's clearance sales are accomplished this way.

- **Tchibo** (www.tchibo.de) stands at third place on the list of online retailers in Germany, according to customer numbers, after eBay and Amazon. Tchibo makes use of a unique sales system in its operation, with around 20,000 national and international outlets and depots. Sales are made in Tchibo stores, mail-order catalogues, call centres and through the Tchibo online channel, which brings in around 10 percent of the entire turnover. The online offer is congruent with the store stock. The multitude of pictures on the homepage awaken emotions, proving that the Internet doesn't function only as a sales tool, but also as an instrument of communication. The site conveys the message of "a new world every week", while promoting a sale at the same time. New customers can also be won via the Internet, since far more young, male and financially stable target groups are found here than in Tchibo stores. Tchibo also cooperates with horizontal portals such as Yahoo and T-Online to acquire new customers. Tchibo products can often be found in the catalogues of other vendors, which earn a commission for these sales (cost-per-order basis).

4.2.2 Best Practices in Back-Office Functions and Supply Chains

An excellent example of solid management for back-office functions and supply chains is Hermes Warehousing Solutions GmbH. The Hamburg-based fulfilment merchant, a subsidiary of the Otto Group, specialises in services for European distance and brick and mortar retail with business clients and end users. Around 5,000 employees work in the company's many logistics centres, which are connected to a national and international network of further logistics locations.

With more than 60 million processed orders and 230 million tracked goods, the company, founded in 2006, is already one of the main players in logistics. Its core competence lies in developing and implementing holistic and progressive multi-channel solutions. The business therefore profits from the growing use of the Internet, something that challenges "traditional" brick and mortar retailers when they decide to take their businesses online.

The challenges are to catch up to pioneers who have been working in this environment for more than 10 years and to avoid losing money on building expensive infrastructure. HWS recognised this trend early on. The fulfilment vendor covers all channels with its integrated multi-channel logistics and manages the entire process chain, from purchasing, customs clearance and inspection of goods to storage, commissioning, distribution and returns management.

In addition, HWS offers even more comprehensive services such as Web shop creation, credit checks, payment processing and claims management. HWS is an example of a company that has constantly developed its retail services with its innovative mass customisation service. The entire product line comprises more than 500,000 different

items – from mobile phones and camcorders to textiles, jewellery, furniture and washing machines.

Back-office functions must be organised so that customers use the different distribution channels not only as alternatives, but in parallel to each other. By linking items in an intelligent way, service is improved, and not only for existing customers. With the new channels, customer groups are tapped that couldn't be tapped before. In this way, the feared cannibalisation effects are avoided and one channel helps boost sales in another.

Online business is thus becoming more interesting as a second channel for brick and mortar speciality stores. More and more, consumers expect an online presence from their brick and mortar retailers. The customer cannot understand why the store's varied advertising campaign is not complemented by an Internet presence. The Web branch offers a 24-hour shop whose marketing effects are not to be underestimated.

Bonprix, however, has gone in the opposite direction. With experience in distance trade, the fashion vendor had already successfully moved into the brick and mortar business in 1999. Its stores were supplied by HWS with the same stock as the catalogue and online business. Inside the Otto Group, HWS views the Bonprix concept as a pilot project on the acquisition of external customers who don't originate in the group. However, HWS' experience proves that the investment hurdles and risks associated with the jump from the Web into brick and mortar retail are considerably higher than the other way around.

When the distribution channels operate separately with different stock and different offers, and customer information systems and inventory control are not connected, the customer experiences chaos. Real added value for customers and vendors occurs when channel hopping is possible. Additionally, trade in most product segments is susceptible to intense price competition.

Against this background, additional synergies must be used, such as those resulting from the processing of stock for brick and mortar stores and online retail. It can thus be said that the more distribution channels are served, the larger the demands on logistics. According to HWS's experience, the keys to success are embodied in the targeted use of technology and the interlocking of internal processes.

Comprehensive Channel Systems Require Permeable Channels

An indispensable condition for a functioning, comprehensive channel system, according to HWS, is the complete permeability of all channels. This affects not only product information, but also the sales, payment, shipment and return processes. In order for customers to inform themselves about products in a store or to order or pick them up, a customer account must be set up – as in Internet retail and mail-order retail, where data is always available.

Planning and maintenance of inventory and the store's operational involvement create

further demands on multi-channel logistics. For example, at the start of a sale, when large volumes of stock must be moved, HWS uses cross-docking. During commissioning, the goods are bundled with others to be delivered directly to the same store. Additionally, the entire Web shop stock and items for replenishment are held in the same warehouse so that single items can be commissioned on demand for individual stores. Point-of-sale systems in the stores send information about what items were sold, and this is used as the basis for replenishment. HWS notes that above all, because of the limited sales area in stores, an exact supply is required.

Logistics for low-volume stock are processed by HWS in its goods distribution centres, in which service-oriented sorting systems are available for this purpose. These are able to process orders at a very high volume as well as handle transactions during seasonal peaks. Large-volume articles such as cabinets, rugs or washing machines are managed at locations that also have stock-specific preparation facilities available, making processing times as short as possible.

In this way, it is not only guaranteed that the customer receives his product quickly, but also that the product is quickly reintegrated into the stock if it is returned by the customer. The larger the size of the products, the more manual labour is required. It is important to find an ideal combination of efficiency and flexibility for specific customer stock.

In the same facility that holds items for the Web shop and for replenishment for the stores, returns are inspected and repaired or repacked if needed. Then they are integrated back into the product stock so that they can be sold. Especially in the textiles industry, it is important to quickly identify and return products to outlets, since products should generally be sold during the current season.

In companies with up to 12 collections per year, this can be a logistical challenge. Whether the product was shipped back via post or returned at stores that function as packing stations should play no role. Speed, transparency and service orientation are important, which is why logistics is a key task for successful multi-channel systems.

Customers and Retailers Profit from Networked Buying Experiences

Judging from experience, customers' expectations grow along with the growing number of channels, according to a study. In the United States, consumers articulated their expectations regarding retailers in a survey. More than half of the respondents would like to be able to exchange items in a store, regardless of whether the item was ordered from a catalogue, purchased online or bought in the store.

The study came to the conclusion that consumers carry over their experiences in the online arena into their brick and mortar shopping behaviour. Retailers as well as customers profit from networked shopping experiences, since the use of different sales channels provides better brand recognition and a promise of sales growth, according to HWS.

