

Australian Digital Commerce: **A commentary on the Retail Sector**



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Study background

Data collection and analysis carried out between August and October 2013.

Download study

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Key findings

1. Australian Retailers have achieved a reasonable level of maturity in providing customers with the ability to get information and transact online (*Informational and Transactional* aspects of their Digital Commerce engagement).
2. However, *Relational* and *Social* features are under utilised. Australian retailers are missing opportunities to connect with customers and create loyalty and drive repeat business.
3. *Social* features are mainly used for broadcasting messages through social platforms. There is a major development opportunity for Australian retailers to engage a wider consumer base through *social* features.
4. Relationship building (*Relational* aspects) is the most under-utilised dimension. The potential for generating customer intimacy and brand loyalty is currently unexploited by Australian retailers and has created a *Relational Gap*.
5. The key to a sustainable digital commerce presence for Australian retailers is to close the *Relational Gap* with investment in *Relational* digital commerce features.





WHAT IS
**DIGITAL
COMMERCE?**

What is Digital Commerce?

Digital Commerce

“Digital Commerce is the Web 2.0 version of electronic commerce comprising the full bandwidth of engagement with customers through various digital channels, including social media and mobile, in order to build lasting relationships, create meaningful exchanges and generate repeat business.”

“

89

retail companies were analysed as part of the study, with a mix of “bricks & mortar”, “bricks & clicks” and “pure-play virtual”. Each company was evaluated against 63 criteria to measure their level of digital commerce activity.

”

A new social dimension to e-commerce

Why being social is necessary to survive in the digital economy

E-commerce has been around since the late 1970s. We saw an acceleration of web-based business, culminating in the dot.com boom in the early 2000s when new business models based on Internet technology first took off, but created an ultimately unsustainable market environment. Despite the many failures, this era gave rise to new Internet giants that offer a wealth of products and services worldwide; competing with the biggest brands that the world knows.

Most Australian consumers have, at some point, bought (or sold) goods or services through the Internet or other electronic channels. Either through basic online stores, marketplaces, online auctions or email, the face-to-face element of the transaction was removed from the equation.

This First wave of Electronic Commerce has marked a major shift in the way we shop, with a focus on creating new and convenient shopping experiences.

It has been estimated that the global e-commerce market is worth over

USD \$1trillion and more than 50% of Australians are ‘Digital Buyers’, preferring to buy online where possible¹.

However, after a decade or more of e-commerce, it is becoming increasingly difficult for companies to stand out from the crowd and produce a unique and compelling online experience for their customers. At the same time the advent of Web 2.0 has brought about new opportunities for businesses to differentiate and connect with customers in unprecedented ways.

One of the biggest uses of the Internet is for social purposes, whether this be social websites, social blogging platforms, social business interactions, social forums and many more; what is clear is that the Internet is being used to connect like never before. It is this power to connect that digital commerce in the Web 2.0 era leverages to enhance the online buying experience.

New technologies provide the ability for companies to engage and connect with their customers at a new level of intimacy. This intimacy is thought to increase loyalty, total spend and generate repeat business. This Retail market commentary will explore these ideas.

¹ eMarketer (2013), available at: <http://www.emarketer.com/Article/Ecommerce-Sales-Topped-1-Trillion-First-Time-2012/1009649>

What is the approach?

This market commentary is based on a research project which has explored the utilisation of digital commerce by 89 Australian Retailers. The retail market in Australia is diverse and broad. To ensure a balanced view, 19 sectors of the retail market have been studied.

The online utilisation of all companies in the sample was evaluated in detail by examining the extent to which certain digital commerce features were available for the consumer. No quality judgements were made.

Each type of digital utilisation was assessed from the consumer point-of-view using a list of 63 criteria to record whether certain tools, techniques or features have been implemented.

Collectively these criteria form a good indication of the extent to which each company makes use of digital commerce.

Background

In the early days of electronic commerce maturity was a matter of whether a company had progressed beyond offering a static web presence with minimal form of interaction to providing transaction services for executing purchases (McKay and Marshall 2004).

