The Boston Consulting Group

THE MULTICHANNEL CONSUMER

The Need to Integrate Online and Offline Channels in Europe

July 2001

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PREFACE

Many of the companies that ventured into e-commerce in Europe during the past couple years have discovered that the short-term potential for online retailing is not nearly as promising as they had hoped. What's more, it looks as though the environment will get even tougher. As a result, many consumer companies are perplexed. What do consumers want from the online channel and how fast will companies have to provide it? How aggressively do they need to invest in the online relative to the offline channel? What benefits can they expect from an online presence?

Contrary to what some skeptics have been predicting, the business-to-consumer online market *does* have a future. The Internet will be an important channel for consumer companies. And the lesson to be learned from the current upheaval is *not* to retreat; rather, it is to become much more strategic in using the Internet to deepen relationships with the highest-value customers and to attract new ones.

Specifically, companies need to understand how consumers' online behavior is likely to evolve. To that end, The Boston Consulting Group has conducted consumer research in Europe, including how the interaction of the online and offline channels influences purchasing decisions. The data were augmented by qualitative research derived from one-on-one interviews with consumers and with senior executives of leading business-to-consumer companies.

We would like to thank the many consumers and online retailers who shared their experiences with us, as well as the BCG project team, which included project leader Moritz von Hauenschild, Arnaud Miconnet, Anja Reinecke, Gudrun Schmirler, Christian Stummeyer, Ellen Treml, and Stefan Walke. We would also like to acknowledge the many individuals from BCG offices throughout Europe who supported us with country-specific insights—in particular François Dalens, Henry Elkington, Emile Gostelie, Rob van Haastrecht, Tomas Lindén, Neil Monnery, Johan van den Arend Schmidt, Luca Solca, and Marco Winkler. And a special thanks to the contributing members of our E-Commerce practice, who included Christian Rüller, Karen Sterling, James Vogtle, Amanda White, and Christina Wolf; and to our editorial team of Steve Prokesch, Sally Seymour, and Sharon Slodki.

The ideas in this report are based on BCG's client work and research. We welcome your questions and feedback. For inquiries about this report or BCG's E-Commerce practice, please contact:

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EXECUTIVE SUMMARY

It is all too easy these days to generalize about the failures of *some* online-retailing models and leap to the mistaken conclusion that online retailing as a whole holds little promise. Companies should certainly pay attention to the flawed models in order to avoid repeating their mistakes. But they should also heed the message that a still rapidly growing number of European consumers are sending: they want to be able to use the Internet *in conjunction with* offline channels to find information for selecting goods and services, to conduct transactions, and to obtain support after a sale. Consequently, now is not the time to stop investing in the Internet; rather, it is the time to be strategic in deciding how to invest.

To understand how consumers and consumer companies have been using the online channel, we surveyed nearly 12,000 European Internet users and conducted one-on-one interviews with consumers in their homes as well as with senior executives of companies that are exemplars of online and multichannel retailing. (For a description of our research, see the methodology section.) The findings have led us to draw five conclusions.

The online market, while still in its infancy, is very much alive and promises to grow rapidly over the next few years. To be sure, online spending in Europe is still low: it accounts for only 1 percent of total consumer spending; in the United States, it accounts for approximately 2 percent. The reason the share is so low is partly a result of such barriers as consumers' concerns about using their credit cards on the Internet and the difficulty of returning items that they buy online. It is also a reflection of the inferior quality of some online offerings, the time it takes to change long-standing shopping habits, and the limited number of Web sites in some categories and in some countries. In other words, online retailing is still a new phenomenon.

Neither that fact nor the upheaval among online consumer companies means that European consumers are rejecting the Internet, however. Quite the contrary: they are more enthusiastic about it than ever before. They *browse* more—meaning they use the Internet more to obtain product information without necessarily intending to make an online purchase.[1] (Fully 88 percent of all Internet users in the six countries we surveyed browse.) They buy more online. And they intend to browse and buy still more in the future. To take full advantage of this enthusiasm, companies will have to look beyond online transactions to consider *all the behavior* that consumers exhibit on the Internet.

The online channel has a profound influence on consumers' offline behavior, and therefore will play an integral role in an increasingly multichannel world. Of all Internet users who browsed online before purchasing offline, 37 percent stated that browsing online helps them get a better idea of the choices that are available. Furthermore, 85 percent of the latter group of browsers bought offline the brand and product they identified online, and 35 percent bought from the merchant they found online.

These findings have significant implications for companies that manufacture or sell consumer goods or ser-

1. We define *browsing* as using the Internet to research products or services, compare prices, or simply see what is available, but not necessarily with the intention of making an online purchase. In this report, a *purchaser* is someone who bought at least one item online in the 12 months prior to our survey. A *browser* is someone who searched the Internet for information in at least one category in that period.

vices: they should treat the Internet not as an independent channel or a standalone business but rather as an integral component of a multichannel strategy for attracting and deepening relationships with high-value customers. Because many consumers are already using the Internet to decide on offline purchases, store-based companies with well-run online sites can begin to profit immediately and gain competitive advantage by delivering a superior multichannel experience.

The Internet will widen the gap between winners and losers among established retailers and manufacturers. Consumers who browse online before purchasing offline frequently switch to a competing merchant if its store is closer to them. Therefore, established retailers that have a large offline presence *and* manage the Internet channel successfully will enjoy a disproportionate increase in market share. Some store-based companies, such as Tesco—the leading online grocer in the United Kingdom—have already built a multichannel presence that their competitors are finding hard to match. (Tesco's online market share is nearly 70 percent, whereas its share in the offline world is about 20 percent.) Consequently, the Internet promises to accelerate the consolidation of established retailers in Europe. As a result, Web-based companies without an offline presence will continue to struggle to stay in the game in most categories.

Focusing on the most profitable customers will create a disproportionate amount of value. As in the offline world, the top 20 percent of online purchasers in a category account for a disproportionately large share of total online spending in that category, ranging in our survey from 51 percent in the event-ticket category to 78 percent in groceries. To retain these valuable customers and gain a larger share of their business, retailers will have to integrate their online and offline channels. An online customer's value to a retailer is the series of purchases—online and offline—that follow his or her initial purchase. Many retailers fail because they go to great expense to entice consumers to make a first purchase and then neglect to convert them into loyal, long-term customers. While the Internet will offer companies a powerful means of winning and retaining the most profitable customers, it will also make the job of delivering a consistent, high-quality experience across all channels more challenging. All the more reason why companies should focus their Internet initiatives on pleasing their core customers rather than trying to be all things to all customers.

Companies that meet the online expectations of their core customers will earn a big payoff that shows up directly on the bottom line. Satisfied customers spend 71 percent more and transact two and a half times more often than dissatisfied ones. Satisfaction strongly influences online retail economics; it can make the difference between an operating loss and an operating profit—even for average retailers. Yet when one considers that 27 percent of all online purchasing attempts fail, it is clear that few companies do an outstanding job of satisfying customers online. As customers become increasingly comfortable with multichannel purchasing, they will demand a more sophisticated level of service. Rather than trying to delight them with extraordinary features, however, the companies that keep pace with their customers' rising expectations will concentrate on satisfying them with no-frills basic services, such as a simple, intuitive Web site, a secure payment process, and reliable fulfillment.

RECEPTIVE CONSUMERS

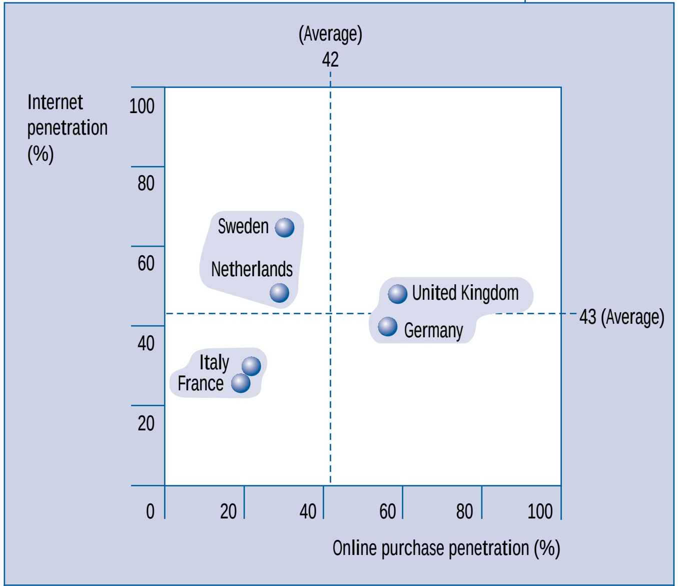
Online spending may still be only a fraction of total consumer spending in Europe, but that doesn't mean the online market should not be taken seriously. There is ample evidence that the size of the online market will grow enormously in the next few years. Already, more than 150 million Europeans are on the Internet, and there could be as many as 230 million users by the end of 2004.[2] In the six countries that account for 85 percent of European online revenues, about 50 million consumers are purchasing online, which is 42 percent of the online population in those countries. The countries fall into three groups. (See Exhibit 1.)

- Germany and the United Kingdom, where Internet penetration and the proportion of Internet users who have made an online purchase are both high
- France and Italy, where Internet penetration and the proportion of Internet users who have made an online purchase are both low
- the Netherlands and Sweden, where Internet penetration is high but the proportion of Internet users who have made an online purchase is low[3]

The Internet promises to become a much more integral part of consumers' everyday lives. As consumers browse and purchase more online, they will grow increasingly accustomed to using a combination of the Internet, catalogs, and bricks-and-mortar stores to gather information, examine merchandise and service offerings, make purchases, and obtain service.

EXHIBIT 1

EUROPEAN COUNTRIES FALL INTO THREE GROUPS



SOURCES: BCG proprietary database of European Internet users, 2001 (the number of respondents in the individual countries ranged from 1,319 to 1,767); *IDC Annual eConsumer Survey: European Internet Economy*, February 2001.

NOTES: The data take into account Internet use at home and at work; people who access the Internet from both locations were counted only once. *Online purchase penetration* is the proportion of Internet users who made an online purchase in the preceding 12 months. Internet and purchase penetrations for Germany are 40 percent and 56 percent, respectively; for the United Kingdom, 47 percent and 57 percent; for France, 26 percent and 18 percent; for Italy, 30 percent and 23 percent; for the Netherlands, 49 percent and 27 percent; and for Sweden, 65 percent and 30 percent.

2. *Internet Usage and Commerce in Western Europe, 2000-2004*, IDC report, March 2001.