4.3 Lessons Learned - 20 Rules for New Online Retail

To conclude this fourth chapter, we will discuss 20 rules for successful new online retailing that sum up the arguments discussed so far. This list is based on Robin Klein's checklist, which formulated 20 rules for multi-channel retail (Versandhausberater 2005):

1. Be clear and precise about the specific added value of your business concept for your customers on the basis of at least four killer differentiators. Communicate these at every opportunity.
2. Consider exactly which form of online retail is best for your company with regard to the history of the business, your core competencies and your potential.
3. Develop a realistic business plan with challenging but attainable long-term goals and a pinpointed investment plan.
4. Incorporate CRM methods from the very beginning, giving special consideration to customer loyalty.
5. Use every possible opportunity to advertise your URL on and offline.
6. Don't underestimate the potential of Web 2.0 communities, content and the value of links.
7. Integrate your customers into the value creation process as much as possible and practice assertive crowdsourcing.
8. Make your customers feel special and handle each customer individually.
9. Pay attention to every product and marketing decision to be sure that you're making your e-shop an interesting destination for Internet users.
10. Don't force potential customers to provide too much information upon visiting your website, since this can be perceived as a barrier.
11. Give your customers a good reason to give you their names, addresses and e-mail addresses.
12. Follow up quickly on a customer's first visit to your website with a direct marketing strategy.
13. Make sure to have the highest possible service orientation, user-friendliness and speed for all processes. This way you make all-round processes more customer oriented.

14. Make sure all employees are enthusiastic about optimising your online channel.
15. Make sure your deliverers and service people understand the requirements of online commerce and are up to the task of fulfilling them.
16. IT belongs in the first round of decision-making processes. Try to integrate all IT, CRM and inventory management systems from the very beginning.
17. Reduce processing time as much as possible and ensure maximum possible process automation in order to avoid cross-media cannibalisation.
18. Utilise every opportunity to make virtual partnerships and practice professional outsourcing.
19. When making difficult decisions, keep in mind what advantages and disadvantages these will have for your customers.
20. Never underestimate the capital required to make a professional jump into online retail.

5 Risks and Benefits of New Online Retailing

5.1 Risks and Benefits of Pure Online Commerce

Especially as compared with other channels, the Internet as a method for retail sales has specific advantages and disadvantages as well as opportunities and risks. When observing the characteristics of Internet commerce, we recommend taking a two-pronged view – one from the business side and the other from the customer’s perspective. Business owners thereby avoid leaving the impression of a truncated company value chain in which, correspondingly, only one partner profits from the transaction (Passenheim 2003, p. 99). In Figure 5-1, the advantages and disadvantages of the Internet distribution channel are illustrated from the perspective of the company.

Figure 5-1: Risk-benefit analysis of online distribution channels from a company’s perspective

Source: Based on Passenheim 2003, p. 99

	Advantages and opportunities	Disadvantages and risks
Business perspective	<ul style="list-style-type: none">• Global presence• Direct ordering• Acquisition of customer data• One-to-one marketing• Cross/up-selling• Long tail marketing	<ul style="list-style-type: none">• High technical complexity• Slow ROI• Competition with vendors from other sectors• "Freeloader" mentality• Dependence on Google

5.1.1 Risks and Benefits from an Online Retail Perspective

The **central advantages and opportunities of online retail from a business perspective** are global presence, direct ordering, acquisition of customer data, one-to-one marketing possibilities, cross/up-selling possibilities and long tail marketing:

- The **global presence** of the Internet gives online retailers access to new target groups and markets. At the same time, online sales offer more flexibility and therefore a competitive edge. Additionally, goods can be removed from and added to the inventory on precise days and cross-referencing between product groups is possible.
- **Direct ordering** leads to a shortened process chain in which functions can be transferred to customers. The results are considerable time and cost advantages, as manual processing or call centre activities do not apply, meaning higher margins for retailers.
- **Acquisition of customer data** is handled electronically with a level of quality not possible before now, as actual search and purchasing behaviour can be collected electronically. With the help of this acquired customer data, an offer profile and personalised marketing strategy can be developed for customers.
- **One-to-one marketing** for every customer, without this leading to an increase in cost, is possible thanks to available information, since nearly all of the process steps, right up to e-mail creation, can be fully automated.
- **Cross/up-selling** makes it possible for merchants to offer other services via the currently offered product. This concerns active merchandising that occurs either with the offers of other merchants (e.g. within a cooperative) or within the company's own selection of goods. Products best suited for this are complementary products (e.g. perfume and bath gel).
- **Long tail marketing** consists of the sale of low-revenue products or leftover stock that wasn't sold at the end of a season. The idea behind this is to reach critical demand for niche products through the accumulation of geographically separated customer groups. This means of marketing is, however, only suitable for consolidating existing core inventories. With regard to long tail marketing and corresponding inventory levels, a "renaissance of the peripheral product range" can be observed in online retail (Ehrmann/Schmale 2008, p. 44). "No service charges, low shelf costs and effective search engines: the Internet is making marketing for low-revenue products and inventory niches attractive" (Ehrmann/Schmale 2008, p. 44).

Central disadvantages and risks of online retail from the business' point of view are the high technical complexity involved, which hinders the return on investment, the competition of vendors formerly from other sectors, the "freeloader" mentality and dependence on Google from a commerce perspective:

- **High technical complexity** is the result of underestimating the need to build specific information technology infrastructures. The implementation of technical and media systems in particular generally requires a high initial investment, which can partly be handled through cooperation with fulfillment service providers.
- A **slow payoff of invested capital** is a given because of the high start-up investment. Building a customer base also requires considerable effort, meaning that turnover is generated in a very time-delayed manner. On the other hand, online retailers can attain sustainable economies of scale after slowly building up their businesses.
- **Competition with vendors in other sectors** occurs due to the spatial and temporal infinity of the online channel; it allows other merchants to sell products they might not have sold before with little effort. The Internet also induces former deliverers to sell directly to customers, thereby disintermediating the business.
- **"Freeloader" problems** occur when customers who use the brick and mortar store to gain information about a product then shop around for a less expensive offer online. Through intelligent customer relations management, customers can be bound to the store. Channel hopping speaks to the advantage of multi-channel solutions.
- **Google dependency** is something Internet retailers cannot avoid. There are no longer any online retailers who can get by without the traffic generated by Google. Companies whose Internet business models were built on Google's visitor traffic have become dependent on it (Schmidt 2008, p. 14).

