Op weg naar E-commerce 2.0

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Contents

1. Survey results

- Response 30 participants of which 12 brand owners;
- 95% of the participants has both e-commerce as physical retail
- Sales evenly spread: <100 K units, 100-500K units and >1M<5M units
- Geographic market: BNLX, Germany (UK, Nordics)
- Top challenges:
  - Generating traffic website
  - Returns management
  - Inventory visibility
  - Processing orders/fulfillment
- Brand owners seem not satisfied with respect to:
  - Offering logistics and transport industry with respect to pick up and drop off points
  - Returns management solutions
  - Costs of transport
  - Reliability of transport

2 European E-Commerce Market
A country by country market

United Kingdom
2010 EC-Rev: € 52.1bn
2009-14 CAGR: 13.1%

Belgium
2010 EC-Rev: € 4.8 bn
2009-14 CAGR: 31.6%

Germany
2010 EC-Rev: € 39.1 bn
2009-14 CAGR: 12.2%

Denmark
2010 EC-Rev: € 4.5 bn
2009-14 CAGR: 20.7%

Sweden
2010 EC-Rev: € 4.7 bn
2009-14 CAGR: 10.9%

Ireland
2010 EC-Rev: € 1.5 bn
2009-14 CAGR: 10.0%

France
2010 EC-Rev: € 31.2 bn
2009-14 CAGR: 25.6%

Portugal
2010 EC-Rev: € 1.0 bn
2009-14 CAGR: 19.9%

Russia
2010 EC-Rev: € 8.0 bn
2009-14 CAGR: 27.2%

Poland
2010 EC-Rev: € 3.4 bn
2009-14 CAGR: na

Finland
2010 EC-Rev: € 2.9 bn
2009-14 CAGR: 5.9%

Norway
2010 EC-Rev: € 4.0 bn
2009-14 CAGR: 4.7%

Netherlands
2010 EC-Rev: € 10.7 bn
2009-14 CAGR: 23.3%

Austria
2010 EC-Rev: € 3.7 bn
2009-14 CAGR: na

Romania
2010 EC-Rev: € 1.0 bn
2009-14 CAGR: na

Switzerland
2010 EC-Rev: € 4.6 bn
2009-14 CAGR: 11.4%

Spain
2010 EC-Rev: € 7.9 bn
2009-14 CAGR: 13.2%

Italy
2010 EC-Rev: € 10.3 bn
2009-14 CAGR: 27.9%

Greece
2010 EC-Rev: € 2.3 bn
2009-14 CAGR: 19.8%

Turkey
2010 EC-Rev: € 2.6 bn
2009-14 CAGR: 13.4%

Source: Broker research; Kelkoo; GP Bullhound Analyses; infox.ru; Ecommerce Journal; Internet world stats
Note: EC-Rev is short form for E-Commerce Revenue

E-Commerce Critical Success Factors

1 **Scalability**. Ability to offer a wider range of products and services to a larger (multi-country, multi-consumer) market.

2 Ability to use **online technology** efficiently to manage online traffic, the payment and processing of orders and the whole e-fulfillment model which includes interfacing with e-fulfillment partners

3 Understanding that the **supply chain is a critical part of the financially driven Business Model** and not the other way around. A cost effective supply chain should be integrally linked to the cash to cash order cycle.

4 Providing superior **customer experience** – the customer receives what they ordered when you promised

Customer Satisfaction – Key drivers

Since the invention of the e-commerce channel people constantly talk about the **"customer experience"** but what do consumers really expect from buying online?

1 Short Lead times in which **on time delivery** is more important than the speed of delivery

2 Low transportation costs

3 Greater **choice in delivery/collection options** including time slots during the day to avoid waiting the whole day for a shipment to arrive