3. This phenomenon may result from the fact that these countries have comparatively few online sites, perhaps because consumer companies believe it isn't worth the high fixed costs of establishing and maintaining a site for a relatively small population of potential purchasers.

INTERNET PENETRATION IS HIGHER IN DISCRETIONARY CATEGORIES

Not surprisingly, the proportion of purchasing conducted online today is highest in discretionary categories. Books are the most popular category: 26 percent of Internet users bought at least one book in the year prior to our survey. In the computer-hardware-and-software category and in the music-and-video category, 22 percent of Internet users made purchases. (See Exhibit 2.) The most frequent online purchases outside of financial services occurred in groceries, collectibles and auctions, books, and music and videos. The average number of transactions in each of those four categories in the 12 months prior to our survey ranged from 4.1 to 5.3.

Online penetration in the necessities categories—which include groceries and apparel and are by far the largest categories offline—is lower than in discretionary categories for several reasons. One is demographics: the first wave of online purchasers was primarily young, male, affluent, and educated, with the means and inclination to buy discretionary items online. They created a more attractive market for retailers selling discretionary products online than for those selling necessities.

EXHIBIT 2

DISCRETIONARY CATEGORIES ARE THE MOST POPULAR

Purchase penetration (percentage of total online population that have purchased in the category)

%	Europe	Germany	United Kingdom	France	Italy	Netherlands	Sweden
Books	26	40	35	9	11	16	11
Computer hardware/software	22	31	32	10	11	12	12
Music/video	22	28	34	10	9	15	16
Financial services	18	28	24	7	6	11	17
Travel	16	19	27	7	6	10	12
Event tickets	14	19	20	6	4	8	13
Apparel	13	19	17	5	2	10	8
Collectibles/auctions	9	15	12	5	3	5	3
Consumer electronics	9	11	13	3	6	3	4
Toys	8	13	13	3	1	4	3
Groceries	8	14	11	3	2	3	2
Automobiles	1	2	2	0	0	0	1

SOURCE: BCG proprietary database of European Internet users, 2001. (The number of respondents in Europe–by which we mean the six European countries–was 11,589; the number of respondents in the individual countries ranged from 1,804 to 2,168.)

The second reason is that sites for necessities offer less choice and lower quality than sites for discretionary products, mostly because of operational and customer service problems. Online grocery retailers, for instance, have found it difficult to ensure adequate quality and speed of delivery. Most online clothing retailers have offered a limited selection, and they have had technical difficulties giving consumers a sense of the look, feel, and fit of a garment. What's more, poor color reproduction and inconsistent sizes have led to a high rate of returns. However, some online retailers are finding ways to overcome those obstacles with innovative technology. (See the insert "Otto.de: Providing a Virtual Model.")

Otto.de: Providing a Virtual Model

Otto Versand, the world's largest mail-order company, has come up with an innovative way to overcome a major drawback of online apparel stores. Using a tool called "click and dress," the company lets customers send in their measurements along with a photograph of their full bodies, and the tool scans the picture to create a virtual model. Customers can use the image to "try on" different sizes and styles in order to find the best look and fit. In addition to its Internet channel, Otto Versand distributes a few hundred different paper and CD-ROM catalogs a year, primarily in Europe, Japan, and the United States.

The third reason for the low rate of online penetration in necessities is that consumers tend to resist change when purchasing these products. Most people are accustomed to buying groceries at the same store, on the same day of the week, year in and year out. Moreover, they want to see and touch the products—especially produce. These habits or preferences are hard to overcome no matter how compelling the online alternative. The final obstacle is that necessities can be bought nearly everywhere, in a variety of stores, which makes the convenience the Internet offers a less attractive draw than it is for discretionary products.

However, once retailers of necessities can offer a compelling value proposition, online purchases in those categories will grow significantly—as Tesco's online grocery site is beginning to prove in the United Kingdom.

Even today, the Internet is becoming less a luxury or a source of entertainment and more a tool for saving time in carrying out everyday chores. In fact, most consumers report that their main motivation for using the Internet is convenience and ease of purchase. Across Europe, the top five reasons for purchasing online were

- the ability to browse and purchase day or night
- the ability to save time
- the ease of the online purchasing process
- the access to products not available offline
- the ease of comparing prices and features

"What I really like is how easily I can compare products on the Internet. Take holidays. In a couple of clicks, I can check all the options available and compare prices. It would take me ages to do that by phone or by visiting travel agencies. Somehow, I feel empowered by the Internet. It makes me buy smarter."

Jeannine, a retired store manager in France who has been online for one year

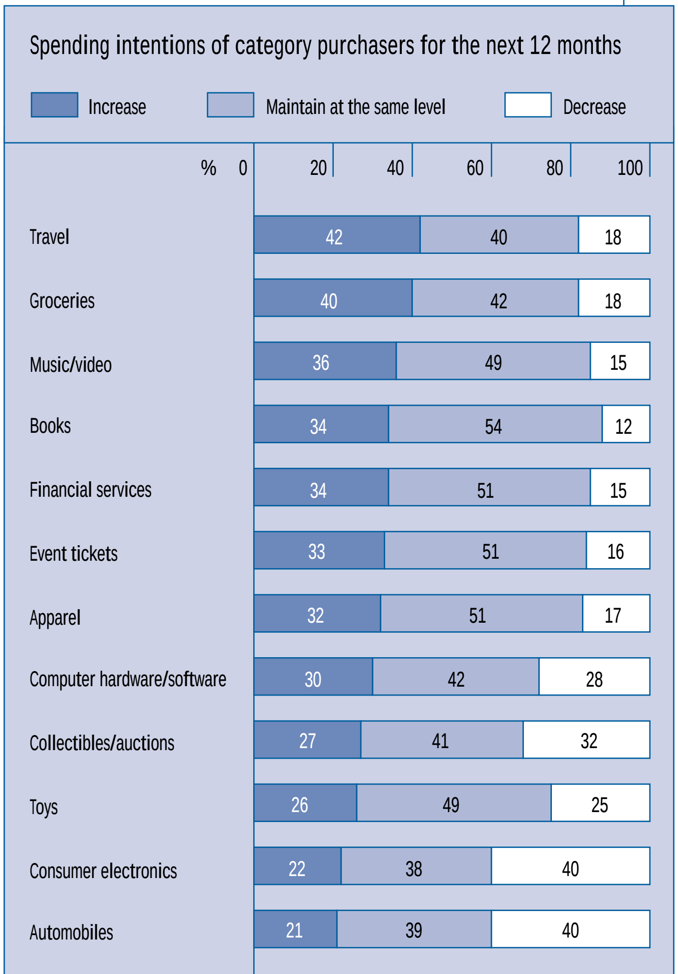
CONSUMERS PLAN TO BUY MORE ONLINE

Not only are consumers buying more online today, they are also optimistic about using the Internet to make purchases in the future. People who had already bought something online said they intended to increase their online spending over the next 12 months in the categories they had already tried—particularly travel, groceries, and music and video. (See Exhibit 3.) In addition, a remarkable number of online purchasers reported that they were willing to buy in categories in which they had yet to venture. Music and video (29 percent), travel (28 percent), and event tickets (28 percent) are the new categories that consumers said they would be most likely to explore in the next 12 months.

But there were differences across countries. For instance, Italy and France have comparable Internet and purchasing penetrations. But while the proportions of online purchasers expecting to buy in new cat-

EXHIBIT 3

ONLINE PURCHASERS ARE LIKELY TO SPEND MORE IN MOST CATEGORIES WHERE THEY HAVE ALREADY BOUGHT



SOURCE: BCG proprietary database of European Internet users, 2001. (The number of respondents for the individual categories ranged from 1,703 to 5,670, with the exception of automobiles, for which the number was 242.)

egories in Italy are in line with European averages, the proportions are two to three times higher in France, where up to 61 percent anticipated buying in new categories online. The eagerness of the French may be a reflection of their experience with long-distance purchasing through Minitel, the national videotext system introduced in 1981.[4] Although Minitel's strong position in France appeared at first to delay the emergence of online purchasing, now it seems to have paved the way for its acceptance.

Many people who have not yet made an online purchase also intend to take the plunge, according to our survey. Depending on the product category, between 3 and 29 percent of consumers in this group said they expected to make a purchase in the next 12 months. The category that is most likely to pick up new purchasers is event tickets (29 percent), followed by travel (26 percent), music and video (22 percent), and books (21 percent).

