consumer
Electronics
A Fairchild Publication • April 1997 • Volume 2, Number 4 • $5.00 The Magazine for Retail Leaders

Music's Fine-Tuning

AdWatch: Ward Pitches DVD

PC Suppliers Eye Lifestyles

A Gaming Guru's Reviews

Tim Powers, Elek-Tek Internet Director: Today's users are more comfortable online

Electronic Commerce Growing Up

Despite a huge market potential, retailers remain cautious over uncertain online sales channel

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COVER PHOTO BY GARY HANNABARGER

Electronic Commerce Coming of Age

Retailers endure growing pains and joys of young channel, whose revenues are forecasted to pass $2 billion this year

Elek-Tek's Web page, in its infancy three years ago, was a pretty lonely place. Products offered were limited to special merchandise outside the computer retailer's mainstream lines. Only morsels of product and company information, such as outdated pricing, were available. An old, clunky mainframe computer that helped Elek-Tek operate its Web site was mostly to blame.

BY MARIA V. GEORGIANIS AND ALLAN RICHTER

But after a series of capital improvements and upgrades to its Web site, Skokie, Ill.-based Elek-Tek is poised to make yet another investment to stay ahead of the electronic commerce learning curve. The retailer is set to replace its mainframe with new technology that will allow customers to obtain inventory and pricing information—in almost real time.

Electronic commerce is growing up. "Within the past couple of years, customers have gained much more interest in the Internet. Several years ago ordering online was unheard of. It's really come a long way," said Tim Powers, Elek-Tek's Internet director.

Online shopping will crack the $2 billion mark this year, according to some forecasts. Consumer electronics products and computers are estimated to account for roughly 20 percent of cybersales. The portion traditional brick-and-mortar retailers will capture is unknown, but certainly more are getting on the information superhighway for their share.

Like any technology in its infancy, the future of retailing on the Internet is uncertain. Stores are trying to figure out how to create an effective presence on a medium whose future is so unpredictable. And the comfort of having a well-regarded brand name is tempered by concerns that online competitors are only a mouse-click away.

Further, many retailers lack the back-room fulfillment capabilities to handle electronic commerce. Without direct response experience or an able distribution infrastructure, these retailers need to form alliances with third-party fulfillment operations, distributors, or their suppliers to ride the e-commerce wave.

"It's going to be extremely competitive. We're trying to figure out how to set ourselves apart from the crowd," said Mindy Gillen, Best Buy's interactive marketing and communications manager. Gillen is especially concerned about intelligent agent technology that can help customers find the cheapest, say, television—perhaps completely bypassing Best Buy.

But Gillen's concerns have so far been unfounded. By and large, intelligent agents have not succeeded. For example, one agent that searched for CDs, called Bargain Finder, was blocked by several retailers from collecting pricing information from their sites, said Nicole Vanderbilt, digital commerce analyst at Jupiter Communications, New York.

Price alone won't be enough to woo cybershoppers. Merchants will have to offer selection, customer service and relationship skills, much like in traditional retailing, and more.

"The one thing that a significant portion of retailers have going for them is brand name," Vanderbilt said. "One of the things that discourages people from purchasing online is a lack of trust in the technology as well as lack of trust in the business [selling online]. There's no name, no physical reference to hold them accountable."

But of all businesses trying online selling, retailers can have the biggest obstacles to hurdle, adds Jim Sterne, president of Target Marketing, a Santa Barbara, Calif., consultant who specializes in Internet marketing and customer service.

"Retailers have the hardest problems because they need to combine what business-to-business [marketers] are doing: ease of access and fast transactions, and they need to combine that with a shopping experience, which online is a massive headache," Sterne said.

"Being entertaining online is extremely difficult, especially for targeting a consumer marketplace. How do I get somebody's attention amidst all the noise?"

The concerns of two retailers launching separate Web sites this year—Communication Expo and J&R—underscore the difficulties in reaching a consumer audience electronically.

New York-based J&R exemplifies the challenges of a retailer of multiple product categories. J&R, which has adjacent stores in lower Manhattan for computers, electronics and music, has to design a Web site that appeals to the flashiest tastes of consumers who want all the "bells and whistles," and the more subdued and sophisticated tastes of others, said Rachelle Friedman, J&R's president.

Communication Expo, a Dallas-area telecommunications and computing specialty retailer, meanwhile, is putting together its Web site with more emphasis on information resources for customers than for actual transactions, though it will offer both, said Michael Flink, senior vice president of merchandising and advertising.

"Our format has a much more face-to-face hands-on approach with the customer," Flink said. Communication Expo will launch its Web site as an informational tool in the third quarter, with the electronic commerce capabilities to follow in the fourth quarter.

Sterne suggests that a major way retailers can add value to their online venues is by creating databases containing complete details of every piece of electronic equipment a customer owns. As a result, the retailer's Internet site gives the impression of affinity in a friendly way.

Indeed, service will drive traffic. Three-dimensional worlds, full-motion video and animation are only artifice. Customers will truly be attracted to shop if they can receive service before and after a sale, available either on the site or in follow-up e-mail. On

Supplier restrictions can limit the online offerings of various retailers

technical products, such service can include the dissemination of information on product recalls, repair services, how-to-buy guides and downloadable updates and bug fixes for software.