4 The ability to **return product "hassle free"** and get refunds quickly

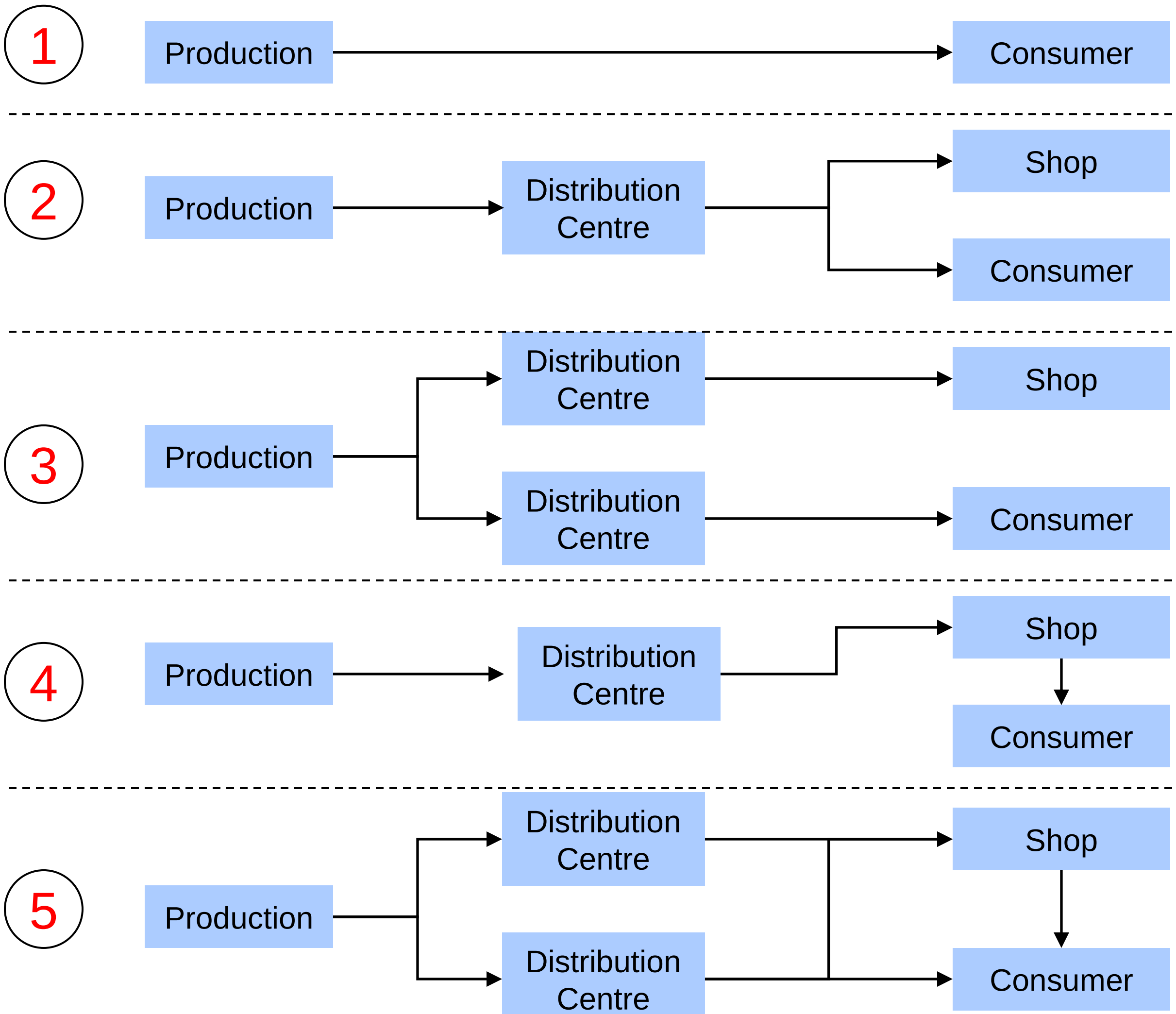
Towards Smarter e- fulfillment

- Providing superior customer experience means also that the customer receives what he/she ordered when, where and how he/she wants
- Reliable delivery against low costs with choices for the consumer
- Logistics makes a big difference in customer satisfaction

Main annoyances of online shopping

Source: ING, 2012, ICT Barometer (Ernst & Young)