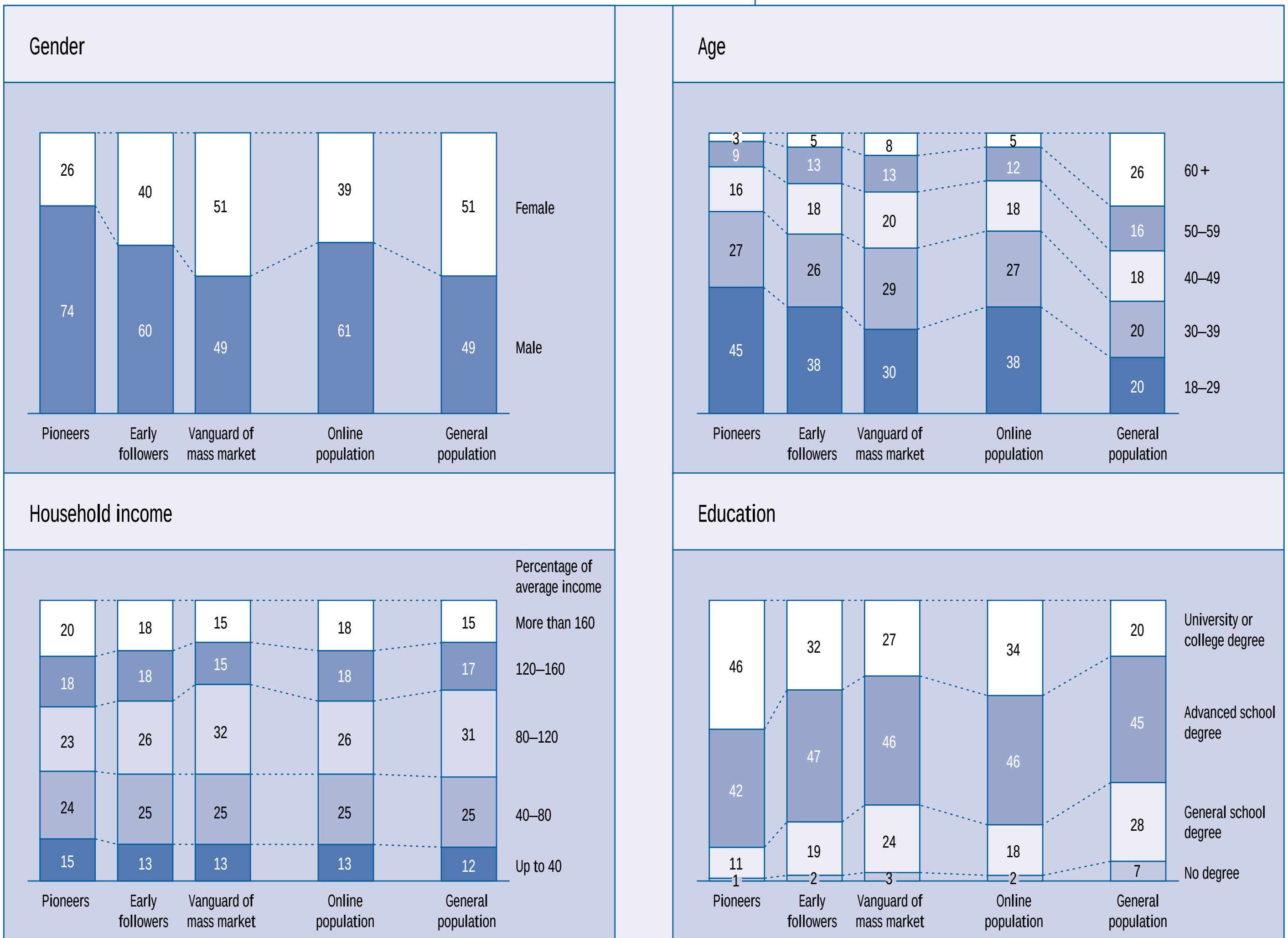
If one takes into account current penetration rates, purchasers' intentions to try new categories, and nonpurchasers' intentions to try online purchasing, the pattern of buying in the discretionary and necessity categories will not change significantly over the next year. But the relative positions of some categories are likely to change as the makeup of the online population changes. Internet users have tended to be young, male, educated, and affluent. But the Internet population in most advanced countries is rapidly becoming more middle class, more female, and older. In other words, the demographics of online browsers and purchasers are beginning to resemble those of the mass market. (See Exhibit 4.) Therefore, a category such as computer hardware and software, which was popular with early Internet pioneers and less so with the mass market, is likely to decrease in relative popularity, while event tickets should increase.

Online consumer companies should also recognize that newcomers to the Internet will require simpler tools for navigation and transactions, and will be more likely to seek out brands that are familiar to them in the offline world. As the profiles of online consumers and their reasons for going online change, the pressure on consumer companies to deliver a consistent brand image and a first-rate purchasing experience across channels is bound to become more intense.

4. The Minitel system uses telephone lines to send text and graphics from central computers to terminals with eight-inch screens. Consumers can use the system to conduct banking transactions and buy train tickets, flowers, and a variety of other products and services. The charges appear on their monthly telephone bills.

EXHIBIT 4

THE ONLINE POPULATION IS STARTING TO RESEMBLE THE GENERAL POPULATION



SOURCES: BCG proprietary database of European Internet users, 2001 (the number of respondents in the online population was 11,589; the number in the three subsets ranged from 1,089 to 5,718); *Eurostat Datashop, Regions–Statistical Yearbook 2000.*

NOTE: *Pioneers* have been online for 37 months or more, *early followers* for 13 to 36 months, and *vanguard of mass market* for 12 months or less.

THE MULTICHANNEL CHALLENGE

The Internet is rapidly becoming an integral component of an increasingly multichannel purchasing process. One regular Internet user, for example, reported that he had seen an ad on television for a weekend getaway to Paris. The next day, he stopped at the travel agency nearest his office and picked up a catalog from the company that offered the trip. But knowing that the Internet often has bargain prices, he also checked his favorite travel site and, sure enough, found the same trip for 15 percent less. After buying his ticket online, he received confirmation on his mobile phone. That one purchase involved five different channels: television, store, catalog, the Internet, and mobile phone.

Although every channel should be able to address a consumer's needs throughout the purchasing process, some channels might be better than others at different points in the process. Offline stores, for example, provide direct experience of the product, as well as social interaction and established logistics systems. Web sites can offer easier price comparisons, around-the-clock operations, complete product information, instant inventory status, and effortless communication—all at a low variable cost. The retailer that knows how to exploit the advantages of every channel will prevail.

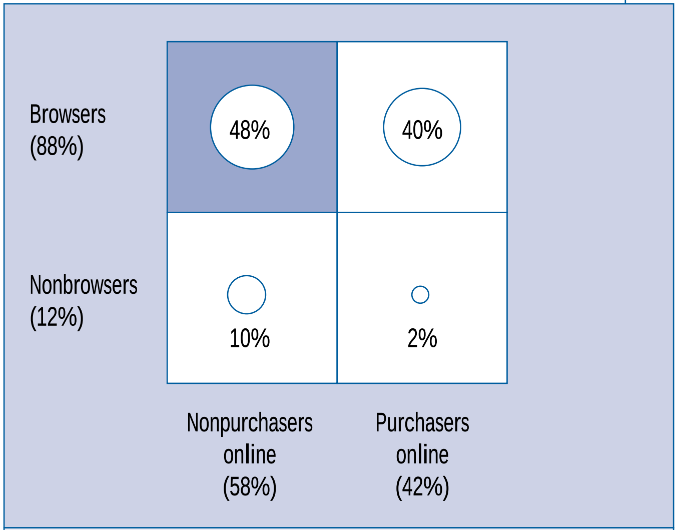
THE VALUE OF INTERNET BROWSERS

As more and more consumers move back and forth from one channel to another without even thinking about it, the Internet will have an increasingly powerful impact on both the online and offline worlds. Eighty-eight percent of all Internet users are browsers—which means they look online for the products they might want to purchase offline. The significance of this finding is enormous, and consumer companies should address it in their branding and marketing strategies. Yet most companies focus only on the 42 percent of Internet users who are online purchasers, overlooking the value of the 48 percent who don't purchase online but whose offline purchases may be influenced by online information. (See Exhibit 5.)

We found that 29 percent of Internet browsers thought that browsing online helped them come close to choosing the product they would purchase offline, and 8 per-

EXHIBIT 5

AN OVERLOOKED SEGMENT: BROWSERS WHOSE OFFLINE PURCHASES MAY BE INFLUENCED BY ONLINE INFORMATION



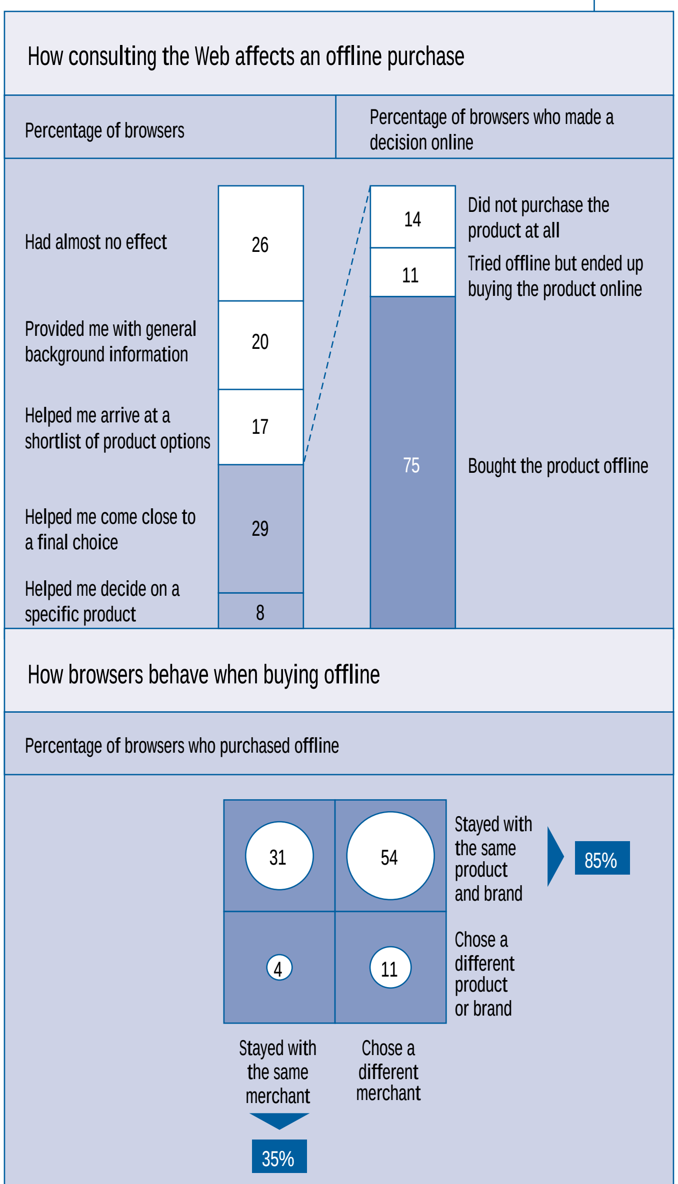
SOURCE: BCG proprietary database of European Internet users, 2001. (The number of respondents was 11,589.)

NOTE: *Browsers* searched the Internet for information in at least one category in the 12 months prior to our survey. *Purchasers* bought at least one item online in that period.

cent thought that the Internet even helped them decide on a specific product. Furthermore, when they made their purchases offline, they stayed with the products and brands they had chosen online. Of the 37 percent of consumers who used the Internet to narrow their list of choices before making an offline purchase, a surprising 85 percent—that's 24 percent of all Internet browsers—claimed that they bought the product and brand they had found online. What's more, 35 percent—10 percent of all Internet browsers—bought from the same merchant they had found online. (See Exhibit 6.)

EXHIBIT 6

INTERNET BROWSERS STAY WITH THEIR ONLINE CHOICES WHEN BUYING OFFLINE



SOURCE: BCG proprietary database of European Internet users, 2001. (The total number of respondents was 10,821; the number of respondents who purchased offline was 3,003.)

"I think of the Internet as an addition to existing stores, not a replacement. I go online primarily to gather information. Once I find a product I like, I go to the nearest store and buy it."

