

e-Commerce and franchising

Nick Rimington, Senior Associate, Norton Rose Fulbright Australia
Contact: nick.rimington@nortonrosefulbright.com

The challenge is fundamental

The biggest current strategic challenge facing many Australian franchise networks is how to be involved in, or address the competitive issues posed by, the online channel to market.

The megatrend information is compelling. Australian online retail sales reached \$19.3 billion per annum, as at March 2016¹. There are very good reasons why this has occurred:-

- At its core, the development of online retail in Australia requires two factors: increasing consumer demand and retailers that are increasingly able to supply. Australia has both.
- The Federal Government plans to make gigabit broadband available to 93% of households, up from almost none in December 2009.
- Even without this investment, Australian consumers have signalled their willingness to shop online.

Figures released by the Australian Bureau of Statistics² show that:-

- In 2014-2015, 86% of all households had internet access and 76% of Australia's 15.4 million internet users made a purchase or order over the internet. 97% of people earning over \$120,000 used the internet;
- There is only a slightly higher proportion of male than female internet users (84% compared to 83%), but a slightly higher percentage of female internet users are shopping online (76% of females compared to 75% of males);
- The most popular categories of goods are music, movies, electronic games and books (50% of internet buyers) followed by clothes, cosmetics or jewellery (46%) and tickets and bookings for entertainment events (45%); and
- The two most popular activities performed on the internet at home were paying bills or banking online and social networking. Social networking was more common for younger people – 91% of 15 to 17 year olds and 94.5% of 18 to 24 year olds engaged in social networking.

Strategic planning before action

In the context of their e-commerce strategy many businesses seem to have moved away from their normal strategic planning methodology to a more ad hoc and reactionary approach, often with disastrous results. The text book strategic planning process commences with facts and evidence, which is used to gain proper insight into the challenges and the opportunity. Strategy is formed, tactics developed to implement the strategy, and action taken, with the outcomes carefully monitored and reviewed.

In my observation many businesses are making decisions in the e-Commerce world in a very different way. Anecdote and myth, and a fear of missing out, prompts action before any meaningful collation of facts and evidence. No clear strategy is developed, with the tactics being simply to take some action, any action, and see what happens. Action is followed by review, and all too often remedial action needs to be taken or unnecessary conflict or disputation occurs. Instead of **[Ready] > [Aim] > [Fire]** it is **[Fire] > [Keep Firing Until You Hit Something]**.

¹ Source: NAB, "NAB Online Retail Sales Index: in depth report – March 2016".

² Source: Australian Bureau of Statistics, "8146.0 – Household Use of Information Technology, Australia, 2014-15", 18 February 2016.

So the first challenge for franchise systems is simply to adopt the proper decision making processes. There is a lot of hype about the internet and technology, so you need to separate the anecdote and myth from the facts, evidence and insight. There are experts that can be accessed, there is objective evidence and market research that can be conducted even if the conclusions may be less certain than normal. Franchisees and customers will have valuable insights that should be tapped.

Franchise systems have realised that the internet presents opportunities, but also threats. In most instances a multi-channel offering is preferred by customers, but this poses challenges for franchise systems. The following table³ shows the thinking of senior executives in relation to the key challenges.

“In your opinion, what are the key challenges that need to be addressed for you to be a highly successful multichannel business?”

• Presenting a consistent experience to the customer across channels	77%
• IT resources to support projects and capability	58%
• Improving our technology infrastructure	57%
• Securing budget for our multichannel initiatives	42%
• Increasing the speed at which we are able to make decisions and implement them	40%
• Prioritization of initiatives	36%
• Getting internal buy-in for the importance of multichannel	30%
• Changing the mindset of our company to become more customer-centric	27%
• Policy changes in how we deal with customers in each channel to be more consistent	27%
• Executive support	23%

As omnichannel retailing becomes more common in Australia, retailers will face inevitable challenges, such as deciding how to structure the retail organization so consumers have a seamless experience across touch points and channels. The crop of omnichannel retailers operating in Australia so far has done a fair job of deploying certain omnichannel shopping tools. However, with their focus on delivering particular features — like in-store pickup or a mobile-optimized website — omnichannel retailers are generally falling short on larger, strategic goals.

Back in 2011, as omnichannel strategies were just gaining traction, just 28% of retailers said they were providing a consistent cross-channel experience. This was a crucial observation, because 77% said that presenting a consistent experience to the customer across channels is a key challenge they must address to be a highly successful multichannel business.

Five years on from that survey, it is interesting to see how far have our retailers have come.

Around 33% of Australian multichannel retailers surveyed in 2015 said they were optimizing their websites for mobile⁴, which is a substantial increase from 20% only 5 years ago. Increasingly, brands are now providing a separate mobile shopping site or a mobile app. However, this investment rarely reflects a commitment to using mobile as the glue that binds channels into a complete experience but rather the realization that consumers are using their mobile devices to shop.

Early eCommerce sites were not all that deep in content or wide-ranging when it came to product assortments. With some notable exceptions, eCommerce sites limited product content to a few specs and typically isolated merchandising content to home pages and category pages. Early site improvements focused on search, navigation, and checkout. But eCommerce executives today are investing in rich product content to meet consumer research and shopping expectations, and in merchandising content to drive their brand differentiation online and across channels. The additional challenge in the conundrum is the fact that today’s systems are not well suited to meeting the growing and changing eCommerce content needs.

³ Source: Forrester Research/Online Retailer Conference & E-Commerce Expo 2011/Power Retail 2011, Australian Online Retail Survey.