3 Network configurations



1 **Direct delivery** – Often for unique custom made products

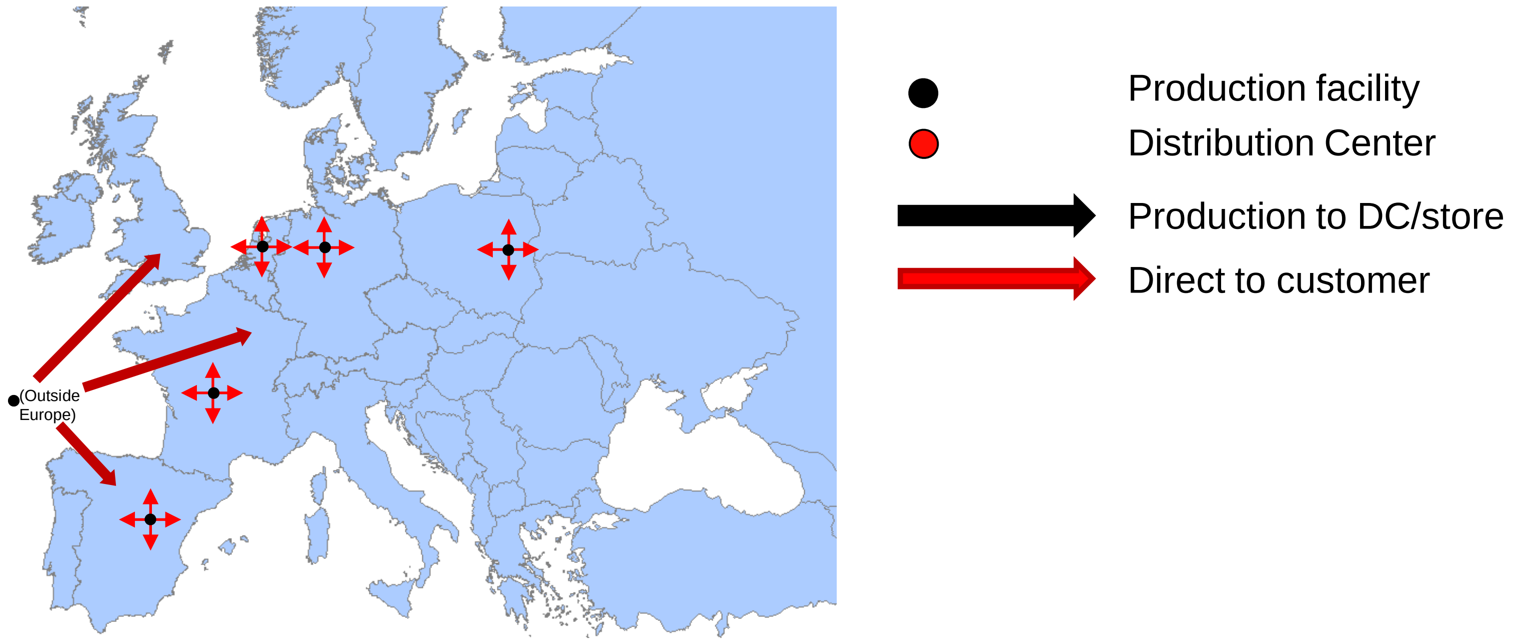
2 **Combination centres** – Stores and on-line customers serviced from same facility

3 **Dedicated centers** – Stores and on-line customers serviced from separate locations

4 **Store distributed** – on-line customers are serviced from stores

5 **Hybrid model** – Combination of the above strategies based on geography, SKU segment (type or velocity)