Danny, a financial consultant in the United Kingdom who has been online for two years

Closer proximity to a competing merchant's offline store seemed to be the main reason for switching merchants, whereas lower prices and the impact of touching and seeing the product were the reasons for choosing another product or brand. These findings suggest that established retailers that have a large offline presence *and* manage the Internet channel successfully will enjoy a disproportionate increase in market share, while Web-based companies will have to struggle to stay in the game. This trend will be especially noticeable in information-rich categories such as computer hardware and software, travel, and consumer electronics, where the percentage of Internet users who browsed online before buying offline was particularly high. (See Exhibit 7.)

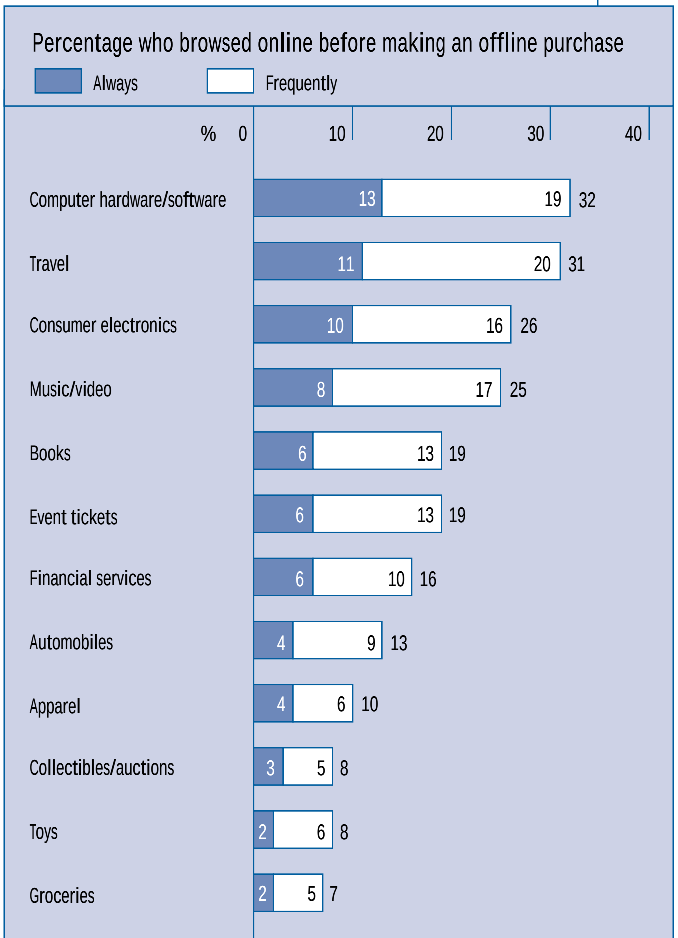
MAKING THE ECONOMICS WORK

Established offline retailers face a huge challenge: maintaining a successful offline business while competing with increasingly effective online rivals. As more and more consumers shift a larger share of their spending online, the economics of offline fixed-cost assets (such as a store's infrastructure) will deteriorate. To prevent customers from deserting offline businesses—and to follow them online—consumer companies will need to invest in improving their offline offerings and in building a winning online presence. Even though online revenues tend to be small at first, companies should view the online venture not as a standalone business but as one of many channels through which they can reach consumers.

Meeting the challenge promises to be worth the effort. There are a few companies in every category that have

EXHIBIT 7

MANY INTERNET USERS BROWSE ONLINE BEFORE BUYING OFFLINE ACROSS MANY CATEGORIES



SOURCE: BCG proprietary database of European Internet users, 2001. (The number of respondents was 11,589.)

kept the costs of establishing their Web sites low and built successful multichannel operations. These retailers cite four sources of value from the online channel. Some see their online offering as an opportunity to acquire new customers and expand those relationships across their other channels. For example, Conrad.de, a first mover in the German market for online consumer electronics, estimates that half of its current online revenues come from customers in its traditional channels (catalog and store) and the other half from new customers.

Other multichannel retailers are trying to encourage offline customers to use the online channel in order to reduce costs while maintaining sales levels. Still others are looking to the online channel to help them win a larger share of their existing customers' spending and to fend off competitors that are actively courting their customers on the Internet. These retailers have demonstrated that their multichannel customers spend more with them than their single-channel customers and therefore are often more valuable.[5] Finally, some retailers are using their Web sites as branding mediums, as tools for providing information to consumers, and as service channels to support the offline business, thereby creating a superior end-to-end experience and generating additional offline sales.

All four strategies are viable, especially for retailers with powerful legacy brands. With their established customer relationships, recognized brand value, and partnerships with key suppliers, they are particularly well positioned to enhance their relationships with their most valuable customers as well as win new ones.

To date, only a few retailers have fully exploited their ability to leverage their offline assets to support the online channel. Many make the mistake of keeping their channels autonomous because they fear cannibalization, channel conflict, and price competition. They also doubt their ability to make the economics of online retailing work. Yet many multichannel retailers that have thoroughly integrated all their channels have a strong advantage. Circuit City, a U.S.-based electronics retailer, has integrated its inventory and distribution systems particularly well. Its customers can easily go online to determine product availability at nearby retail outlets, as well as to place an order online and then pick the item up at a local store. This capability gives Circuit City a clear advantage over retailers that don't offer consumers the convenience of using both channels to carry out a single purchase.

Established retailers are uniquely positioned to gain share, increase loyalty, and secure new sources of profitability by giving customers superior convenience in the form of coordinated offline and online offerings. With few exceptions, "bricks and clicks" should be able to beat "clicks" alone any day. To succeed, however,

5. *Channel Surfing: Measuring Multichannel Shopping*, a Shop.org study by the National Retail Federation, J.C. Williams Group, and BizRate.com, September 2000. Although these data are significant, further research is needed to ascertain whether these customers are spending more because of the new channel or whether they are simply heavy spenders who have moved some of their spending online.

these companies must deliver a seamless experience across all channels. They will have to integrate all aspects of retailing—including branding, product positioning, inventory forecasting, and returns—across channels. They will have to extend customer relationship management to the online channel and build more sophisticated ways of tracking customer segments. Finally, they will have to leverage offline assets to help create awareness of their Web sites and exploit their economies of scale in purchasing.

One European company that has dramatically increased its ability to satisfy its customers by moving online is Tesco, the British grocery retailer. In fact, it is a good model for traditional retailers to follow. (See the insert "Tesco.com: A Victorious Multichannel Move.")

Tesco.com: A Victorious Multichannel Move

Online grocery retailers face a daunting challenge: dealing with complex orders, short delivery times, and fresh products prone to spoilage. But Tesco has demonstrated that an incumbent can exploit its offline advantages to triumph over Web-based start-ups. The British retailer, which had a total of €35 billion in online and offline revenues in 2000, uses its existing stores to fill its online customers' orders—delaying the need for large investments in dedicated distribution centers. Tesco employs its scale advantages in procurement to secure supplies at competitive cost. And it leverages its offline customer base and strong brand in the United Kingdom to minimize brand-development and customer-acquisition costs.

The result is the world's largest and most successful online grocer. With a million registered online customers, Tesco can serve 90 percent of the U.K. population from more than 200 stores equipped to handle home delivery. Tesco.com has captured about 70 percent of the country's online grocery market and is already filling more than 70,000 online orders per week. By the end of 2000, its revenues had reached an annual level of €570 million. What's more, Tesco.com claims to be profitable.

Tesco.com's customers place their orders online and specify a date and a two-hour window for delivery. Next-day service is available. Products and prices are the same as those at the local Tesco grocery store, but customers pay approximately €7.50 for delivery. If dissatisfied with a purchase, a customer can return the item to the delivery driver for a full refund. Ordering is made easy by personalized shopping lists—electronically integrated histories of customers' online and offline purchases.

Online orders are filled through Tesco's existing stores. Each incoming order is fed through a software program that minimizes the time it takes a picker to collect the grocery items from the store's aisles. The items are then packed and delivered in a specially outfitted van to the customer's home. By using its existing stores as distribution centers, Tesco has been able to limit its initial investment in fulfillment infrastructure.

Tesco doesn't worry about cannibalizing its traditional customers, because the online business allows it to offer them a service they very much want. In Tesco's point of view, not fulfilling that need would give competitors an opportunity to provide a better offering. With data coming in from three channels (stores, online, and catalog), Tesco has found that online customers tend to buy more of their regular products, as well as add new ones to their online baskets. In addition, they spend more both online and offline than they did when they shopped only in Tesco's stores.

Tesco.com's success in online grocery retailing has led it to expand its offering, using supplementary distribution and delivery methods to include new products that are not available in its stores. Tesco.com now offers books, compact disks, videos, digital videodiscs, clothing, gifts, home furnishings, electrical products, and banking services—all of which unleash the power of the Tesco brand and customer base in a store without walls. In addition, Tesco has expanded the reach of its online store. For example, iVillage/uk, the leading women's Web site in the United Kingdom, has a link to the store. Consumers can also use a digital television channel to access Tesco's offering.

Strategic use of the online channel has allowed Tesco to please its existing customers, attract new ones, increase sales, and expand the scope of its business. In an industry where Web-based players are finding it hard to make the economics work, Tesco appears to have created an engine for profitable growth.

Established retailers are not the only ones pursuing multichannel strategies. A few Web-based companies are also experimenting with this approach. One online company that has found an innovative way to satisfy customers with an offline presence is CHL.it in Italy. (See the insert "CHL.it: A Web-Based Company Moves Offline.")

CHL.it: A Web-Based Company Moves Offline

CHL.it, Italy's largest online retailer, believes that a retailer cannot survive in cyberspace alone. To satisfy its multichannel customers, it is accelerating its expansion into the physical world.

CHL, which launched its online business in 1994, has 210,000 customers and offers 5,700 products in consumer electronics, and computer hardware and software. By 2000 it had a turnover of €90 million, dominated its online segment (with approximately 90 percent of the national market), and accounted for about 25 percent of the total online business-to-consumer market in Italy.

CHL has long recognized the value of developing an offline presence to support its online channel. In 1996 it introduced a feature called POPITT (point of presence in the territory), which is a small offline shop without inventory that is connected to CHL through an intranet. CHL had 35 of these shops at the end of 2000 and plans to add 15 more this year. POPITT shops are a distinctive element of CHL's sales organization, delivery network, and customer service operation. Customers can get advice from the shops on ordering from CHL's Web site. The outlets also offer an alternative to home delivery: customers can pick up their orders from the shops, which allows them to check the contents of the packages. Finally, the shops provide guidance on installing equipment and other after-sales service.