Today, consumers in many retail sectors take information provision and transaction capabilities for granted. Maturity has become a matter of providing higher levels of engagement and relationship building.

For this study we built on and extended a framework by Curty and Zhang (2013). We distinguish among four dimensions of digital commerce, resembling increasing stages of complexity and maturity: informational, transactional, relational and social dimensions of digital commerce.

The Four Dimensions of e-commerce and digital commerce

INCREASING COMPLEXITY

1. INFORMATIONAL
2. TRANSACTIONAL
3. RELATIONAL
4. SOCIAL

Criteria Identification

The evaluation of each online utilisation is based on a list of 63 criteria, each of which falls into one of the four dimensions.

The criteria catalogue was developed by extending an initial list based on a literature analysis (Curty and Zhang 2013; Madlberger 2004; Turban et al. 2009).

New criteria not previously mentioned in the literature were added during the evaluation whenever a new feature was discovered. All retailers were evaluated using the full list.

33.3% of all criteria were newly discovered and a number of criteria from the literature could not be found in the sample and were thus discarded. This is evidence that digital commerce is a fast-moving, constantly changing phenomenon.







THE **FOUR**
DIMENSIONS
OF **DIGITAL**
COMMERCE

The Four Dimensions of Digital Commerce

Informational

Informing customers about product, service and business offerings

The informational dimension represents the most basic feature category in digital commerce. It covers the ways in which retailers provide information to customers about product portfolio and shopping experience. This dimension should be equally important to all Australian retail companies, whether they choose to engage in online transactions or not.

However, it is those sectors that demonstrate overall maturity and proficiency in digital commerce that are also the most advanced in providing information online.

Sectors that do not traditionally transact online, such as food & coffee outlets or eyewear stores forgo the opportunity to use the digital channel to complement their in-store service experience.