5.1.2 Risks and Benefits from an Online Customer Perspective

The Internet, as a virtual meeting room for vendors and consumers, features characteristics of place and time independence (ubiquity). All participants can enter, stay and leave this virtual space as they wish, depending on their technical infrastructure and preferences. This fundamentally differentiates the Internet from other markets, in which global reach and time independence are impossible.

These and other advantages have certainly caused the diffusion of the Internet. In Figure 5-2, the advantages and disadvantages of the Internet as a distribution channel are displayed from the customer's perspective.

The **fundamental advantages and benefits from the customer's perspective** turn out to be ubiquity, independence from store opening times/locations, the large selection

and comparability of products and offers, market transparency, individual offers, openness and better information:

Figure 5-2: Risk-benefit analysis of online distribution channels from a customer's perspective

Source: Based on Passenheim 2003, p. 99

	Advantages and opportunities	Disadvantages and risks
Customer perspective	<ul style="list-style-type: none"> • Anywhere/anytime availability • Independence from opening times • Larger selection of offers • Market transparency and comparability of products and offers • Individual offers • Openness • Better information 	<ul style="list-style-type: none"> • Lacks physical contacts with products • Lacks social aspect of purchase • Possible difficulty with complaints • Safety risk in payment processing • Minimum order value and additional costs

- **Anywhere/anytime availability** results from access to the Web. Due to the internationality of the Web, the customer has access to all merchants worldwide and therefore has considerably more alternative merchants than would be possible with brick and mortar retail.
- **Independence from opening times** is possible through 24-hour ordering options and shipping to any desired address. Experience in online retail has shown that evenings and nights are the preferred times for making purchases.
- **Larger selection** is possible through access to the Web, but also through the lack of spatial and temporal boundaries on the supply side, which leads to long tail marketing.
- **Market transparency** becomes full-scale through the possibility of comparing goods in real time, price comparisons in electronic channels and search engine or software agents that seek out the best offer according to customers' preferences, without charging additional costs for the service.
- **Individual offers** are a direct result of one-to-one marketing. Product individualisation goes hand in hand with the trend toward interactive value creation, or mass customisation and open innovation. The technology further allows for personalised customer contact.

- **Openness and transparency** mark the Internet age. Companies as well as customers are affected by it, as they are no longer able to hide things from their customers.
- Consumers benefit from **better information** through both transparency and documentation. The Internet allows us to connect to products better via its transmission of emotional pictures and sounds. Products are displayed in a more graphic way than in mail-order retail. The same is true of 3-D animations, which are being used more and more frequently.

Despite its varied technical possibilities, the online channel still possesses disadvantages and risks from the customer's perspective and these should not be underestimated. They result from a lack of possibilities to contact a merchant (both physical and social), difficulties and risks regarding returns and payment, as well as possible financial risks through minimum-order requirements or criminal activities:

- The **lack of physical contact** has proven to be a decisive disadvantage from the customer's point of view. This is connected with the risk of not being able to verify the quality and functionality of a product.
- A **lack of social contact**, which is implicit in brick and mortar trade, raises the customer's perceived risk in distance retail because of the anonymity that comes with it. Technical innovations such as communication platforms cannot alter this. This speaks for the existence a brick and mortar supplementary channel or at least a call centre option.
- **Possible difficulties with returns** result from the relative anonymity associated with the process. Sending back the goods and the inherent trip to the next post office present a temporal and financial risk for customers.
- **Safety risks during payment processing** give rise to latent fears in customers. These fears have been nurtured by news of an increasing number of cases of fraud in connection with online payments. These concerns should by all means be taken seriously by online retailers.
- **Minimum-order requirements and additional costs** accrued through complaints, returns and repairs are an equally never-ending discussion for customers. This often results from a lack of transparency or non-Internet-specific GTCs. This shows that quite a number of online retailers have neglected to take this topic into consideration.

5.2 Risks and Benefits of Multi-Channel Retail

The construction of new sales channels represents an innovation for retailers both in terms of the single innovative sales channel "pure Internet retail" and with regard to its entry into multi-channel retail. Along with the multitude of opportunities for similar innovation, tensions, conflicts and thereby risks can also arise, which can be counter-productive to an original idea for an additional source of revenue.

When looking at the opportunities and risks inherent in multi-channel retail, a split view from the retailer's and customer's point of view should be taken into account for similar reasons as when considering the advantages and disadvantages of pure online retail.

5.2.1 Risks and Benefits from a Multi-Channel Retail Perspective

In Figure 5-3, the advantages of using parallel distribution channels are summarised from the retailer's perspective. Advantages and opportunities from this point of view include an increased base of potential customers, wider market coverage, cost-effectiveness, a diffusion of risks, flexibility, customer loyalty, as well as improved image and brand revitalisation:

Figure 5-3: Risk-benefit analysis of multi-channel retail from a retailer's perspective

Source: Based on Passenheim 2003, p. 124

	Advantages and opportunities	Disadvantages and risks
Business perspective	<ul style="list-style-type: none"> • Access to an increased number of potential consumers through broader channel variation • Increased market coverage through the acquisition of new customer groups and other media users • Cost effectiveness through the use of synergy potential • Diffusion of risks by avoiding dependence on certain media • Flexibility through media-specific reactions to market developments • Customer loyalty through improved image and comprehensive media activities • Improved image and brand revitalisation through distribution channel innovations 	<ul style="list-style-type: none"> • Difficulty in implementation due to lack of understanding of problems • Loss of control through the reduction of leeway in negotiations due to the increasing complexity of the medium • Lower optimisation through increased complexity of tasks • Cannibalisation effects through competing distribution channels • Conflicts due to competitive situations in different media • Decreasing differentiation potential due to an increase of penetration and standards