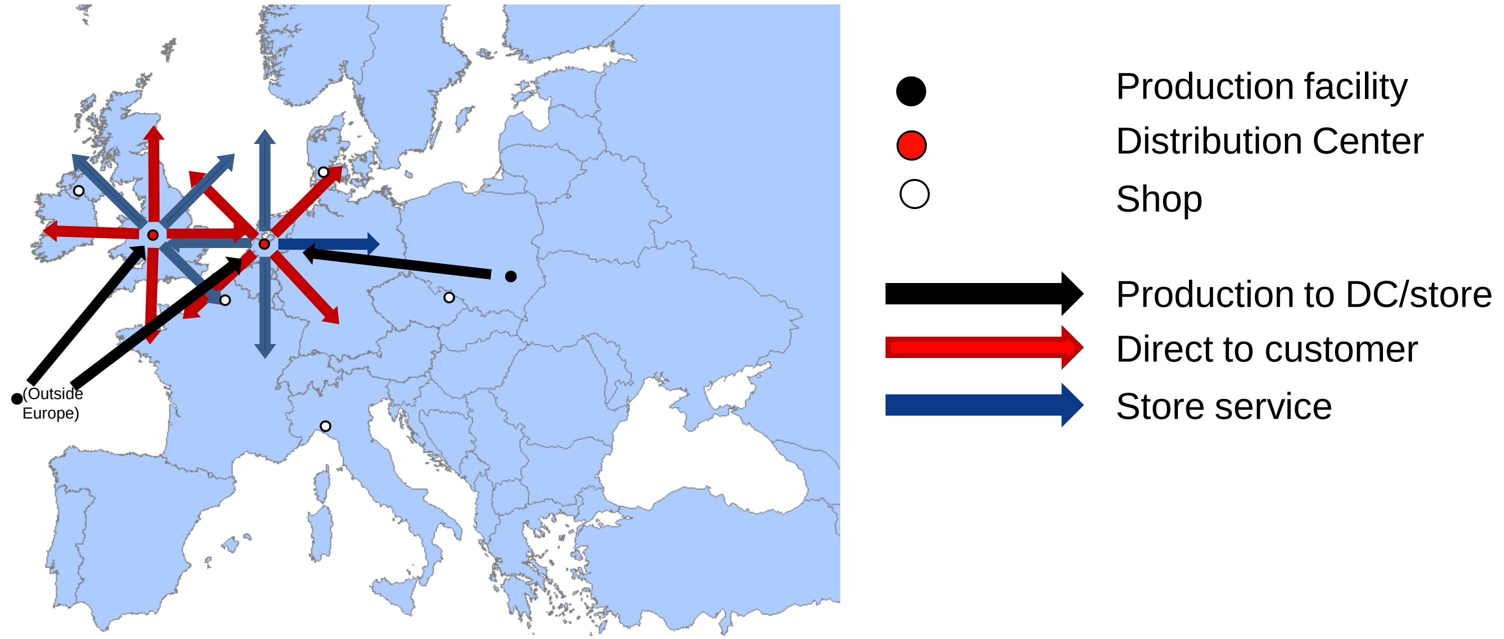
1 Direct delivery



Characteristics

- Most often seen for high value / luxury goods (Lenovo, Apple), and unique custom made products
- Vendor drop ship programs (either from source or from vendor's DC in Europe)
- Typically uses express parcel / airfreight network
- Can also be used by small scale local manufacturers

2 Combination centers



Characteristics

- Stores and on-line customers are serviced from same facility
- This can be a single facility or multiple facilities (as shown on the map)
- Service areas (store and direct to consumer can overlap)
- European examples include Zara, Mango, V&D, GAP