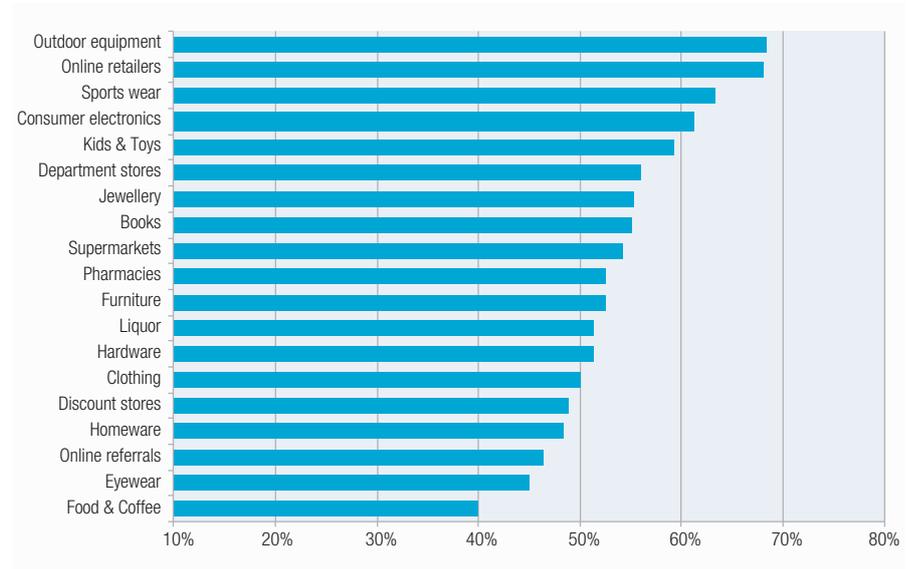
Transactional

Facilitating and supporting the entire buying and fulfillment process

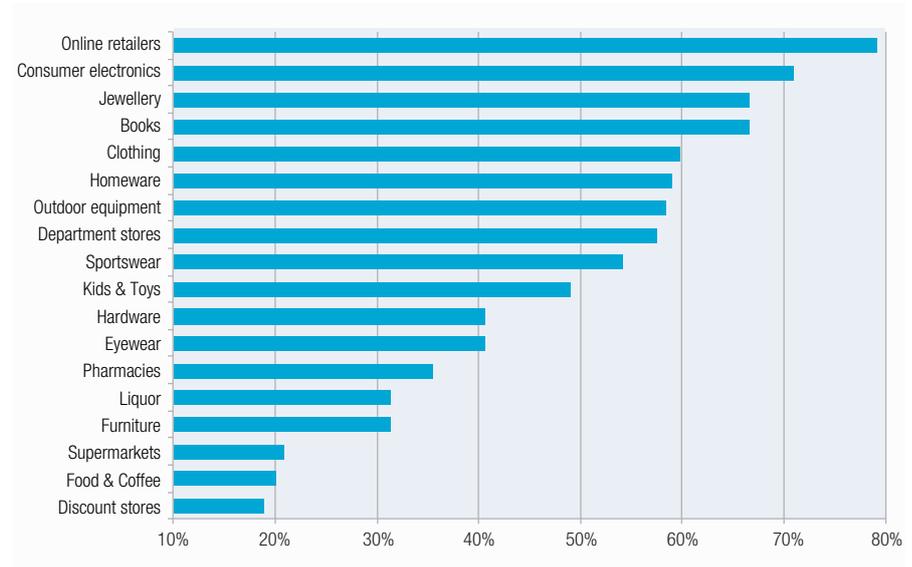
The transactional dimension is what turns websites into e-commerce. Features in this dimension allow transactions to be undertaken and business to be conducted through the web. They comprise shopping basket, delivery, payment and financing functionalities.

While basic transactional functionality is implemented by most pure-play virtual and Bricks'n'Clicks companies, overall less than 30% of Australian retailers integrate offline and online channels by way of offering in-store stock availability information or in-store pick-up of online purchases.

Coverage of informational features (in %) by sector.



Coverage of transactional features (in %) by sector.



Not surprisingly, the online retailing sector leads the way in implementing transactional features, while long-standing 'online products', such as books and consumer electronics, also do well.

Relational

Building 1-to-1 relationships with customers, loyalty and repeat purchases

The Relational dimension marks the evolution from early-stage, transaction-focused e-commerce to engagement and relationship building with customers. Example features are website personalisation, recommender systems, various user interaction features, loyalty and benefits schemes and other features that aim to build relationships and retain customers for repeat purchases.

Australian retailers make surprisingly little use of this dimension. While Sportswear retailers are the most mature in this dimension, they still exhibit far less than 50% coverage on average.

In light of increasing online competition from overseas retailers, it is important for Australian retailers to build relationships and loyalty with their customer base.