- **Increase in the number of potential customers** through offers in more varied and broader distribution channels: The number of potential customers is the number of current and potential customers that can be reached via different retail channels through which goods are sold. When it comes to making a purchase, customers choose the retail format that can best fulfil their expectations for service. In extreme cases, the customer decides on a new retail format or distribution channel for each retail company every time he makes a purchase. By doing so, he increases his selection probability if the products are spread out across different suitable retail formats and channels. This opens up the opportunity for retail companies to be chosen for different purchase occasions. Multi-channel systems aim to get the biggest share of wallet possible from the customer and to achieve as many efficiency factors as possible (Schobesberger 2007, p. 29).
- **Increase in market coverage** through acquisition of new customer groups: Merchants often reach only a fraction of the markets they want through the use of individual distribution channels. Only through distribution in multiple distribution channels can market potential be tapped, increasing the possibility for higher turnover. Additionally, with new channels comes new market potential, because more target groups can be developed than before (Schobesberger 2007, p. 29). Through open communication, the customer can be directed to different procurement channels and their specific advantages. Members of the Bertelsmann Book Club are directed to the Internet site in catalogues and stores, as well as when making telephone purchases. Increased market coverage, combined with comprehensive exploitation of market potential, can bring about the addition of further distribution channels (Ahlert/Hesse 2002, p. 18). Often the entry into multi-channel retail is used to prepare for a foray into international markets. Web presence can be used as a spearhead in new countries, as Douglas recognised and as other mail-order retailers practice with increasing frequency.
- **Cost-effectiveness** through realisation of synergy potentials: Distribution in a multi-channel system is accompanied not only by considerations of effectiveness, but also by the pursuit of cost goals. Companies try to increase cost-effectiveness through the use of different, value-chain strengthening distribution channels. In this way, the cost-intensive sales team can be relieved through support systems and assertive direct marketing via the Internet, while increasing cost-effectiveness. Further examples are synergy effects through the use of existing resources, through which current costs and required start-up capital can be reduced. Shared use of a warehouse by different channels allows the business to operate at full capacity and to lower fixed costs. As retailers rush to substitute their classic catalogue businesses with an Internet channel, consideration is also given to lowering print and catalogue costs associated with classical mail-order retail. Mail-order retailers control the business processes behind the online presence, as these are generally identical to those of the traditional business model. The same is true for central warehouse logistics and the management of packing centres. Entry into online

retail really only constitutes an increase in the number of back-office tasks, meaning that new incidental costs can at least partly be offset by the existing experience curve. Retailers can therefore gain a cost advantage over their competitors. Retailers outside a particular sector and newly-founded businesses are at a considerable disadvantage as compared to mail-order retailers. Infrastructure shortfalls in the "new economy" were a fundamental reason for the collapse of many Internet newcomers. Dependence on the purchase of relatively expensive and therefore marginal book suppliers meant that few of the newly formed Internet book retailers could post revenue in the black without having their own infrastructure (BOL, for example). The prerequisite for achieving efficiency advantages in multi-channel systems is the linking and coordination of different channels.

- **Balancing risks** by avoiding dependence on certain channels: Dependence on certain customer groups can occur in certain channels. In many sectors, market accessibility has become a bottleneck for deliverers. Purchasing power, retail concentration and dependency threaten mainly mid-range industries that sustain the possibility of direct marketing through multi-channel retail and especially the associated online business. Many vendors such as Gerry Weber use these verticalisation opportunities to free themselves from dependency on their business partners. By entering into multi-channel retail, retailers can spread their risks by diversifying their business. A portfolio of retail formats can help balance business risk with firm footing.
- **Flexibility** through channel-specific reactions to market developments: Through use of the Internet, advantages exist for combining retail channels in ways that would not otherwise be possible. In particular, when used as a flexible information medium, the Internet has an important and irreplaceable role in multi-channel systems. Studies show that around 40 percent of all consumers inform themselves online before making a purchase in a brick and mortar store, allowing themselves to be decisively influenced. The Internet makes it possible for retail companies to make targeted, flexible and current contact with consumers, and to be better attuned to their needs. With the aid of the Internet, retailers can dedicate themselves to their most valuable customers and thereby invest in the most profitable customer relationships, as Bogner Homeshopping demonstrates (Krone 2004, p. 15-16).
- **Customer loyalty** through multi-channel activities: Multi-channel retail opens up enormous opportunities for binding customers in the long term through personalised offers and customer-friendly inventory creation. On the basis of new systems, retail companies can collect diverse information about their customers through different channels and invest lucratively. In connection with loyalty card systems, all of a customer's purchases are viewable in different channels and the purchase history is documented. This allows for a meaningful purchasing behaviour profile to be drawn up for each customer, providing information about search behaviour

that can be used for personalised purchase suggestions (Krone 2004, p. 17). Customers who are always on the search for new offers register for multiple offers on different channels and generally honour these offers as well, as confirmed by Neckermann.de, for example.

- **Image improvement and brand revitalisation** through distribution innovation: Companies without an Internet presence have become obsolete. The majority of consumers use the Internet to gather information about their purchase before buying. A website can also be put to use in improving a company's image. Many visitors use a company's website to form an opinion about the business. This is especially true of the younger generation of buyers, many of whom cannot even be reached without using the Internet. However, if the company wants to use the Internet channel as a marketing instrument for improving its image and revitalising brands, it must take it the whole nine yards. A bad website can quickly put a company in the back seat. Karstadt has recognised this and implemented an aggressive online presence in the past few years with Karstadt.de.

The **disadvantages and risks from the retailer's perspective** include implementation difficulties, control and complexity dangers, lower optimisation, cannibalisation effects, conflicts and decreasing differentiation potential:

- **Difficulty in implementing** the online business through an inability to sense problems: The implementation of online business channels in existing networks of stores often brings considerable difficulties with it. For the brick and mortar retailer, the greatest challenge lies in coordinating the new distribution channel with traditional business practices. Therefore, retailers should consider the Internet channel first and foremost an information medium and also a purchasing medium for existing customers. It makes little sense and brings great danger to implement new channels but then fail to accept them as equal sales formats or to maintain and further develop them. Customers who shop online expect extremely high availability of goods and comparably fast delivery times. This is the origin of many problems, as many orders are processed manually or in the brick and mortar store, where customer expectations cannot be fulfilled and dissatisfaction is inevitable. Only by automating the ordering process without cross-channel breaks can the business meet customers' expectations regarding delivery times. Seeing the Internet channel as an alternative channel and not integrating it, thereby giving customers the feeling that they're doing business with an entirely new company, is a major reason many companies get off to a bad start with online customers, as seen with Media Markt in the past (Krone 2004, p. 7-9).
- **Loss of control** through the limitation of negotiation leeway due to increasing complexity in channel controlling: A multi-channel company is a complex entity that has grown out of many years of experience. Therefore, it is hard to determine general rules for realising and identifying potential. The various channels allow for value creation with a division of labour, although the increasing coordination re-

quires financial and personal effort. Switching to multi-channel retailing is therefore often made difficult by the fact that there are no existing controlling systems to make the effects of the channels on one another transparent. Closely related to this is the fact that introducing new channels also shifts the hierarchy of the business' goals. An effect of Internet retail is, for example, that the option of constant accessibility and the ability to shop around the clock and check the status of an order make a great impression from the customer's perspective. The most enduring changes appear in the flow of information, as well as in time, speed and efficiency. It can also be assumed that, with the implementation of an Internet channel, quality requirements for employees will also change. The company's sales employees must free themselves from the idea of "value communication" so they can have a chance against the high efficiency and service potential of the Internet, and they must adapt to new ways of creating the relationships and dialogues valued by the customer.

