

Welcome to IF Consulting's weekly e-mail newsletter

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Our regular email tackles the topical issues that surround all marketing channels and their underlying strategies.

Retail giant deliberates outsourcing online channel

Marks & Spencer is considering outsourcing its online retail operations. Chief executive Stuart Rose is said to consider the group's online offer to be 'non-core' as he focuses on restoring sales at the group's UK store chain. The group is talking to a number of interested parties, but the favourite at this stage is Amazon, the US Internet retailer that already handles all of the book retailer Waterstone's online sales.

Although the approach reportedly reflects Rose's reputation as a master traditional retailer, the move will surprise many in a market where an integrated online sales channel is seen as an essential part of a retail offer.

Spokeswoman Sue Sadler said "It's an important selling channel for us and we're looking for ways of enhancing it. Talks are at an early stage and no deal has yet been signed."

<http://www.theretailbulletin.co.uk/index.php?page=5&i=235&id=4736&keys=marks%20spencer%20online&cat=tech>

IF Comment

On-line retail channels are different from other traditional channels (e.g. franchise, agents, dealers) in that their entire management can be more easily contracted out to third parties; the same is true of call centers and customer service centers.

In traditional channel systems, it is common to contract out specific channel management aspects, for example product delivery, lead generation and management, rewards and incentives. However, the management of a traditional indirect channel typically cannot be contracted out to a third party as the relationship element is too important to be left to a third party. Since on-line retail channels do not have a direct (i.e. human) touch or relationship by definition, contracting them out becomes relatively easier. Nonetheless, Marks & Spencer, like any other company considering contracting out its on-line channels, will be faced with control issues on how to ensure that the entire customer experience continues to be the same as in a directly managed on-line retail channel.

There are some interesting parallels with franchising here. Franchising and/or licensing could provide the overall contractual framework specifying the standards that the operator has to apply in managing the on-line retail channel. Companies that are already familiar with franchising and who think a third party operator might be more effective in managing its on-line retail channels may find it easier than they think to structure an arrangement that would give them the desired level of control.



Marketing Channel
Strategy Consultants
Maximizing shareholder value
through creating the best route
to market

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Snippets

McDonald's has received government approval to start franchising its fast-food restaurants in China. According to Peter Tan, head of McDonald's China, this change will boost profit in the world's most populous nation. The world's largest restaurant chain now owns and runs all of its 595 outlets in China, and plans to add as many as 120 a year. "Franchising in China will improve our return on assets and that translates into higher margins and profits," said Mr Tan.

<http://www.smh.com.au/articles/2004/09/22/1095651397599.html?oneclick=true>

This week eBay joined the growing list of major companies entering the digital music download market. Joining recent entrants Yahoo! and Microsoft, the online auction site is looking at ways to nudge Apple off its throne. Ebay has announced a deal with a startup, PassAlong Networks, where PassAlong will sell digital downloads via its own site and through an online storefront on eBay.

http://www.forbes.com/home/personaltech/2004/09/23/cx_ah_0923ebaymusic.html

While brick-and-mortar branches have long been the public face of most banks, there has been considerable debate over the last decade as to the best way to use them. Claiming that they are expensive and ineffective, some banks have abandoned their branches altogether. But others, like the Bank of America, are committed to the branch networks with which they have had longstanding success. Bank of America's consumer business is run by executives who call its bank branches "stores," refer to their banking clients as "customers," and measure branch performance the way retailers do, by comparing sales at stores open at least a year. This week Bank of America showed their commitment by absorbing more than 500 Fleet branches.

<http://www.nytimes.com/2004/09/24/business/24bank.html>

(Free registration required)

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