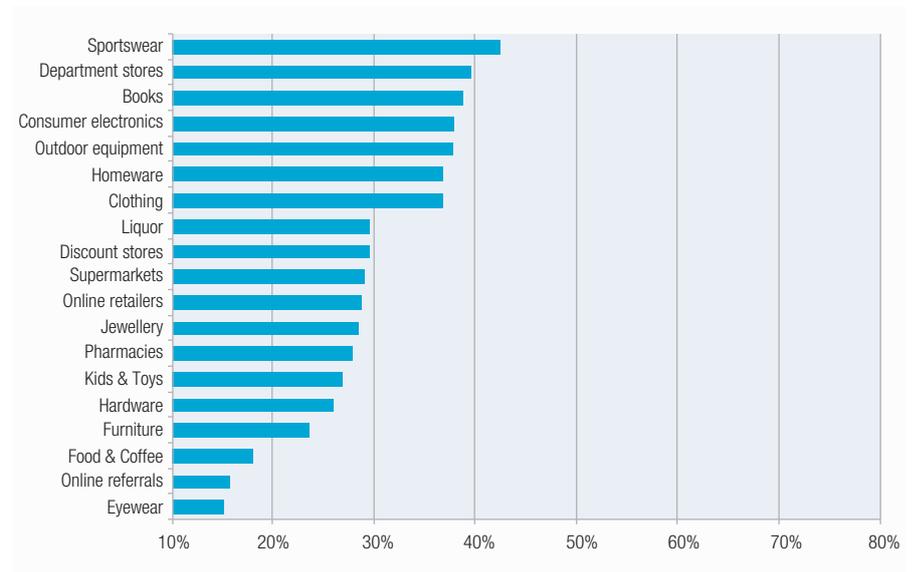
Social

Engagement with a wider customer group via integration of social media platforms

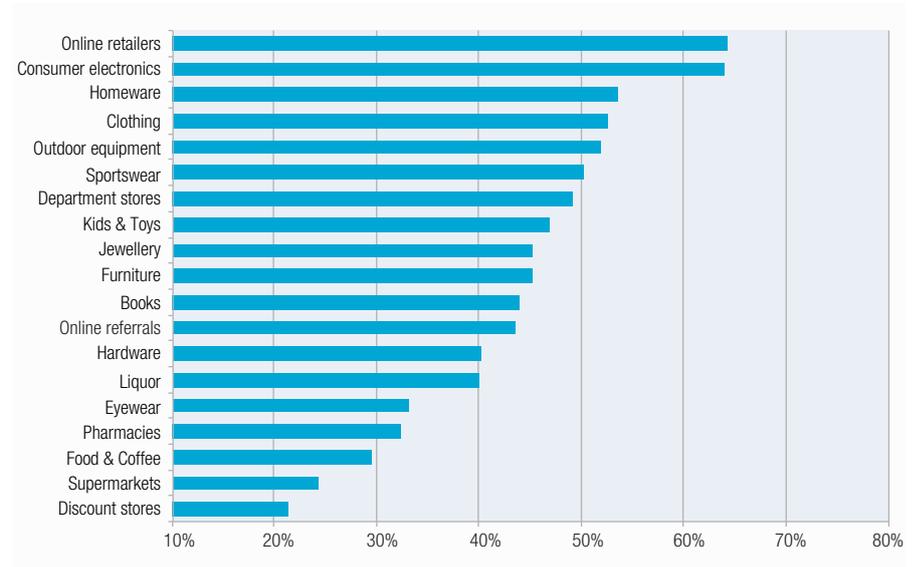
The social dimension is the latest addition to the digital commerce portfolio. It includes integration with various social media platforms and features that allow customers to create and review content, or recommend products to friends. The features most commonly implemented are Facebook pages, Facebook website integration, personal profiles and giving gift cards.

Not surprisingly, online retailers are furthest along in utilising social, together with consumer electronic retailers that typically address younger customer groups.

Coverage of relational features (in %) by sector.



Coverage of social features (in %) by sector.



Notably, most retailers have followed the hype and are using social media to promote their brand. But social media needs to be properly integrated into business activities to generate real value.





THE **RELATIONAL GAP**

The Relational Gap



While many Australian retailers have leaped into social media, most do not provide an integrated experience that builds 1-to-1 relationships with their customers as the basis for a wider social engagement.



What does it mean to become relational?

A closer look at the results in the relational dimension

Becoming relational means to move beyond executing transactions with customers. Converting banner hits to visitors and visitors to paying customers is costly. Effective digital commerce aims to grow and harness a loyal customer base.

Operationally, it means to single out customers and provide services that treat customers as individuals and not as part of an anonymous mass. This can be done by providing a personalised digital experience and enable product recommendations, and by allowing customers to establish a history with the company as the basis for repeat purchases.

The Relational Gap

Our data shows that among Australian retailers the relational dimension is by far the least developed. This result is consistent across all 19 sectors.

This means that Australian retailers forgo important opportunities to

engage with customers, build loyalty and grow a sustainable customer base in the digital channel.

More importantly, Australian retailers are lagging far behind international market leaders, such as Amazon.com, that have long invested in one-to-one relationships via sophisticated digital innovations such as mass recommender systems.