⁴ Source: “CommBank Retail Insights” Edition 1 (Quarter 2 2015).

It's clear from the spiralling amount of eCommerce content that eCommerce organizations need content help now. A review of changes in the solution landscape reveals that eBusiness executives can look for content solution help today from: product content management solutions, eCommerce platforms, web content management solutions, and a new class of solutions emerging from search and targeting.⁵ An insight into the issues facing senior executives comes from the following table.⁶

“What are some of the key technology challenges that your organization has faced or will face regarding multichannel commerce?”

• Consistent product data and content	61%
• Having inventory visibility across channel	56%
• Handling and fulfilling orders across channels (i.e., in-store pickup of online)	55%
• CRM and customer intelligence	55%
• Analytics and business intelligence	48%
• Point-of-sale (POS) systems able to support multichannel	45%
• Cross-channel campaign management	40%
• Customer service and support across channel	38%
• eCommerce technology able to support multichannel	38%
• Cross-channel order management	36%
• Access to technology resources to support our business goals	27%
• Ability to support flexibility needs to try new projects and innovate	26%
• Access to vendors who can be reliable partners in support of our goals	23%
• Call center systems able to support multichannel	21%

A more fundamental challenge

There is however another fundamental problem for some retail systems. In pure economic theory the most efficient means of distributing goods and services will win. The e-Commerce challenge is not just about a new competitor, it is about a better means of distribution. This may not be a strategic challenge, it may be a game changing development like that faced by *Encyclopaedia Britannica* from the CD-Rom.

Evans and Wurster, in a book called *Blown to Bits – How the new economics of information transforms strategy*, postulated that information accounts for the preponderance of competitive advantage, and therefore profitability. They consider that it is information - particularly who has access to certain information - that is the glue that keeps supplier relationships, pricing points, distribution arrangements and customer behaviour in their current form. That glue is melting due to the explosion of connectivity that is enabling the open and almost cost free exchange of a widening universe of information.

Bricks and mortar networks have historically been the most effective means of distribution – they have facilitated “richness and reach”. According to economic theory, most businesses had to choose between communicating “richly” to a small group of people – person to person, detailed information, advice as well as product - or communicating more simple messages to “reach” a broad group. Advertisements, catalogues, newspaper advertisements and other promotional activities typically carry a fairly simple message, and are part of the “reach” aspect. Companies set up retail outlets across the country to help them communicate more richly to a broader group of people. Franchising not only helped facilitate this expansion, but motivated owner operators to provide better customer service and richness of communications than a network of employees in corporate networks.

One of the current challenges is that some e-Commerce arrangements can be more efficient and offer a superior customer experience when compared to bricks and mortar. For example Amazon.com can deliver products to your door in less than 48 hours, and at a price cheaper than you can get them via retail stores. Logistics, warehousing and delivery is subsidised by global postal arrangements, and only intermediaries that add value are used.

⁵ See the December 21, 2010, “The eCommerce Content Conundrum” report and Online Retailing In Australia 2011: Technology Investment by Steven Noble for e-Business & Channel.

⁶ Source: Forrester Research/Online Retailer Conference & E-Commerce Expo 2011/Power Retail 2011, Australian Online Retail Survey.

At a strategic level, businesses need to consider:-

- (1) What precisely do consumers want, not just in terms of products but product information, product training, product features, accessories and add-ons and customer experience at retail and ongoing?
- (2) What is the most efficient supply chain to get the product to the consumer?
- (3) Which businesses add value to the supply chain, and what remuneration should they receive for their contribution?
- (4) What are the obstacles to achieving the optimal supply chain?
- (5) Who will be affected by any changes, and to what extent?
- (6) What strategies are needed to communicate change and secure engagement by all necessary stakeholders?

Some common errors

We see many Australian businesses making fundamental errors in all areas. The things we see can be summarised as:-

- Companies moving too quickly, and without fundamental strategies in place. A typical consequence is that they fail to meet the needs of the customer, and often upset any existing distribution networks. Sometimes they even discount against themselves by giving better prices on the internet than via other channels without there being any commercial justification for doing so;
- Uncompetitive e-Commerce “solutions” from a customer’s perspective due to:-
 - Failure to see and understand what competitors are really doing in terms of retail and ongoing customer experience and supply chain efficiencies. One of the major implications of e-Commerce is that margins that exist as a result of lack of consumer information will be blown away by the consumer information revolution;
 - Too many compromises to existing stakeholders to appease their nervousness. This is very common in franchise networks, where franchisees feel the internet is unreasonable competition and expect their franchisor to isolate them from it;
 - Insufficient capital and resources being allocated to develop the solution. Internet consumers are sophisticated, and will not accept half-baked solutions or second rate technology; and/or
 - Not enough imagination being applied to develop the solution. Putting photos of products on a website is not the solution. The internet provides a means for enriching the customer experience beyond what is possible in a retail store, where the age and experience of the sales staff can be critical limiting factors to the customer experience. And similarly the internet presence can assist inexperienced sales staff to provide a superior in-store experience if a little imagination is used.
- Arrangements that are insufficiently flexible to deal with subsequent e-Commerce waves, technological advances and customer requirements.

e-Commerce is the biggest strategic challenge facing many Australian franchise and retail networks. As always, the key to finding the right solution is to ask the right questions of the right people as early as possible, and to adopt proper decision making processes to form strategy and guide actions. Then even if you don’t like the answers you won’t have created more problems by acting too hastily.