

## Welcome to IF Consulting's e-Newsletter

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

### The online channel lines up

A recent study by McKinsey, analyzing the hundred largest direct retailers in North America, found that direct retailers with physical stores captured 52 percent of Internet sales in 2003, while those without stores were responsible for just 31 percent. The study indicated that two broad strategies for each group appeared to be most successful and identified four models which could benefit all retailers.

Those purely online do well as either "efficiency machines" or "niche leaders." The first approach works well for those sellers with low-margin products like CDs, books, or computers. These retailers, such as Amazon and Dell, face massive fixed costs yet, once successful, tend to generate strong cash flows. Niche leaders, on the other hand, sell higher-priced, higher-margin products primarily through catalogs and over the Internet. With customer loyalty crucial for the survival of niche leaders, the most innovative companies will coordinate their channels by making products from their catalogs easy to order online.

Store-based retailers can be categorised as either "traffic drivers" or "triple plays," depending on their scale and profit margins. Traffic drivers use the Internet both to draw customers to their physical stores and to offer shoppers a wider selection of goods and greater convenience, while "Triple-play" retailers use stores, catalogs, and the Internet to maximize their share of customer spending.

It is possible for retailers that analyze all their marketing channels and make thoughtful, strategic choices to enjoy exceptional results. To succeed, multichannel retailers must coordinate their online, catalog, and store activities to convert customers and encourage them to spend more. Without an integrated strategy, store-based retailers seeking to boost sales through the Web or catalogs risk simply shifting sales volume to these direct channels and destroying profitability because of the added costs of fulfillment and overhead.

[http://www.mckinseyquarterly.com/article\\_page.aspx?ar=1631&L2=20](http://www.mckinseyquarterly.com/article_page.aspx?ar=1631&L2=20)

### IF Comment

This thoughtful article demolishes two common, and contradictory, myths of e-commerce. The first is that online retailing evaporated in the bursting of the Internet bubble of the late 1990s. The data show that online retailing has grown more than tenfold in six years, generating \$90 billion in the US alone, so it certainly hasn't gone the way of the dodo.

The second myth is that the only online retailers worth their salt are high-tech powerhouses like Dell and Amazon.com. Actually, leading retailers like Home Depot, Wal-Mart and J. C. Penney account for the majority of Internet retail revenues.



Marketing Channel  
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Maximizing shareholder value  
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Many proven retailing methods, including seasonal promotions and bundle discounts, apply to online as well as real world stores. For these real-world retailers, the true challenge is to develop an integrated strategy, so that a retailer's Web, catalog and brick-and-mortar sales channels can reach and delight their customers.

## Snippets

Krispy Kreme Doughnuts is appealing a legal ruling that the doughnut maker must continue supplying stores despite the franchisee's inability to pay. The disgruntled franchisee, Sweet Traditions, received a temporary restraining order barring Krispy Kreme from cutting off its supply of doughnut mix and other ingredients.

[http://www.usatoday.com/money/industries/food/2005-07-26-krispy-kreme-ruling\\_x.htm](http://www.usatoday.com/money/industries/food/2005-07-26-krispy-kreme-ruling_x.htm)

UK-based chocolate maker Thorntons has announced that annual results should hit market hopes. The company is reaping the rewards of a drive to sell its products through other retailers. Since 2002, Thorntons has been closing non-core outlets, leaving it with around 380 stores across the UK and Ireland. Thorntons chocolates are now stocked by stores such as Tesco, following a strategy change aimed at halting a five-year run of declining profits.

[http://www.sbpost.ie/breakingnews/breaking\\_story.asp?j=3185145&p=3y85y6x&n=3185237&x](http://www.sbpost.ie/breakingnews/breaking_story.asp?j=3185145&p=3y85y6x&n=3185237&x)

Hewlett-Packard President and CEO Mark Hurd emphasized the value of loyalty to channel partners last week. In the midst of a major restructuring that will see HP slash some 14,500 positions, or 10 percent of its workforce, Hurd said the vendor intends to "double down" on those partners who sell a complete HP solution.

<http://www.crn.com/showArticle.jhtml;jsessionid=GU5FATLT3I2UMQSNDDBESKHA?articleId=166401869>

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