"If it's not well designed, user-friendly and intuitive as to what the customer expects, they'll say forget it. You've got to have one hell of a compelling site to keep them," concurred Jeff Rios, manager of interactive services for The Good Guys!

It won't be long before retailers can recognize who is shopping on their online store, welcome them back and suggest products or services for their specific needs.

Electronics Boutique's Web-based Club EB program, for example, enables members to check out new software releases through demos, downloads and reviews, browse its chat room calendar for upcoming chats with gamers and developers and receive product information. Some 12,000 have signed up to the free service. Club members are required to submit personal information related to general computer and Internet usage and gaming, as well as to their Electronics Boutique shopping habits.

Electronics Boutique also plans to start an online mailing list to notify customers daily, weekly or monthly about the arrival of new software releases, price drops and promotions, technical tips and upcoming online events. CompUSA is also revamping its Web site so that customers will be able to conduct side-by-side product comparisons, sign up for in-store training classes and track the shipment of their online product orders.

Retailers believe their Web sites and retail stores can complement each other. An Internet presence can drive customers into the store, retailers say, to ask for a particular product or service and be more informed about a product. Likewise, retailers can use the sites to determine products in demand, what markets may justify opening a store, or as a training and informational tool for salespeople. Conceivably, the information could reach salespeople quicker, especially if it were transmitted to the POS system. In effect, the consumer could be prequalified before coming to the store.

Best Buy, for instance, expects to port over product information from its AnswerCenter kiosks to its Web site. The kiosks, which are located in 24 Best Buy stores, provided an interactive way of learning more about products and the ability to search and compare features. Rolling out the kiosks nationwide would have cost Best Buy millions of dollars on a chance at a less than discernable uptick in sales, Gillen said. A cost effective alternative is to put the information online.

Manufacturer sensitivities line another tricky path for retailers aiming to fully capitalize on the Internet. The Good Guys! would like to offer a wider variety of consumer products for sale online but is restricted by its consumer electronics suppliers.

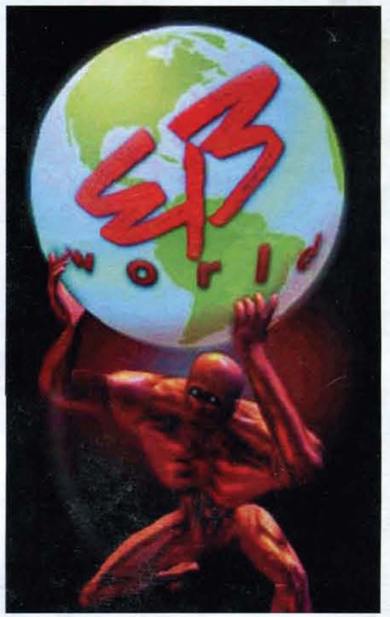
Some suppliers believe condoning online sales would violate traditional dealer agreements based on sales territory boundaries, said Rios of The Good Guys!. The retailer's site shows a small selection of products that can be ordered via a toll-free number, but not online. The toll-free number is technically designed for product orders within The Good Guys!' trading area.

Conversely, retailers brush aside concerns about suppliers selling directly to consumers online. Suppliers likely to sell online are already in the direct fulfillment business, and retailers have had to contend with supplier-direct catalogs for years.

There will always be a group of customers that prefers the convenience of a supplier-specific catalog, but most are undecided on brand, retailers say. That's where a retailer's ability to aggregate many products under one electronic storefront and adopt the consumer advocacy role comes in handy.

Although bypassing the middleman may sound attractive to some suppliers, it isn't easy to maintain an effective Web site and commerce engine, said Best Buy's Gillen. She added that Best Buy will need to establish better partnerships with suppliers to fulfill online orders.

It won't be too long before consumers expect online ordering from Best Buy; as many as 55 percent of respondents to the retailer's online surveys said they have already purchased products online, according to the company. □



Electronic Boutique's Club EB mascot

On the Edge of the Web

Technology suppliers are often among the first online

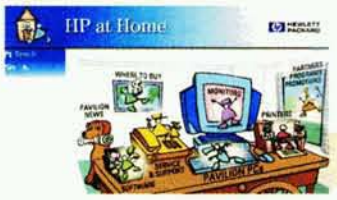
With customers who are the most likely Internet users, suppliers of computers and wireless telecommunications products naturally turned to the medium as a marketing tool. Consumer electronics retailers can learn from their suppliers about building a compelling Internet site.

Computer manufacturers often bundle several months to a year's worth of free Internet access on their desktops and provide a direct link to their Web site or a particularly consumer-focused segment.

Some are beginning to take a proactive approach by pushing product or upgrade information back to consumers' PCs.

IBM's Aptiva owners, for example, can download the latest update to their software-upgradable 28.8Kbps modem and new virus identification files for IBM AntiVirus from Update Connector, a free service on the IBM Global Network.

With consumers' permission, the service collects information about the system such as system software, model number, serial number and preloaded applications.