- **A loss of optimisation** through increased complexity of tasks: Generally, new skills for new types of businesses and systems must first be learned, which overwhelms many multi-channel retailers at the very beginning of the process. The great danger lies in startup difficulties and the problem of tying too much management capacity to the new channel, slowing down day-to-day business in the traditional channel. Risks arise largely because of the search for a general solution that can be applied to all distribution channels. The specifications of channels are thereby left out, cancelling out the actual advantages of the multi-channel system. Furthermore, additional costs may accrue if the differences in channels are accepted, but no integrated solution is found. This can endanger the cost-effectiveness of the entire entity (Schobesberger 2007, p. 33).
- **Cannibalisation** effect through competing distribution channels: New channels mean that primary channels lose meaning and therefore turnover. How large an impact such cannibalisation effects have depends on the kind of product, the accessibility of the different channels and the habits formed by the customer during the purchasing process. Studies on cannibalisation in multi-channel systems come to the conclusion, however, that such fears are mostly exaggerated and that channels that are correctly designed are more likely to complement each other than detract from one another.
- **Conflicts** through competitive situations in different channels: If, for example, single distribution channels are run as independent areas that generate their own profit, considerable conflicts can emerge between the channels, causing opportunistic behaviours in the distribution channel. If channel managers are held responsible for the profits of their channel and their compensation is tied to the results, conflict is inevitable. Why should the manager of a brick and mortar store recommend that his customers buy the product online? In this respect, multi-channel systems also need sufficient incentive and control systems that are less revenue and sales-

dependent and instead allow for coordination based on company goals (Ahlert/Hesse/Jullens/Smed 2003, p. 21 ff.). New multi-channel retailers must all ask themselves the fundamental question of what effects these conflicts could have on the new constellation and how to react in specific conflict situations, be it pre-emptive conflict management or situational conflict management. Above all, when long-term changes are made, conflicts should be avoided from the outset through open communication of the goals and priorities in the new distribution system. Misunderstandings can be avoided when the division of roles between distribution channels is clear and understandable (Krone 2004, p. 11).

- **Decreasing differentiation potential** through increasing penetration and standards: Businesses sometimes interpret differences in service between distribution channels differently to the way customers do. If differences between the channels fail to be accentuated, cannibalisation is easier (Krone 2004, p. 9 ff.). To emphasise the differences, the particularities of each channel must be made clear. Recognisable differences exist for consumers only when they are offered a meaningful use or advantage in one channel that is not available in the others (e.g. 24-hour-availability). Furthermore, the solution to the problem must be seen by customers as relevant and unique. The customers' needs must also be better fulfilled in the specific channel than in one by a competitor (e.g. delivery time). One of retail's major drawbacks is that the services or benefits seen by customers are offered by only a few retail businesses. Additionally, it's very difficult to achieve differentiation and a first-mover advantage through an online channel, since with each additional Internet retailer, the differentiation potential of individual offers declines (Passenheim 2003, p. 125).

5.2.2 Risks and Benefits from a Multi-Channel Customer Perspective

From the customer's point of view as well, there are opportunities and risks to keep in mind (Figure 5-4). They include adapting to customer needs and balancing risk:

- **Adapting to the needs of the customer** through targeted distribution in different channels: Generally, customers want and are prepared to buy products from well-known providers, especially if past experiences were good ones. After buying a game console, the customer might consider purchasing games to go with it or a newer model of the console. The same is true for PC purchases, which can include the purchase of software programs. New "storeless" channels allow customers the opportunity to place orders independent of their location and at any time. Tele-shop QVC, for example, sees its highest turnover at night, between the hours of 1 a.m. and 2 a.m. This buying behaviour could definitely not be accommodated in a brick and mortar location.

- **Balancing risk through** avoidance of dependence on certain channels: The problem of location in brick and mortar retail creates logistics dependencies especially in poorly structured regions, which, in the case of store closings, can have catastrophic consequences. Here, additional online shopping possibilities remedy the problem and reduce supply risks from the customer's point of view.

Figure 5-4: Risk-benefit analysis of multi-channel retail from a customer's perspective

Source: Based on Passenheim 2003, p. 124

	Advantages and opportunities	Disadvantages and risks
Customer	<ul style="list-style-type: none"> • Conforming to customer's needs through targeted communication in different media • Balancing risk through the avoidance of dependence on certain media 	<ul style="list-style-type: none"> • Confusion on the customer's part through the communication of the same services in different media • Dissatisfaction through lack of channel-hopping option

The **disadvantages and risks of multi-channel retailing from the customer's perspective** include confusion and dissatisfaction:

- **Customer confusion** through the offer of different services in different distribution channels or a lack of channel hopping possibilities. In cases in which special customer groups receive various services via different channels, customers may become overwhelmed if these offers and their advantages can no longer be appraised. Inexact parameters for individual distribution channels are often responsible for the customer's confusion (Schobesberger 2007, p. 32). The uncoordinated parallel structure of distribution channels is generally also a cause for disorientation among users. For example, sales are not communicated through all channels or the inventory design is displayed completely differently, products have different prices and corporate design (e.g. design, font, colour, position) varies completely. This leads to customers feeling that they are doing business with different companies. They can no longer tell which offer is best for them and become overwhelmed, which leads to an impression that the company is not professional and lacks coordination. This can lead customers to stray, resulting in lower revenue. Customers view companies, despite their different channels, as single entities and are very sensitive to discord (Krone 2004, p. 12).
- **Dissatisfaction through lack of channel hopping possibilities:** If customers don't have the option to channel hop easily, the company cannot profit from this and suffers a blow to its image. The result is enduring customer dissatisfaction, which is difficult to correct. The company must offer its complete range of products and services on all channels, otherwise it will lose its credibility (Krone 2004, p. 12).