CHL is also expanding its offline presence in other ways. It plans to increase the number of Mail Boxes Etc. shops through which it can deliver orders, from 350 last year to 400 at the end of this year. And an agreement with TNT Traco, the logistics company that has handled CHL's distribution, will give the company an additional 1,400 offline locations.

CHL, which expects to break even in 2002 on an operating basis (before interest, taxes, and depreciation), is committed to making a number of other improvements that should immediately benefit its bottom line. In addition to carefully monitoring its marketing expenses, it is moving into new categories—both to increase sales to existing customers and to defend itself against multinational "e-category killers." Finally, CHL plans to leverage its customer service system, its cost-effective delivery system, and its proprietary technological platform in the business-to-business market by offering those services to other companies that would like to sell online in Italy.

SERVING THE MOST VALUABLE CUSTOMERS

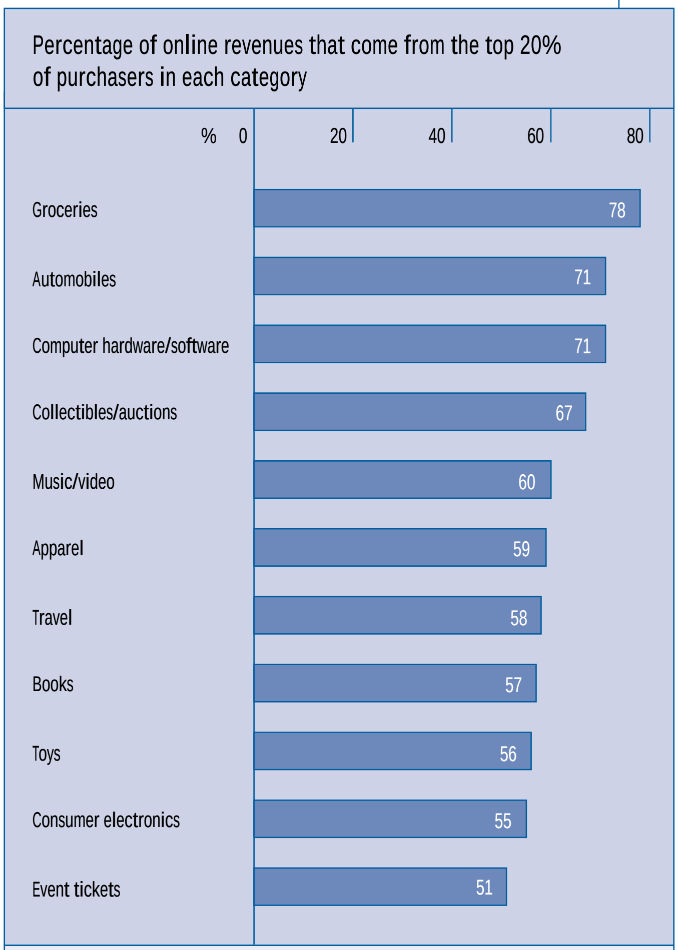
The key to online success for store-based retailers—which catalog-based companies have known for years—is to acquire and serve the right customers. Catalog retailers know they will succeed if they focus on the most recent customers, the most frequent, and the biggest spenders. Their straightforward, data-driven formula—called RFM (recency, frequency, monetary value)—lets them segment their customer base and concentrate on the high rollers.

Rather than allocate huge sums to attract customers whose purchases won't justify their acquisition costs, online retailers, too, should segment customers by their potential to generate profits and then invest resources in the most valuable ones. Internet retailers that focus on high-value customers the way catalog retailers do will greatly increase their chances of survival. What's more, this approach is crucial to getting high-value customers to spend more. Understanding the dynamics of different segments and targeting the most valuable ones will be a requirement for every consumer company in the online world.

Just as in the offline world, a small number of purchasers account for a disproportionately large share of all online spending. (See Exhibit 8.) It pays, therefore, to understand how high-value purchasers differ from average ones. But very few consumers belong to the high-value segment in all categories. That is to say, there is no golden segment that all retailers would want to serve, because heavy spenders in one category are not necessarily heavy spenders in another. Every retailer needs to understand the characteristics of its own most valuable segments.

EXHIBIT 8

A SMALL GROUP OF VALUABLE CUSTOMERS ACCOUNTS FOR THE MAJORITY OF ONLINE SALES



SOURCE: BCG proprietary database of European Internet users, 2001. (The number of respondents for the individual categories ranged from 1,703 to 5,670, with the exception of automobiles, for which the number was 242.)

Consider people who buy groceries online. The top 20 percent of these purchasers—the biggest spenders—account for 78 percent of total online expenditures in this category. (See Exhibit 9 for more details on how the purchasing behavior of high-value customers differs from that of the remaining customers.) Compared with the other 80 percent of purchasers, these customers tend to be older, more affluent, and more attracted to the convenience of online purchasing. Furthermore, they don't like to shop—either online or off—and they are less sensitive to prices and more loyal to brands and stores.

EXHIBIT 9

HIGH-VALUE VERSUS LOWER-VALUE CUSTOMERS IN THE ONLINE GROCERY CATEGORY

Purchasing behavior	High-value customers	Lower-value customers
Average number of online transactions per year	16.5	3.5
Average online spending per year	€1,052	€75
Average spending per transaction	€64	€21

SOURCE: BCG proprietary database of European Internet users, 2001. (The number of respondents was 1,739.)

When asked what online grocers could do to improve their sites, the high-value customers called for better navigation, improved security, faster and more reliable delivery, and better product-return processes. Of course, these are features that consumers in all segments appreciate. But the high-value segment is particularly interested in them, while the lower-value segment prefers other kinds of improvements. The lesson for online grocers: making the browsing and purchasing experience as efficient as possible is more important than reducing prices or using flashy graphics.

In addition to segmenting customers by the value they might bring to the business, online retailers can also segment them by their attitudes and motivations. Of course, the segments will vary considerably by category, and every consumer company will have to create its own segmentation. Nevertheless, it is still possible and worthwhile to develop a general picture of the different kinds of consumers across Europe. To that end, The Boston Consulting Group gathered extensive data to generate an overview of European online purchasers on the basis of their attitudes toward browsing and purchasing (online and off) and their motivations for buying online. The five segments that emerged are described below.

Reluctant shoppers hate shopping—both online and off—and plan their purchases carefully to save time. Consequently, they will often stay with a retailer once they have found one they like, rather than shop around. They are not interested in the social aspects of shopping and are willing to pay more to save time and trouble. Although they don't have much experience on the Web, they like to be informed about products and look forward to using the Internet to make their lives easier. A large proportion of this segment consists of married, well-educated males with a high income who are slightly older than the average online purchaser (35.8 years old).

Enthusiastic shoppers like the social aspects of shopping, both online and off, and view the Internet as a new way to make shopping even better. They often buy on impulse, without considering price, and they love to browse. Women with children and average incomes who are slightly older than the average online purchaser account for a large proportion of this segment.

Busy online mothers love online and offline shopping, enjoy browsing, and are more interested in finding a good bargain than a particular product or brand. Price and efficiency matter a lot, so they are eager to become more familiar with buying on the Internet. Consumers in this segment tend to have large households and lower-than-average incomes.

Rational technophiles do not particularly like to shop and are not interested in its social aspects. But they do care about price and prefer well-known brands. Consequently, they plan their purchases carefully and leverage their extensive Internet experience to gather information before buying. Consumers in this segment are usually young, single, and well educated.

Impulsive professionals are impulsive buyers who love to shop and are usually not concerned about price. Although they are loyal to their favorite brands, they also like to try new products. They are excited about the Internet as a new browsing and purchasing channel. Many consumers in this segment are young, single, well-educated people with extensive Internet experience.

In designing approaches for attracting customers from their preferred segments, retailers should bear in mind that different segments tend to respond differently to different incentives. Enthusiastic shoppers, for instance, are attracted by easy navigation and assurances of security, whereas consumers with more Internet experience—such as rational technophiles and impulsive professionals—respond to liberal return policies and reliable delivery.

In working with any segmentation model, however it is easy to lose sight of the basics when one is looking for subtle insights. If, for example, a retailer wants to attract more busy online mothers, it should be aware that 28 percent of them said that their not having a credit card was a major obstacle to online purchasing. Alternative payment methods are therefore necessary for winning over those consumers. Dell has done an excellent job of attracting two different, but valuable, consumer segments by designing an online purchasing process that caters to the needs of both. (See the insert “Dell.com: Focusing on the Most Valuable Customers.”)

Dell.com: Focusing on the Most Valuable Customers

Michael Dell founded Dell Computer in 1984 with just $1,000 and the idea to sell customized computers directly to consumers over the telephone. By avoiding the expense of stores and distributors, he reasoned that he could keep costs low and pass the savings on to the buyer. Dell graduated to the Internet in 1996 and went on to become the top PC seller worldwide, with a global market share of approximately 13 percent and revenues of $31 billion. Today, Dell’s online and telephone channels are completely integrated: online orders can be completed by phone, and the status of phone orders can be tracked online. Similarly, after-sales customer service and support are offered on both channels.

Dell’s online customers have two ways to choose a computer. They can view a selection of computer components already bundled for specific purposes, such as entertainment or office use, or they can select each component separately. This approach allows Dell to target two important but different consumer segments: the high-value, high-end technophile who brings in 80 percent of the revenue but demands customized configurations; and the low-end, less experienced novice who seeks advice and simple choices. However, less experienced customers can also browse the veteran users’ choices as they increase their expertise and interest.

Several factors have helped Dell’s business model succeed online. One was its focus on its most valuable segments. Another was that many people in the main segment it targeted—technophiles—happened to be early Internet users, which gave Dell a stronger advantage than online retailers in other product categories. A third factor was the company’s well-established brand name, which helped ease consumers’ concerns about using the new channel. Still another was Dell’s previous experience in direct sales, which included its skill in handling remote customer relationships, call centers, and distribution systems. Finally, Dell was able to integrate its Web site into all its online and offline advertising and promotional literature, which helped to promote the online channel’s success.

Despite its dramatic growth, Dell, like all computer manufacturers, faces strong challenges: increasing competition, computer saturation in most of its primary markets, and the fact that its products are commodities. The company’s future will depend on how it positions itself with regard to its products, markets, and customer segments. However, there are signs that it is already evolving from a pure computer seller to a complete computer service provider. Given the company’s deep understanding of its customer segments as well as its capabilities in customer relationship management, it certainly is in a strong position to surmount those challenges.