Hewlett-Packard's website

Compaq is pushing information over the Internet to desktops with the PointCast Network from Compaq, developed for Compaq by PointCast, Cupertino, Calif. PointCast software is bundled on Compaq's DeskPro computers. The application 'broadcasts' information about Compaq products, solutions, technology trends and service updates, and is available to Compaq's corporate customers.

With the technology available, manufacturers could also use the Internet to remotely diagnose and repair consumers' desktop problems. Retailers could consider forging alliances with manufacturers to provide these services or improve their own Web sites to help customers stay in step with technology changes.

Paging companies can trim costs by going direct

Hewlett-Packard, for example, has an HP @ Home site that provides consumers with a Web tutorial on how to use the Internet. It also offers ideas for creative computer projects, such as designing a T-shirt, and has links to game and news Web sites.

Despite the potential for channel conflict, manufacturers aren't shying away from direct sales online. Apple sells branded-merchandise (T-shirts, mugs and the like) and some third-party products; Acer and Packard Bell have online factory outlets to sell clearance items and remanufactured or refurbished PCs; Compaq sells accessories and peripherals; Hewlett-Packard's sells accessories, and IBM's sells hardware and software.

The Internet is also an ideal conduit for wireless telecommunications services, according to Alan Reiter, president of Wireless Internet & Mobile Computing, a Maryland consultant.

"The more complicated wireless devices become, the more important it is for wireless operators and vendors to offer good customer support and to offer ways that customers can take better advantage of these devices," Reiter says.

While many pagers can accept Internet-generated e-mail, these services haven't been customized so far, Reiter said. Customized services could enable users to determine the length of messages they want sent, the time they want the messages delivered or whether the messages should be sent at all.

"All of this can be done on the Web, it can be controlled on the Web," Reiter said. General Services in Seattle, which allows users to forward messages and change their passwords on the Web, is a case in point.

The cost of doing business has taken a sharp upswing for paging companies, and some have found the Internet a comfortable way to trim costs by going direct. Metrocall, for example, wants to sell alphanumeric pagers over the Web, Reiter said.

Not everyone agrees that the Internet is the best channel for delivering wireless services. Michael Flink, senior vice president of merchandising and advertising at telecom specialty retailer Communication Expo, said the wireless category is too "market-based" and beholden to a multitude of carrier contracts.

"You'd have to have carrier agreements in every market to do that," Flink said. "And then what's your added value over the local dealer?"

The Internet presence of cellular agent CellMart underscores Flink's point, Reiter agreed.

"CellMart's [site] is easy to get around, but the problem is they haven't signed up a lot of cellular carriers," Reiter said. "So when you indicate the area where you want service by clicking on a map of the U.S. and then clicking on a state, often you will find that there's no service in your area."

—Maria V. Georgianis and Allan Richter

ELEK-TEK'S ONLINE JOURNEY

By Allan Richter

Elek-Tek is a case study of business and technology in transition as it strives to keep pace with the world of electronic commerce.

Before Elek-Tek began upgrading its systems three years ago, the Skokie, Ill.-based computer retailer's Web page offered relatively few product choices. And consumers had little leeway to navigate the narrow site.

Although Elek-Tek offered far fewer SKUs online than in its stores, updating pricing each day was a tedious task for the chain, said Tim Powers, Elek-Tek's Internet Director. "We had to find a way to automate the whole process," he recounted.

But Elek-Tek couldn't link its outdated mainframe computer to the Internet site. The mainframe ran highly proprietary software, incompatible with other operating systems. So Elek-Tek bought a system with Microsoft's SQL Server database program.

"Using [a translation process that converts data from one format to another], I was able to extract the information from our mainframe to the SQL database," he said. Pricing, specs and the weight of merchandise for shipping became more accessible.

The setup simplified the process, but it still wasn't enough to provide customers—mainly business accounts with revenues of at least $1 million—with real-time pricing and in-stock information. Elek-Tek still had to endure the slow procedure of downloading data each night to the server.

The server enabled Elek-Tek to keep its mainframe and avoid a costly replacement, but the effort was only a reprieve for the older system. So customers can access information more quickly—almost in real time—the retailer now plans to buy a RISC-based IBM RS/6000 mini computer to replace its ancient mainframe.

Because Elek-Tek plans to use the new mini computer for all of its store and corporate sales operations, the retailer is wary of system bottlenecks. It will avoid overburdening the system by replicating data every few minutes from the RS/6000 to the server, rather than clearing a line of direct access between the two.

What does all this mean in practical terms?

The speedier process will take key Web-generated sales information, such as quantity product discounts, out of the hands of Elek-Tek's MIS department. Appropriately, the process will decentralize data to account managers.

"If we have a price change, the next time that $1 million plus account comes into the Web site, their price is going to reflect that discount. They're not going to have to wait until the following day," Powers said.

The new system expands the retailer's merchandising efforts by bounds, but the company is reluctant to estimate how much business its Web marketing will account for.

"I don't have a stated goal. I'm allowing that to dictate itself," said Richard Rodriguez, Elek-Tek's chief executive. "It would be fine by me if it took over all of our printed marketing."