5.3 Risks of Non-Compliance with German Civil Law in Online Commerce

5.3.1 New Revocation Regulation

Revocation is the act of recall or annulment. In law, revocation is a type of remedy for buyers when the buyer accepts a nonconforming good from the seller. Upon receiving the nonconforming good, the buyer may choose to accept it despite the nonconformity, reject it or revoke acceptance. Under Article 2 of the Uniform Commercial Code, for a buyer to revoke, he must show the goods failed to conform to the contract and that this substantially impaired the value of the goods.

As of 6 June 2010, a new revocation regulation is in place that involves changes that are important for all online retailers to take into consideration. In this light, online retailers need to update policy statements on their websites concerning return and revocation handling. If online shops don't act immediately on these new regulations, they must prepare to receive official warnings.

There is a positive side to this as well, seeing as Internet sales and auction platforms such as eBay, Amazon, Yatego and DaWanda could use the new regulation to instruct customers that revocations must be made within 14 days (previously 4 weeks). The new template form for revocations and returns will become an element of EGBGB (Einführungsgesetz zum Bürgerlichen Gesetzbuch), which implies an official "legal" character no court could reject due to anticompetitive claims (Anwaltskanzlei Heine-mann 2010, p. 1).

5.3.2 Regulations for Product Individualisation

In distance retail contracts for products that have been tailored to customers' specifications, there is no right to return the items under German civil law (§ 312d Paragraph 4 No. 1 BGB). This is infrequently addressed in the general terms and conditions, and companies only state in general that the customer has the right to return items (without going into detail about whether customised items can be returned).

Online retailers that offer individualised products (e.g. made-to-order or mass customisation) should therefore state their returns policies in the general terms and conditions. The same holds true for copyright rules when customers design their own products.

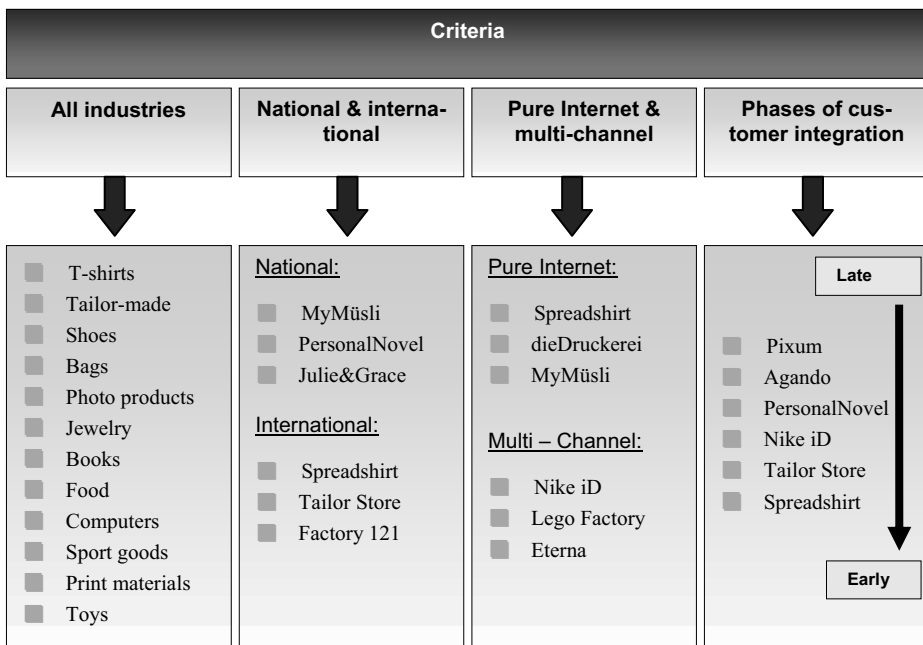
With regards to the right to return merchandise, companies must state clearly that products designed individually with a so-called tool kit system and that are assembled

according to the customer's specifications are not covered by § 312d Paragraph 4 No. 1 of the BGB (e.g. computers and jewellery).

In this regard, the verdict of the German Bundesgerichtshof (Federal Court of Justice) from 19 March 2003 can be used to interpret which contracts are affected by the right to return merchandise (File VIII ZR 295/01). The court found that the plaintiff had configured a laptop according to his own specifications and that the computer's configuration was so specific to the plaintiff's needs that no other buyer would want to purchase it.

Nevertheless, the plaintiff's right to return the merchandise was not disqualified because of the computer's specific manufacture, according to § 3 Paragraph 2 No. 1 FernAbsG (now § 312d Paragraph 4 No. 1 BGB). According to the court, the defendant (e.g. the retailer) was not protected by § 3 Paragraph 2 No. 1 FernAbsG (now § 312d Paragraph 4 No. 1 BGB), since it was possible to dismantle the laptop, which was made of standard parts, and sell those parts.

Figure 5-5: Random sampling of GTC inspection on the Internet



5.3.3 Comparison of Vendors

A study conducted as part of a research project mentored by the author in 2008/2009 at the Niederrhein University of Applied Sciences examined 14 examples of mass-customisation Internet providers. It investigated the extent to which specific points in the GTC were enforced, looking at return regulations, rights of return, guarantees, protection regulations and product liability in mass customisation. From Figure 5-5, it becomes clear that these merchants follow the best practices of vertical online retail and achieve the widest sector coverage possible (Chapter 4.1.5). Among those merchants examined, the legal framework is generally that laid out in the GTC. In a few cases, the GTC is imperfect and in one case it didn't apply at all. Guarantees and product liability are generally regulated by law or limited. A link to the GTC is integrated into every page, sometimes available as a direct download.