Satisfying the most valuable customers is vital to online retail profitability. It leads to loyalty, increased purchases, and advocacy. And advocacy helps attract more valuable customers, creating a virtuous circle. But many retailers are falling short of the goal. Although consumers are buying more online than ever before and hope to buy even more in the future, their intentions are based on the expectation that purchasing online will work as smoothly as it does offline. Unfortunately, as the next section reveals, that is not always the case.

THE NEED TO SATISFY

At first glance, European consumers seem very satisfied with online purchasing: 91 percent of our survey respondents reported that they were at least somewhat or very satisfied. That figure, however, is misleading. One reason why consumers might appear to be content is that online purchasing in Europe is fairly new; as a result, it is still enjoying a grace period. Another reason is that European offline stores keep shorter hours than U.S. stores, which makes the convenience of purchasing online in Europe a greater benefit. Finally, although the total number and value of online purchases are both soaring, consumers' expectations are rising even faster.

This means that the honeymoon is not likely to last much longer. As the novelty of online purchasing wears off, as consumers grow more proficient on the Internet, and as the media raise expectations by continuing to extol the Internet's virtues, consumers will become less forgiving. That is what happened in the United States, where the proportion of consumers who stated that they were somewhat or very satisfied with online purchasing fell from 75 percent in 1999 to 68 percent in 2000.[6] Increasingly, European consumers will expect online purchasing to go as smoothly as—or even more smoothly than—offline purchasing. Companies are not even close to meeting that expectation.

European consumers who had bought online reported that 27 percent—or more than one in every four—of their attempts to make online purchases in the preceding 12 months did not succeed. And 70 percent of those consumers reported at least one failed purchase attempt during the same period.[7] The rate of failed purchase attempts varied across Europe, ranging from 22 percent in the United Kingdom to 37 percent in Italy. There was a correlation between those rates and the degree of Internet proficiency in the respective countries, suggesting that many sites were confusing or too difficult for Internet neophytes.

The problems in Europe seem to involve all aspects of the buying process. More than three-quarters of online purchasers experienced long downloading times, stock-outs, and cumbersome navigation. But even the less common problems tended to be quite serious: 19 percent of online purchasers reported that the product they had paid for never arrived; 14 percent had difficulties getting the Web site to accept their credit cards; and 9 percent received unauthorized credit card charges. (See Exhibit 10.) Obviously, online sites are promising much more than they can deliver.

Retailers cannot afford to ignore these statistics, because the impact of every failed purchase can go far beyond the loss of a single sale. Our research shows that 35 percent of consumers who experienced a failed purchase attempt stopped browsing at the offending Web site, and 32 percent stopped buying from it. Even more damaging, 6 percent said they stopped purchasing from the retailer's offline location as well. (See Exhibit 11.)

When consumers encounter recurring purchase failures, their frustration can have a devastating effect on

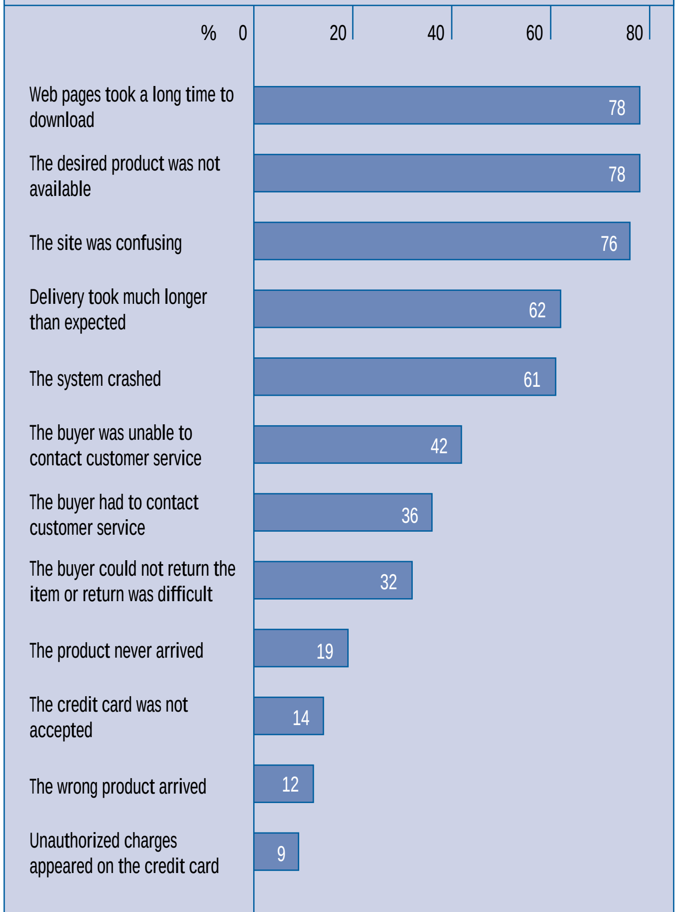
6. *Winning the Online Consumer 2.0: Converting Traffic into Profitable Relationships*, BCG report, February 2001.

7. A *failed purchase attempt* occurs whenever a consumer goes online with the intention to purchase but either fails to find the product or is unable to complete the transaction satisfactorily.

EXHIBIT 10

COMMON PROBLEMS REPORTED BY ONLINE PURCHASERS

Percentage of online buyers with at least one failed purchase attempt who experienced the following problems frequently or sometimes



SOURCE: BCG proprietary database of European Internet users, 2001. (The number of respondents was 6,112.)

the bottom line, although to varying degrees in different countries. German and British consumers tended to react more harshly to failed purchases than consumers in other countries: approximately one-third said they would stop buying from the Web site in question. More than half of Swedish and Italian consumers, on the other hand, claimed that a failure would have no impact on their behavior.

Europe's high overall satisfaction levels may also mask consumers' dissatisfaction with individual sites. Since competitors are just a click away on the Internet, frustrated consumers can easily switch sites. Our research shows that although European consumers are aware of many different sites, they tend to confine their repeat purchases to only one or two favorite sites in each category. Therefore, retailers that disappoint their online customers risk losing them forever.

"When I started online two years ago, I was more forgiving of technical problems. Now if things go wrong, I don't forgive. I switch sites and I spread the word."

Martin, a sound engineer in the United Kingdom who has been online for two years

EXHIBIT 11

CONSUMERS PUNISH COMPANIES FOR FAILED ONLINE PURCHASE ATTEMPTS

Consequence of a failed purchase attempt	Percentage of online buyers who suffered a failed purchase attempt in the preceding 12 months who said the statement applies to them
I stopped browsing at that particular Web site	35
I stopped purchasing at that particular Web site	32
I stopped purchasing from that particular company's offline stores	6
I stopped browsing online, but only for that type of product	6
I stopped purchasing online, but only for that type of product	7
I stopped browsing online forever	1
I stopped purchasing online forever	1
It had no impact	44

SOURCE: BCG proprietary database of European Internet users, 2001. (The number of respondents was 6,112.)

NOTES: A *failed purchase attempt* occurs whenever a consumer goes online with the intention to purchase but either fails to find the product or is unable to complete the transaction satisfactorily. Multiple responses were possible.

THE BOTTOM LINE OF SATISFACTION

The positive impact of satisfied customers—and the negative impact of dissatisfied ones—have a greater compounding effect on the bottom line than many retailers realize. Two of the most valuable results of improved customer satisfaction are increased loyalty and advocacy. Satisfied customers buy more and more often, and the combined effect of both actions is that they spend considerably more than dissatisfied ones.

Consider the following numbers. European online consumers who found their purchasing experiences very satisfying said they spent an average of €1,074 and engaged in an average of 15 transactions during the preceding 12 months, whereas dissatisfied purchasers said they spent only €628 and engaged in only 6.2 transactions during the same period.[8] Furthermore, 50 percent of the very satisfied purchasers conducted transactions in five or more categories; only 19 percent of the dissatisfied purchasers were active in that many categories. (See Exhibit 12.)

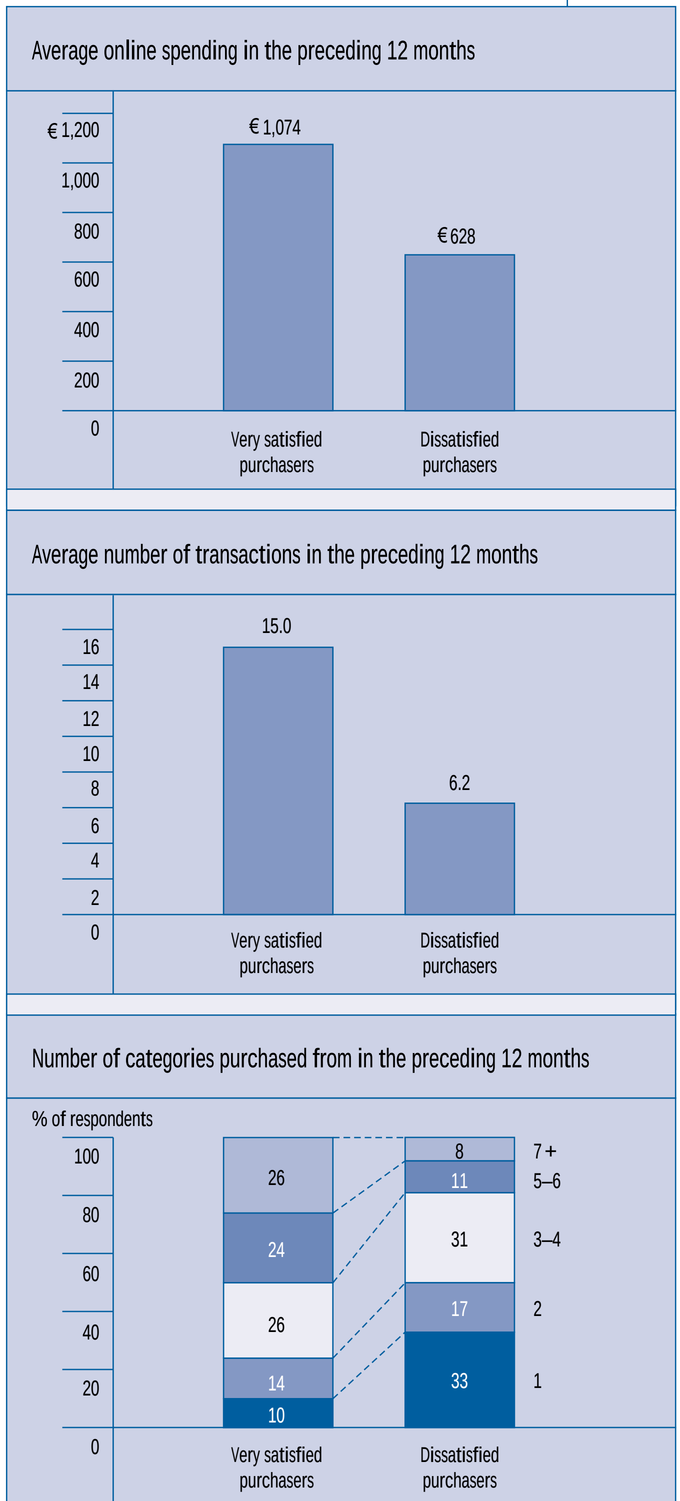
The level of satisfaction also had a big impact on consumers' intentions to make an online purchase in the future and to recommend a site to someone else. In the apparel category, for example, 40 percent of the very satisfied purchasers said they intended to increase their online spending in the next 12 months, whereas only 14 percent of the dissatisfied ones planned to do so. Even more dramatic, only 11 percent of the very satisfied purchasers intended to decrease their online spending over the next year, while more than 56 percent of the dissatisfied ones planned to do so.