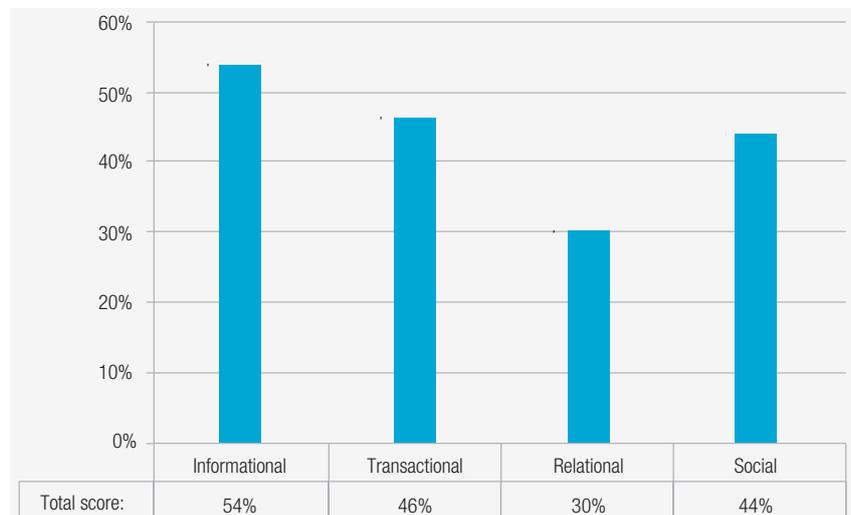
Relational is hard

Building relational capabilities takes time, care and requires a sophisticated understanding of the mechanics of digital commerce. If done right, it allows a company to tap into the vast potential of big data analytics.

While it requires investment in digital systems, becoming relational is not a technological problem. It needs constant monitoring for progress and tweaking of systems and customer communication.

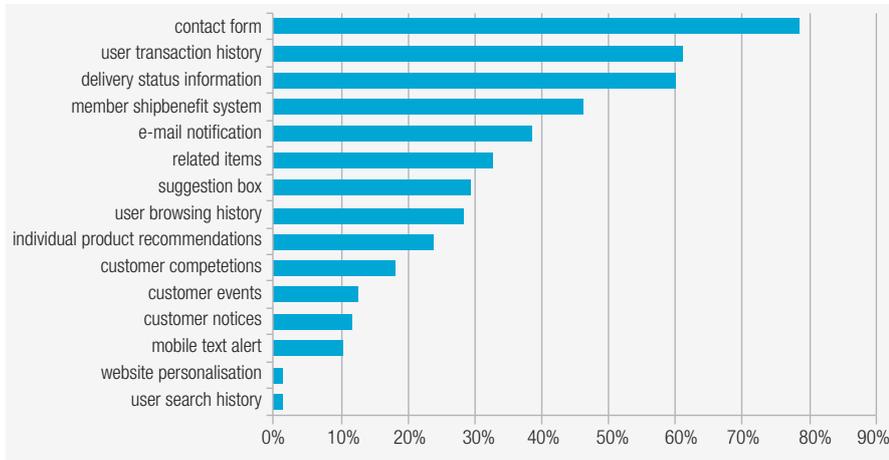
Our results suggest that most retailers seem to take the 'shortcut' of moving straight into 'social', while having neglected the relational dimension as the basis for successful engagement in the social channel.

The Relational Gap in Numbers



Overall criteria coverage in the four dimensions (in %).

Detailed Results in the Relational Dimension



The true power of relational digital commerce lies in combining established web personalisation techniques with advanced big data analytics to create effective, scalable solutions.



How to be relational?

The key to building lasting digital relationships with customers is to understand the concept of switching costs.

Since it is impossible to scale a business model that relies on one-to-one human contact, digital mass personalisation aims to both individualise the customer experience and to raise the cost and likelihood of customers to switch to a competitor offering (Riemer & Totz 2001):