As best practice vendors, Spreadshirt, die Druckerei and Julie&Grace offer the recommended scope of coverage for the GTC of mass-customisation Internet merchants. These companies include in their GTC:

- General information, area of application
- Responsibility for online offers
- Contract end
- Shipping
- Prices
- Payment
- Reservation of rights
- Guarantee
- Liability/limitation of liability
- Right to return merchandise
- Copyright
- Technical and design irregularities
- Data protection
- Place of fulfilment, jurisdiction

GTCs of a typical scope for mass-customisation merchants can be found on the Internet sites of Tailor Store, PersonalNovel, Eterna and Pixum:

- General, scope
- Conclusion of contract

- Delivery/shipping
- Prices
- Payment
- Guarantee
- Liability/limitation of liability
- Right of withdrawal
- Place of fulfilment, place of jurisdiction

The worst-practice cases concerning the GTC for mass customisation online are Agando, Juwelon and Cays. While Agando and Juwelon fail to address product individualisation in their GTCs, Cays has no GTC listed at all. This last is therefore especially problematic, because according to § 312c of the BGB, the company is required to provide more information to the consumer in § 1 BGB-InfoV.

Copyrights are addressed by only a few of the leading mass-customisation vendors, namely Nike iD, Lego Factory and Pixum. Spreadshirt uses the phrase "for the regulation of copyright of the customer's intellectual property" and offers customers the option of giving up the license to their designs to Spreadshirt. Spreadshirt then sells this design and the customer receives a commission from the design's revenue.

5.4 Further Prospects: Cross-Channel Management and Integration

All forecasts suggest the Internet boom will continue uninterrupted in the coming years and will last for the foreseeable future. Cautious estimates assume that Internet revenue for retailers will at least double by 2015. In comparison to other countries, such as the Scandinavian nations and the United States, the Internet penetration rate in Germany is at around 60 percent and thus still offers excellent growth potential.

The winners in online retail will not be the "pure Internet" retailers, but rather multi-channel retailers that are able to turn the combination of offline and online channel hopping possibilities into added customer value. An empirical study on multi-channel retailing conducted in 2005 surveying 103 Austrian retail businesses proved that this approach pays off.

The implications and advantages of multi-channel retail were examined with respect to turnover, market share, return on investment, customer loyalty, purchase figures, repurchases, frequency and costs (Schobesberger 2007, p. 73 ff.). The survey revealed the following effects of a multi-channel strategy:

- **Revenues** at most brick and mortar store branches stayed constant, while online revenue increased.
- **Market share** showed similar results, with an increase online and a decrease offline.
- 40.3 percent of the companies increased their **ROI** in their online shops and 32.2 percent observed an increased ROI in their stores.
- In the majority of companies, **customer loyalty** remained unchanged both online and offline.
- While the **average purchase sum** in stores barely changed, it increased in 56.7 percent of the retailers' online shops.
- The **repurchase frequency** increased in a third of the stores and in 52.2 percent of the cases in the online shop.
- **Purchase frequency** grew by a good 30 percent in offline shops and increased for around 40 percent of the companies' online shops.
- **Marketing costs** were the costs that increased most, at 46 percent for multi-channel retailers for the offline business and 71.2 percent of the cases online.

There was consensus that multi-channel retail leads to an increase in customers, reaches out to new customer target groups, refreshes the company's image, increases competitiveness, leads to a positive image and increases market shares. The majority of the companies surveyed believe it improved their customer loyalty. In this respect, companies see nothing to stop the further penetration of online retailing through multi-channel strategies (Heinemann 2008g, p. 1 ff.).

Cross-Channel Shoppers

The profile of a typical cross-channel shopper tends to be a young to middle-aged parent who is gadget-savvy and willing to invest in new technology such as the iPhone and its various applications. The shopper is comfortable browsing brick and mortar stores and asking sales personnel for help with the range of products on the market. However, he is also patient enough to want to shop around for a good deal and will use his new technology to help him.

Often these shoppers rely on an in-person introduction to a product and turn to online guides or call centres for verification, price comparisons and eventual purchases. Should the shopper require further assistance after the product has been delivered, he will turn to online or telephone help lines or simply go back to the in-store support team, who already have his product profile listed in their system and can offer him a personalised support experience.

A Paradigm Shift Is Underway

A paradigm shift is underway in the way that consumers shop for products in a busier and more saturated marketplace. Their focus has shifted toward an "always on" mentality.

Broadband Internet penetration is pervasive in both Europe and the U.S. The Netherlands boasts more broadband Internet connections than anywhere else in Europe (Website Optimisation, 31 October 2009). Smartphone sales and out-of-home Internet usage are on the rise and shoppers are demanding convenience, selection and information.

For the first time in the history of retail, customers are adopting new trends and technology at a faster pace than brands are able to keep up with (Forbes 2009).

For retailers, this implies that business is becoming more shopper-driven, with customers shopping online, in stores and on their mobile phones without any concept of borders between these channels. Companies must assess what they are doing to adapt to this shift and question how their business will look in the future.

Local Trends Mirror Global Ones in Cross-Channel Shopping Behaviour

Our research confirms the role that cross-channel behaviour plays in the global retail economy. As many as 87 percent of customers worldwide who use the Internet to inform themselves about products and services go on to make purchases in stores. Millions more gather information in-store and then buy online. Many have also remained faithful to catalogues as a source of information before making purchases in-store (Accenture: Multi-Channel Global Research Report 2009, p. 5).

Accenture's current research found that 69 percent of Dutch customers engage in some form of cross-channel shopping (Accenture: Cross-Channel Retailing in the Netherlands 2010, p. 5). The study showed that the majority of cross-channel shopping today occurs as movement between channels during the information-gathering and purchasing phases. Accenture found that 20 percent of cross-channel shoppers switch between channels easily when making purchases. They move among channels to purchase, pick up goods, return items or meet their post-sale needs.

Summary of Findings:

- Single-channel shoppers are becoming a rare breed. Almost 70 percent of Dutch shoppers exhibit forms of cross-channel behaviour.
- Dutch shoppers report that they feel Dutch retailers are not offering as many cross-channel options as they would like.
- Most Dutch retailers today maintain a multi-channel approach, although channels are developed and managed independently as separate entities, lacking the seamless integration that customers demand.

- Cross-channel shoppers are more loyal and more profitable than single-channel shoppers; price is becoming less relevant in the decision to buy and customers are more likely to judge based on service, convenience and the overall shopping experience.
- Cross-channel shoppers increasingly expect a customer experience that is seamlessly integrated across channels. They expect the retailer to recognise them and their preferences, regardless of the channel they are using and how many times they've crossed channels.
- The rapid pace of technological advancement and customers' rapid adoption of new forms of shopping technology – especially smartphones, which enable out-of-home Web surfing – will continue to drive this change.
- This trend is a reality not only in the Netherlands but also on a global scale.