The economics of satisfying customers are powerful: loyal customers more quickly amortize the high cost of customer acquisition and become profitable. Advocacy, the ultimate form of loyalty, contributes at least three additional benefits: lower customer-acquisition costs, lower customer-retention costs, and higher customer-conversion rates (the number of buyers divided by the number of individuals visiting the site over a specific time). Advocates improve customer retention by reinforcing a positive image of the retailer in their own minds as they recommend the site to others. And consumers who reach a site as a result of a recommendation are much more likely to buy than those attracted by conventional marketing techniques. That phenomenon is reflected in a higher conversion rate and has a dramatic effect on profitability.

8. Consumers tend to overestimate their spending. Nevertheless, the ratio between the spending of very satisfied and dissatisfied purchasers should be accurate.

EXHIBIT 12

SATISFIED PURCHASERS SPEND AND TRANSACT MORE ACROSS MORE CATEGORIES



SOURCE: BCG proprietary database of European Internet users, 2001. (The number of "very satisfied" respondents was 3,770; the number of "dissatisfied" respondents was 179.)

NOTES: The categories were apparel, books, consumer electronics, collectibles/auctions, computer hardware/software, event tickets, groceries, music/video, toys, and travel. Consumers tend to overestimate their spending; nevertheless, the ratio between the spending of very satisfied and dissatisfied purchasers should be accurate.

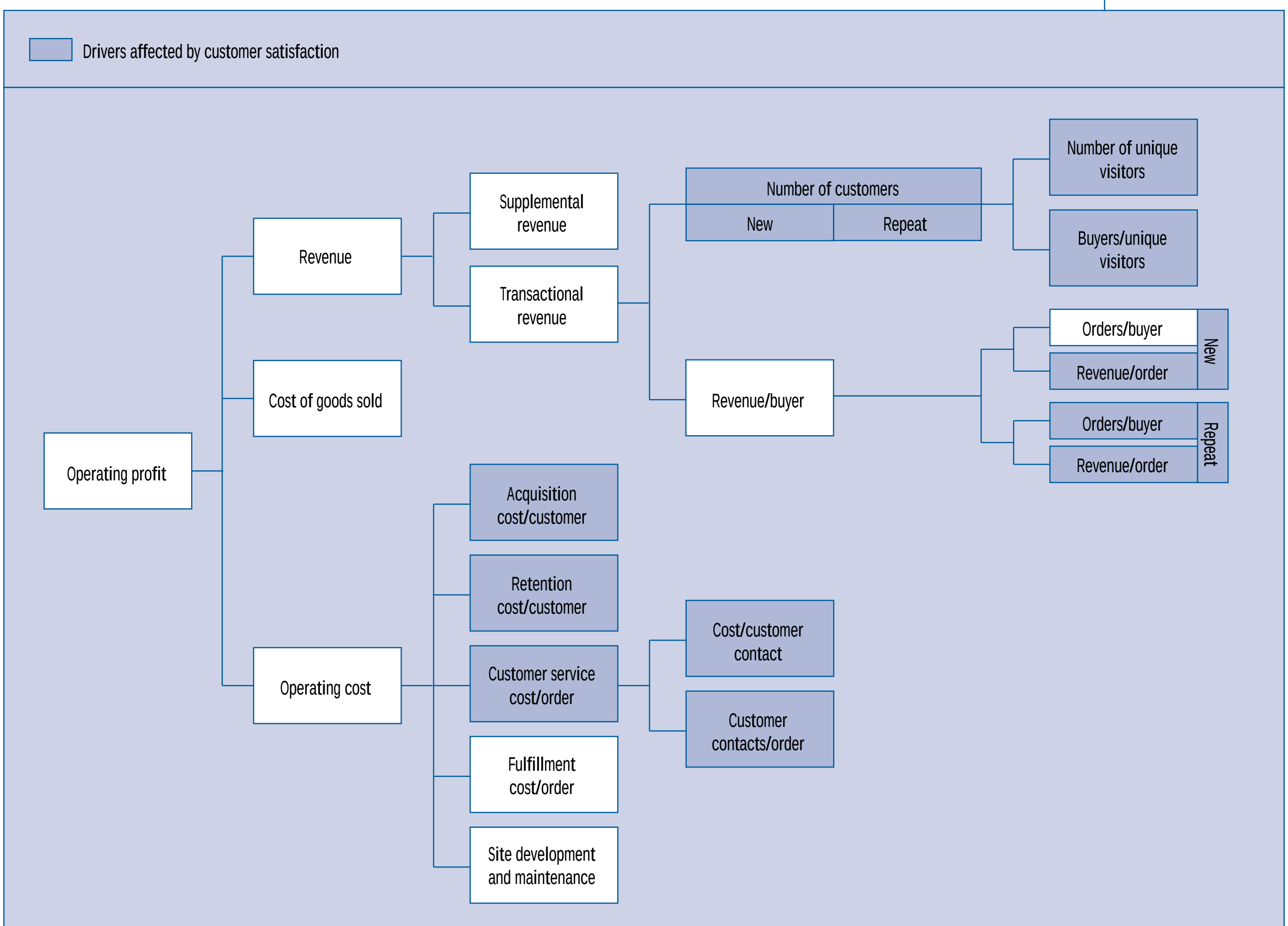
The Profit Driver Framework illustrates how these performance metrics relate to the operating profitability of online retailers. (See Exhibit 13.) It separates revenue and operating costs into their component parts and highlights the metrics that are particularly affected by customer satisfaction. Satisfied customers behave differently from dissatisfied ones, and their behavior has a positive effect on many of the most important drivers of online retailers' operating profits.

In fact, satisfying customers at every stage of the purchasing process can have a combined effect large enough to push an average online retailer into the black. Exhibit 14 shows how realistic performance improvements can move a hypothetical online travel agency from an operating loss of 31 percent to an operating profit of 2 percent. Achieving those results does not assume best-in-class performance on any one dimension. If top performers achieve conversion rates of 5 percent, the hypothetical online travel agency's 2 percent should be well within reach.[9]

9. *The Race for Online Riches: E-Retailing in Europe*, BCG report, February 2000, performance benchmarks; best-practice case interviews; literature review.

EXHIBIT 13

THE PROFIT DRIVER FRAMEWORK: SATISFIED CUSTOMERS IMPROVE KEY ELEMENTS OF ONLINE RETAILERS' ECONOMICS



SOURCE: The Boston Consulting Group.

EXHIBIT 14

SATISFIED CUSTOMERS CAN SIGNIFICANTLY AFFECT THE BOTTOM LINE

Hypothetical online travel agency

Satisfaction levers	Average online travel agency	Online travel agency that satisfies
Unique visitors (index to 100)	100	125
Conversion rate (buyers/unique visitors)	1.2%	2.0%
Proportion of repeat customers	40%	60%
Number of orders per year/customer	1.5	2.5
Ratio of repeat-order revenue to first-time-order revenue	120%	160%
Operating profit/loss as % of revenue	–31%	+ 2%

Profitability is within reach for the average retailer

SOURCES: *The Race for Online Riches: E-Retailing in Europe*, BCG report, February 2000, performance benchmarks; interviews at best-practice companies; literature review.

WORKING ON ALL FRONTS IS ESSENTIAL

Note, however, that success depends on improving performance on all dimensions at the same time. Increasing the number of unique visitors or the proportion of repeat customers will improve results, but no single lever will put profitability within reach. (See Exhibit 15.) Our hypothetical online travel agency will get the results it wants only by pushing all the levers in unison—which is precisely what satisfying customers will achieve. But surprisingly few companies are following the best practices of most successful retailers. One exemplar is Amazon.com, which has proved to be outstanding at creating a good online browsing and purchasing experience and then continuing to fine-tune it. (See the insert "Amazon.com: Providing the Right Experience", page 31.)

EXHIBIT 15

IT TAKES ALL LEVERS TO REACH PROFITABILITY

Hypothetical online travel agency

Satisfaction levers	Average online travel agency	Impact of a single lever on operating profitability				
Unique visitors (index to 100)	100	125	100	100	100	100
Conversion rate (buyers/unique visitors)	1.2%	1.2%	2.0%	1.2%	1.2%	1.2%
Proportion of repeat customers	40%	40%	40%	60%	40%	40%
Number of orders per year/customer	1.5	1.5	1.5	1.5	2.5	1.5
Ratio of repeat-order revenue to first-time-order revenue	120%	120%	120%	120%	120%	160%
Operating profit/loss as % of revenue	–31%	–27%	–14%	–26%	–19%	–24%

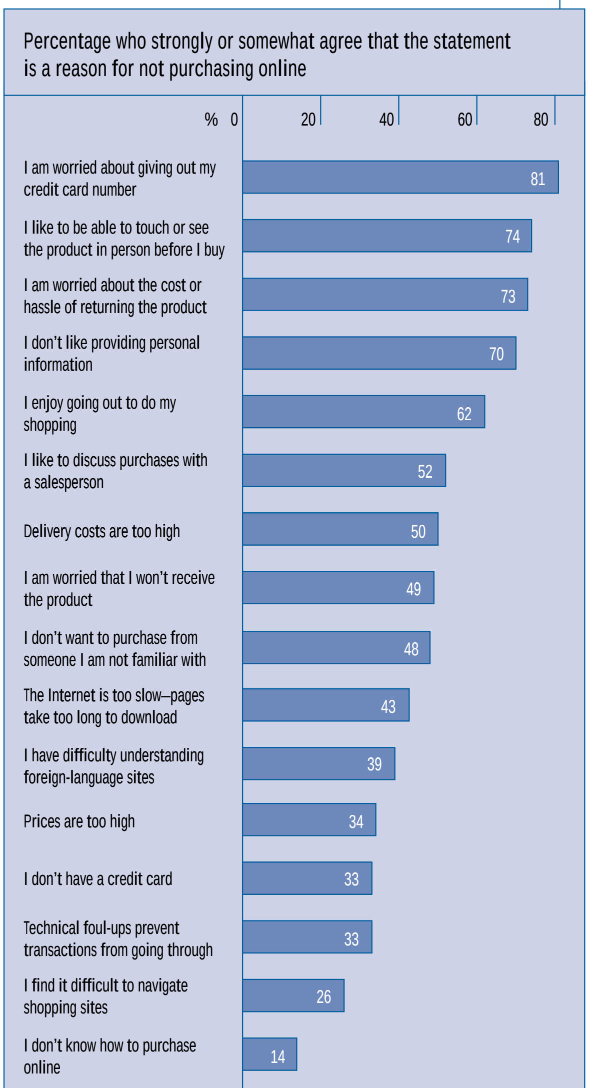
SOURCES: *The Race for Online Riches: E-Retailing in Europe*, BCG report, February 2000, performance benchmarks; interviews at best-practice companies; literature review.