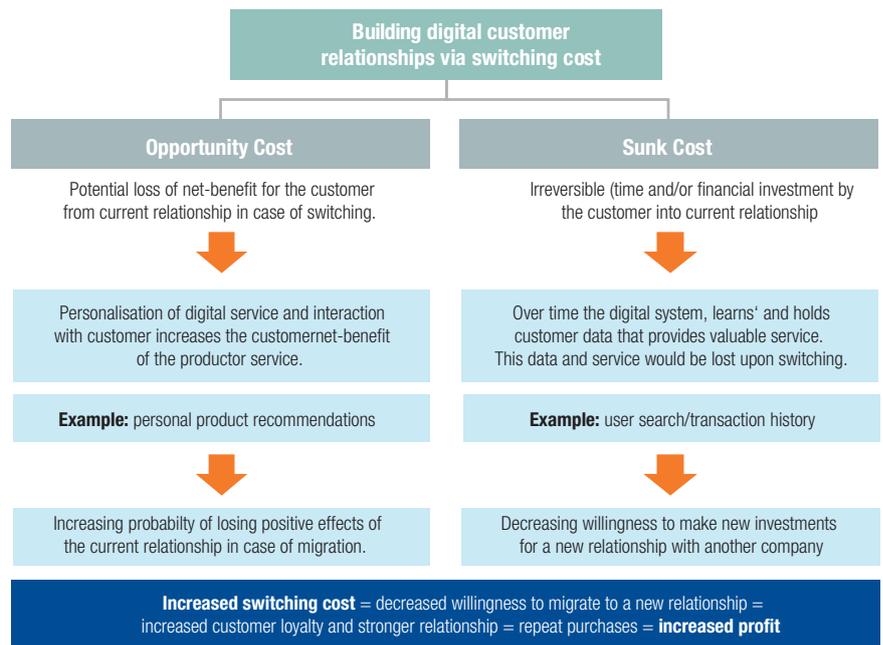
1. By way of individualising their offering, e.g. via useful product recommendations, retailers can make their digital service less comparable and raise customer net benefit. This creates opportunity cost and decreases the likelihood of customers switching over.
2. By way of using customer data to provide useful services, e.g. via user search or transaction history data, the usefulness of the digital service grows over time.

This creates sunk cost that discourages customers from switching over to a competitor.

Increasing switching costs via opportunity and sunk cost creates customer benefits and stronger relationships at the same time. This in turn increases customer loyalty.

The key to this approach lies in the combination of a growing, loyal customer base (by way of higher retention rates) with an increase in average transactions per customer (by way of increasing the usefulness of product recommendations with up-to-date big data analytics).

The Logic behind Relational Digital Commerce







BRICKS ‘n’

MORTAR

VS

BRICKS ‘n’

CLICKS

Bricks 'n' Mortar Vs Bricks 'n' Clicks

Can online work with the high-street?

With new players emerging and incumbents rethinking or adding to their business models, bridging the gap between the traditional high-street and the online world is arguably one of the biggest challenges Australian Retailers are facing. Quite often, these are seen as competing groups that compete for market share, sometimes within a single brand. There are three types of Retail companies covered in our study:

Bricks 'n' Mortar

In some sectors, transactional digital commerce is harder to achieve or does not make sense (e.g. selling prescription-based eye-ware requires in-store eye testing).

In other cases, transitional high-street retailers are slow to engage in digital transformation and build only

basic online ventures pushing mainly informational content. Their overriding aim is to generate footfall into their stores. Afraid of 'losing' customers to the internet they avoid going virtual. Typically, they are quite good at offering loyalty schemes with store cards and building face-to-face customer relationships through store assistance and staff members.