Dutch shoppers often research and gather information in one channel and make purchases in another:

- 91 percent of electronics shoppers research products online before purchasing them in a store.
- 87 percent of these shoppers research prices and 67 percent of them research product information.
- Customer product recommendations are becoming increasingly important across the industry, but still play a comparatively small role in the Netherlands (16 percent).
- Toy shoppers and home/lifestyle shoppers continue to use catalogues as a point of reference before buying in a store.

Customers Are Demanding More Opportunities to Engage in Cross-Channel Shopping

As Dutch customers become used to increased convenience, they demand more flexibility of channels and more freedom to navigate between channels.

Many retailers continue to question whether it is worth it to invest in cross-channel programs. Research proves that this type of investment is positive for the following reasons:

- Dutch shoppers report that they would like to take advantage of more cross-channel shopping than is currently available, representing a niche in the market for the attentive retailer.
- These cross-channel shoppers are more loyal, more profitable and less price sensitive than single-channel shoppers.

A niche exists in the market. Mastering the art and science of cross-channel retail is becoming ever more critical, as seen in the case of the Netherlands. Customers are expressing their desires for more cross-channel opportunities in retail shopping:

- 42 percent of customers would prefer to pick up an item at the store after ordering it online, but cannot because the service is not offered by the retailer.
- 35 percent of customers would prefer to have products delivered to their homes after purchasing them in the store if the service were available.
- 35 percent would like to be able to return or exchange an item by post that was bought in-store, but cannot because the service is not offered.
- 20 percent would like to return an item to a store after purchasing online, but feel that this service is not available to them.
- 57 percent of Dutch customers report that they would use an information terminal in the store if it were available.

According to a spokesperson for the department store chain Macy's, every dollar a shopper spends on the Macy's website results in 5.70 dollars worth of spending at the Macy's store within 10 days (The Economist, 26 November 2009).

Analysis of Cross-Channel Interactions

Cross-channel shoppers are more profitable than single-channel shoppers. In the coming years, the role of the single-channel shopper will remain important. However, the rise of the cross-channel shopper will represent more opportunities for retailers as this customer group grows. What is more, these shoppers represent an attractive and often hard to reach segment for many retailers.

Cross-channel shoppers tend to be more loyal and less likely to make purchase decisions based purely on price. These customers place significant value on their shopping experience. Targeting this customer group can mean greater revenue in the long run.

Our research supports the claim that these cross-channel shoppers are more valuable than single-channel customers. They buy more often and, in some industry segments, spend an average of three times more per month than those who rely on single channels. Accordingly, this presents an opportunity for Dutch retailers who are willing to invest in innovative cross-channel solutions. If retailers focus on managing several core services, they can reap great rewards.

Toward Customer-Centric Retail: Delivering Seamless Cross-Channel Experiences

While the value of cross-channel retailing is clear, the path to its successful implementation is less straightforward. Accenture research indicates that 68 percent of e-business managers globally say that their company supports a vision for a consistent cross-channel format, but only 29 percent agree that their company can actually carry out that vision (Accenture Customer Centricity Report, 2009).

High-performing businesses focus on several core capabilities. To become a high-performing cross-channel retailer, a company must first focus on its foundation to support the next phase. This means:

- Customer-centric systems, including CRM, are more important than ever before.
- The company strategy and its organisation must be customer-oriented so that the retailer can deliver a seamless shopping experience.
- Processes must support the cross-channel customer experience with relevant and timely messages.

A representative of Dutch health and beauty retailers says, "It is our view that the implementation of cross-channel retailing should be done step by step. First steps should be to tackle the basics and make sure you've got them done right before you move on to advanced features. We see mobile phone, weblogs, interactive TV and social media as the areas that are gaining significance."

As CRM becomes ever more critical, retailers must know their customers regardless of which channel they choose. Retailers should have access to a single overview of the customer to deliver the choices and flexibility that shoppers seek. Cross-channel shopping behaviour offers a rich framework for companies to create tailored and personal messages for shoppers. Research on Dutch shopping habits shows that customers expect messages to be tailored to their needs and relevant to their desires.

When retailers get an overview of customers across all channels, they can provide a seamless shopping experience and organise their internal operations to support these efforts, thereby making large gains possible. Business must be customer-oriented, meaning that CRM is more important than ever. However, for CRM to be successful, the business must first organise its processes in a way that supports all of its channels. To accommodate this shift in the retail world, businesses must develop strategies that support true cross-channel shopping and are designed around the customer's experience.

Websites are one of the many different points of contact between retailer and shopper. Creating a consistent experience for shoppers at all of these points is the most important factor for multi-channel retailers. Retailers that make sales through various channels, managing each one as a separate entity, may improve performance within individual channels, but they lack the uniform experience that can secure customer loyalty. The retailer will fail to gain the insights into customer preferences that are critical to cross-channel marketing.

The basic expectation of customers is not only that information on a company's products is the same in each channel, but also that it is possible to switch seamlessly between channels. This includes being able to exchange products in-store although the product was purchased online, and cancelling or exchanging orders via any channel, regardless of where the transaction was initiated. Enabling this type of transaction

involves sharing customer preferences between channels and managing these as one channel, maintaining the perception that the customer is doing business with a single company.

Customers expect greater levels of personalisation at each point of contact, and marketing must be relevant in order for it to be accepted. This trend is especially true with younger shoppers – an important but difficult to reach group. If retailers wish to succeed in an always-on society, then they must be aware of what shoppers are looking for.

True Cross-Channel Retailing

True cross-channel retailing creates an industrialised integration of all possible channels – traditional store, catalogue, call centre, mobile phone, franchise, kiosk, Web and whatever is next on the horizon – so that the customer receives the same level of customer experience and service excellence across all of them. True cross-channel retailers share customer preferences among all channels, managing them as one so customers always know they are dealing with a single business. While the effort to do all of this can appear daunting, the rewards of taking the right approach will make all the difference in the years to come.

2012: The Future of Cross-Channel Retailing

A fully integrated and successful cross-channel retail company will address all the needs of its customers by individually tailoring experiences and products to them. Technologies such as RFID chips embedded in loyalty cards can alert sales personnel that returning customers are in the store, potentially making their in-house experience a personal one. Customers who are treated in an individualised and helpful way are satisfied customers.

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