Overcoming Barriers to Purchasing Online

Despite the benefits of purchasing online, potential customers are being discouraged by the real and perceived barriers or compromises they encounter. Internet users who had not made an online purchase cited as primary problems credit card security, the inability to touch or see the products, and the difficulty of returning products. (See Exhibit 16.)

EXHIBIT 16

INTERNET USERS WHO HAVE NOT MADE AN ONLINE PURCHASE WORRY MOST ABOUT SECURITY



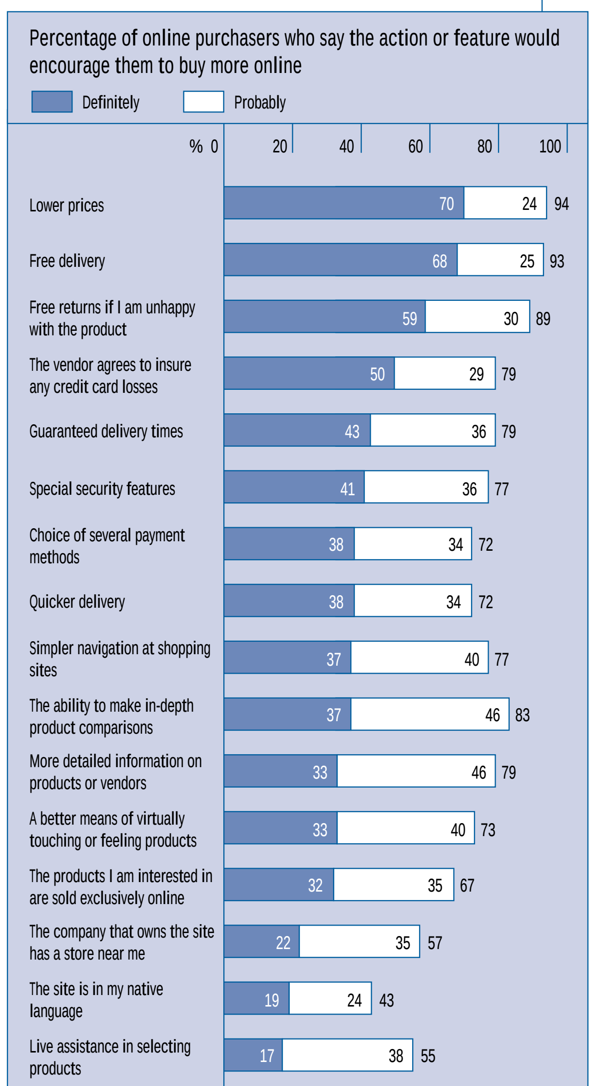
SOURCE: BCG proprietary database of European Internet users, 2001.
(The number of respondents was 2,316.)

Companies can take a variety of measures to encourage regular online purchasers to buy more. For instance, 94 percent of purchasers would welcome lower prices, 93 percent free delivery, and 89 percent free returns. They also desire better security features, improved fulfillment, alternative payment methods, and product comparison. (See Exhibit 17.) While the top three stimuli for purchasers are identical across Europe (although in different orders), other features are ranked differently. Germans, for example, would rather have alternatives to credit card payment than insurance against credit card loss. In contrast, the British, who are accustomed to using credit cards, find insurance against loss more appealing.

Improving the return process offers a major opportunity to stimulate buying. Our research shows that purchasers rate returns as one of the least satisfying parts of the experience. Yet the return process can be an important element in attracting consumers online, not because returns are so common—they aren't—but because the anticipated hassle may keep consumers from buying in the first place. From the retailer's perspective, returns are costly and logistically complex, but mishandling them can cause significant customer-service problems. Online retailers that manage to build a return system that is cost-effective as well as easy and convenient will satisfy an important need and help to generate a significant competitive advantage.

EXHIBIT 17

LOWER PRICES AND FREE DELIVERY OR RETURNS ARE THE MOST EFFECTIVE WAYS TO STIMULATE ONLINE PURCHASING



SOURCE: BCG proprietary database of European Internet users, 2001.
(The number of respondents was 9,273.)

Amazon.com: Providing the Right Experience

Europe figures prominently in the strategy of Amazon.com, the world's largest Web-based company, with revenues more than double those of the next-largest player. Amazon.de, the company's largest site outside the United States, controls a remarkable 47 percent of the German online book market. And with the European online population expected to grow by more than 25 percent annually, Amazon is looking to Europe to help it achieve profitability—especially since most of the newcomers will be keenly interested in buying books, music, and videos online.

Amazon's overall success is not a product of scale alone. The company is outstanding in many dimensions, particularly its almost flawless end-to-end purchasing experience. Amazon is noted for its brand-building skills, its relentless focus on relationship marketing, its continual operational improvements, and its moves beyond books into other categories. The company has worked hard to get customers not merely to trust it but to depend on it for information, recommendations, and ideas.

Rather than simply put a product list online, Amazon actually enhances the book-buying experience. It offers superior selection, fast searches, reviews, exceptional customer service, e-mail notification of new products, and an uncommonly user-friendly, personalized site. Because it tracks its order process, Amazon realized earlier than most online retailers that each additional click in the purchasing process increases the number of customers who quit before completing their transactions. Its answer was the 1-Click ordering process—a convenient and simple way for repeat buyers to place an order.

Amazon's current success and promising plans are helping to make it the most powerful brand on the Internet.

Giving multichannel customers what they want doesn't have to involve giving them more than they want or even more than anyone else will give them. It simply means performing reliably on all the essential elements of an integrated multichannel experience:

- consistent selection
- competitive price
- a user-friendly site
- secure payment processes
- dependable fulfillment
- prompt and appropriate customer service
- hassle-free returns

Working on all the elements is especially important when one considers that disappointed customers are more likely to punish a company's online site—and even its offline affiliates—by never returning than delighted ones are to reward it with continued patronage. Therefore, reliability and consistency are crucial. A Web site the customer can count on to deliver satisfactory service is preferable to one that tries to impress with a high-wire act that sometimes works and sometimes doesn't. (See the insert "Overcoming Barriers to Purchasing Online" for additional data on what consumers love and hate.)

* * *

Until now, most consumer companies have focused on building awareness and bringing traffic to their sites. Meanwhile, European consumers have been so taken with the novelty of the Internet that they have been willing to keep trying when a transaction hasn't gone as smoothly as they expected. This environment has lured many consumer companies into believing that just having an online presence was enough. As the Internet buzz subsides and consumers begin to treat the online medium as a regular part of their shopping lives, retailers that offer a seamless transition from one channel to another will have a clear competitive advantage. In fact, for retailers that pride themselves on superior customer satisfaction, multichannel retailing will become a business imperative.

METHODOLOGY

The purpose of this study was to gain insight into how consumers and retailers have been using the online channel and to help European consumer companies integrate the Internet in a multichannel environment. The findings relied on three sources of data: an online survey of Internet users and one-on-one interviews with consumers and with senior executives of best-practice companies, which BCG conducted during the first quarter of 2001.

The *quantitative research* data were collected from an online survey of nearly 12,000 European Internet users. It examined six major European countries—France, Germany, Italy, the Netherlands, Sweden, and the United Kingdom—and 85 percent of Europe's current online retail revenues. (See Exhibit 18.) The fieldwork was conducted by NFO Infratest, a member of NFO Worldwide, which is an internationally recognized market-research firm. Participants in France, Germany, the Netherlands, Sweden, and the United Kingdom were recruited from Infratest's country-specific online-household panels. For Italy, Infratest worked in partnership with Eurisko, an Italian-based research firm. The panels in the six countries combined included people from approximately 70,000 households.

We weighted the data so they would represent the European Internet population. We conducted telephone interviews to develop benchmarks for characterizing the Internet population in terms of demographics, length of time online, and e-commerce activity. The total figures for Europe were weighted on the basis of population size and Internet penetration. We believe that weighted totals give a better overview of the

EXHIBIT 18

BREAKDOWN OF SURVEY RESPONDENTS

	Europe	United Kingdom	Germany	France	Sweden	Italy	Netherlands
Nonpurchasers online	2,316	420	293	454	292	489	368
Purchasers online	9,273	1,748	1,767	1,426	1,577	1,319	1,436
Total	11,589	2,168	2,060	1,880	1,869	1,808	1,804

SOURCE: BCG proprietary database of European Internet users, 2001.

Internet population than unweighted totals, which would have the effect of valuing the United Kingdom's larger population and higher Internet penetration equally to those of a smaller country with a smaller penetration. We are confident that this process has resulted in data that accurately represent the current universe of Internet users in Europe.

The *qualitative research* was derived from one-on-one interviews with consumers who had a range of online transactional experience. The research included in-home "surf-along" interviews, in which we observed consumers as they engaged in online purchasing activity. In addition, we conducted in-depth interviews with senior executives of best-practice business-to-consumer companies. The interviews covered the issues critical to success in online and multichannel retailing, such as online and offline integration, branding, pricing, fulfillment, and meeting consumers' expectations.

We also used external reports and research for certain sections of the report, but we depended on the online survey as a primary source for describing and analyzing consumer behavior.

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