Bricks 'n' Clicks

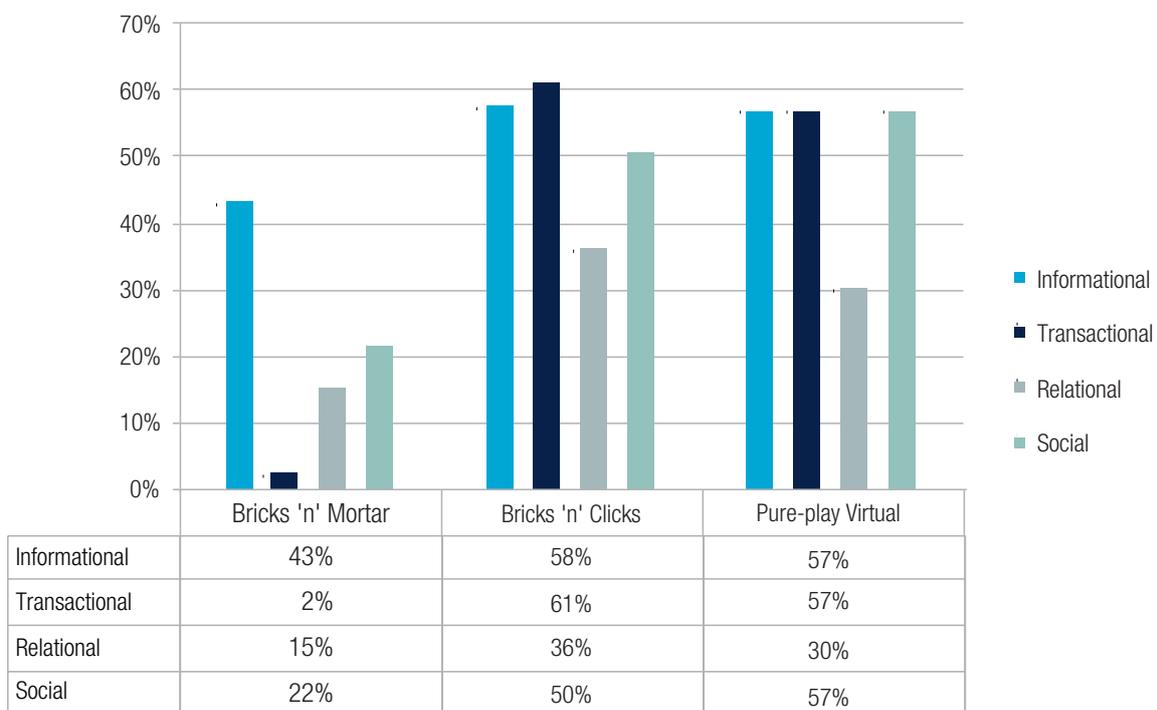
Being a hybrid of transitional and pure online, these organisations embrace transactional use of the internet and have the strength of both physical and online relationship building. They are best placed to develop relationships because they can do so both online and physically. This group however faces unique challenges of coordinating multi-channel logistics and engagement with customers and potentially conflicting price politics.

Pure-play Virtual

These are the digital disruptors that are capturing the loyalty of customers through excellent online experiences. These companies are able to generate a regular flow of customers through strong social media engagement, superior transactional capabilities and personalised online experiences.

Regardless of the model, Australian retailers need to have an online presence, but clearly link it to their business model in order to maximise the value and identify where it is they want to push the customer to spend on products and services. Social commerce isn't something to fear, it should be embraced to connect with larger than ever groups of consumers online.

Comparison of retail types in the 4 dimensions





Overview of the 63 evaluation criteria in the 4 dimensions

Informational	best sellers	Website provides a list of best selling product.
	blog	A blog is used to provide frequent updates for customers.
	company information	Detailed corporate information, such as 'about us', or 'corporate history', is provided.
	detailed product information	Website provided in-depth description of products, their properties and functionality.
	FAQ section	A section of the website that lists frequently asked questions and their answers.
	guides/tutorials	Guide that help users with product use or selection (e.g. how-to, DIY or size guides).
	internal search function	Website provide search feature (e.g. search products by keywords).
	live support	Customers can get real-time support by means of a chat or online hotline (e.g. Skype).
	mobile app	Retailer provides separate mobile App for smartphones or tablets.
	mobile version	Website exists in mobile optimised version.
	news page	A page that lists news information about the company or company related events.
	newsletter	Users can sign up for email newsletter for special offers or other information.
	popular products	Website provides a list of most viewed items.
	popular searches	Website provides a list of most popular searches.
	product catalogue	Access to a complete product catalogue in digital or embedded form.
	product comparison	Possibility to compare products' characteristics on the website.
	product promotions	Selected products are featured/promoted on the start page.
returns	Website provides information about product returns and the respective policy.	
store information	Detailed information about retail stores, such as opening hours and contact details.	
store location	Information about store locations of the retailer; often implemented as store locator.	
Transactional	financing options	Retailer offers financing of a purchase by means other than direct payment.
	home delivery	Basic feature of delivery of an ordered product to a specified address.
	in-store availability	Possibility to check whether a specific product is available in a physical store.
	in-store pickup	Delivery and pickup of an ordered product in a specified physical store.
	lowest price guarantee	Retailer provides best price guarantee or will match better price.
	online payment	Possibility to pay products or services online by credit card, PayPal or similar.
	shopping cart	Website offers basic shopping card functionality.
	shopping portal	Retailer allows buying of products from the website (= retailer engages in ecommerce).
Relational	contact form	A page including a form for the purpose of contacting the company.
	customer competitions	Retailer provides competitions that include prizes, giveaways or similar.
	customer notices	Personalised messages for the customer (an example are product recalls).
	delivery status information	User can get information about the status of his/her product delivery.
	E-Mail notification	Notification of the user of a status change or urgent information by E-Mail.
	events	Online or offline events hosted by the retailer to promote or advertise.

Relational	individual product recommendations	User is provided with individualised product recommendations.
	membership benefit system	Scheme that brings benefits (e.g. discounts or special offers), to participating members.
	mobile text alert	Notification of the user of a status change or urgent information by text message.
	related items	Website offers products similar or related to currently viewed product.
	suggestion box	Possibility to give dedicated feedback other than by simple contact form.
	user browsing history	User is provided with list of products or pages s/he previously visited.
	user search history	User is provided with list of searches s/he previously executed.
	user transaction history	User is provided with list of his/her past transaction.
	website personalisation	Presentation or function of the website can be adjusted to personal preferences.
Social	cross selling	Products that other customers bought who also bought the currently viewed product.
	E-Mail to a friend	Possibility to E-Mail a product or page to a friend for recommendation purposes.
	evaluation of reviews	Evaluation of a product review. For example whether it was helpful or not.
	Facebook integration	Basic integration with Facebook; includes like and share buttons.
	Facebook page	Retailer operates Facebook page that is also listed on the website.
	favourite products	Collection of favourite products into a list for later reference and social sharing.
	forum	Discussion platform where people can have conversations in form of posted messages.
	gift card	Possibility to purchase and/or pay by gift card or voucher for the shop.
	Google+ integration	Basic integration with Google+; includes plus-one and share buttons.
	Google+ page	Retailer operates Google+ page that is also listed on the website
	individual portal	A 'myRetailer' page that gives access to restricted individual member functions.
	Instagram integration	Use of Instagram that is also listed on the website; retailer promotes to interact with it.
	personal profile	Retailer allows user to present themselves with a profile (e.g. 'my products').
	Pinterest integration	Use of Pinterest that is also listed on the website; retailer promotes to interact with it.
	product Q&A	Possibility to ask questions regarding a specific product and/or answer questions.
	ratings	User evaluation of a product or service by a point or star system.
	reviews	User valuation of a product or service by a written text.
	Twitter account	Use of Twitter that is also listed on the website; retailer promotes to interact with it.
	Twitter integration	Basic integration with Twitter; includes twitter feed and tweet button.
	YouTube/Vimeo integration	Use of Youtube and/or Vimeo listed on the website; retailer promotes to interact with it.

About the Authors



Kai Riemer is Associate Professor and Chair of Business Information Systems at the University of Sydney Business School. Kai's research is focused on Enterprise Social Networking, e-Collaboration, inter-firm networking, virtual work, and E-Commerce. He has developed methods for team communication, enterprise social network adoption and collaborative business practices.

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Australian Digital Transformation Lab.

The Australian Digital Transformation Lab is a joint venture between The University of Sydney Business School and Capgemini Australia. It combines the established academic research skills and knowledge of the Business School's Discipline of Business Information Systems with Capgemini's expertise and leadership in business transformation and organisational change.

The Lab will engage in a range of research activities and produce studies in the following two key areas:

- 1. Digital transformation of business models:** Digital technologies are disrupting established business models, but at the same time open new opportunities for digital innovation and new business ideas. The Lab will investigate issues related to the digital transformation of Australian businesses and industries.
- 2. Digital transformation of work and organisation:** Digital technologies enable new forms of work, work place communication and work organisation. The Lab will focus on the impact of new technologies with a focus on the successful management of digital transformation utilising technologies such as Enterprise Social Networking.



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