3 Dedicated center(s)

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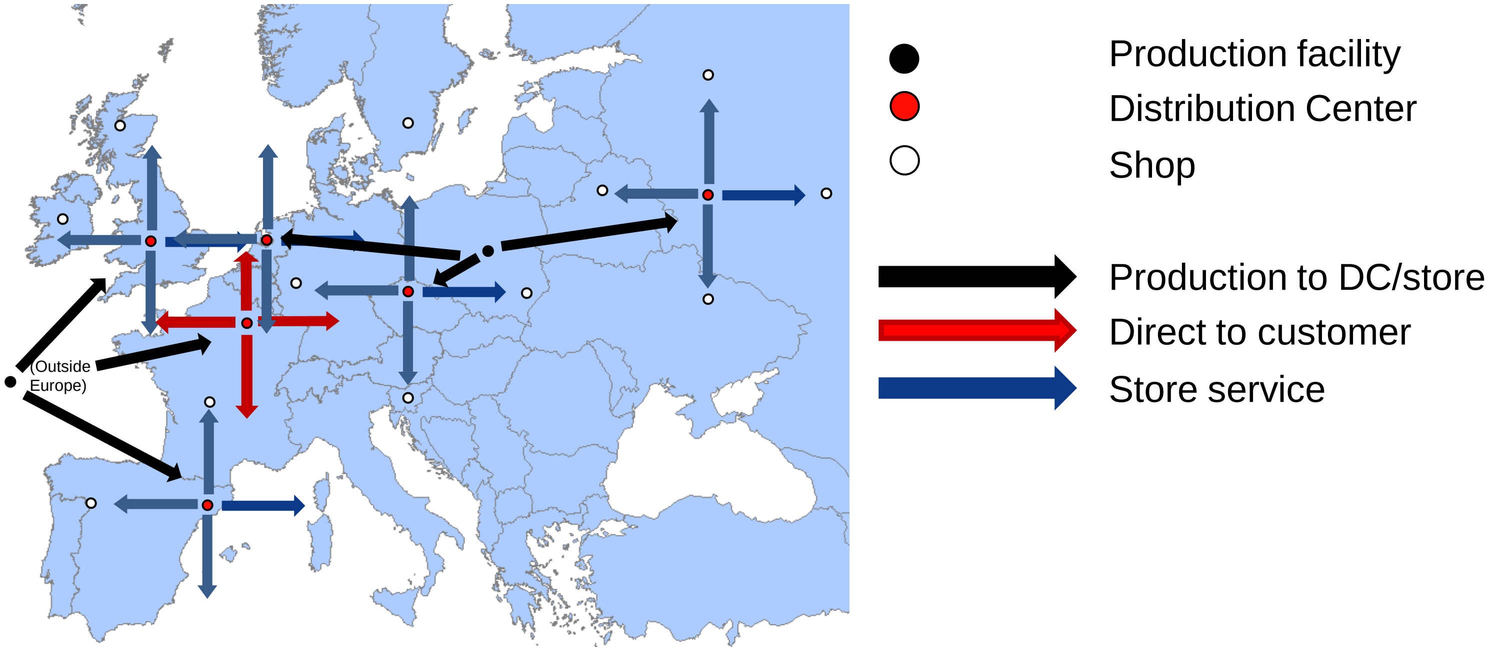
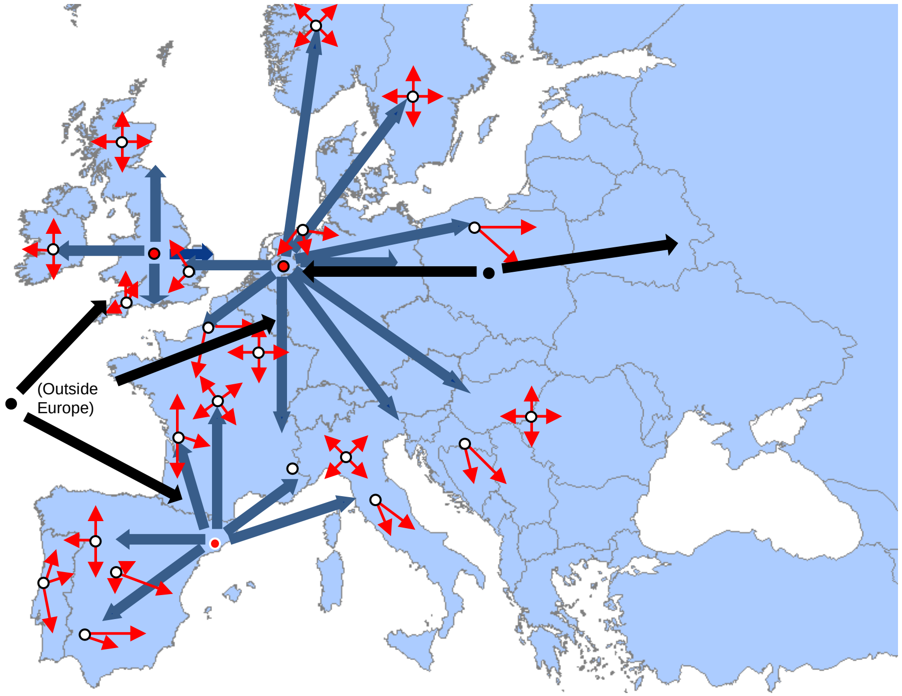
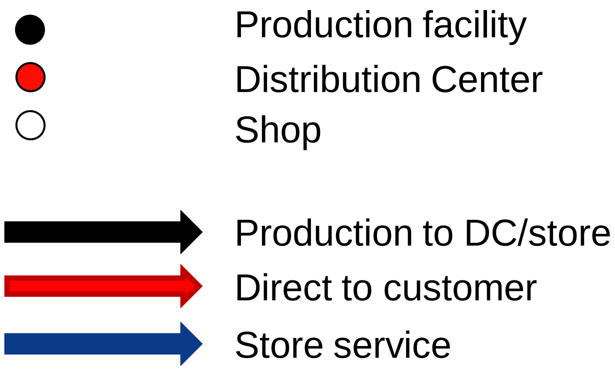


Characteristics

- Stores and on-line customers serviced from dedicated facilities for each channel
- Can be a single facility or multiple facilities, although typically limited for both retail and online business (Exceptions: Amazon has over 10 facilities in Europe; Zalando has multiple centers)
- Service areas (store and direct to consumer can overlap)
- European examples include H&M, Urban Outfitters, Tesco, Esprit

4 Store distributed

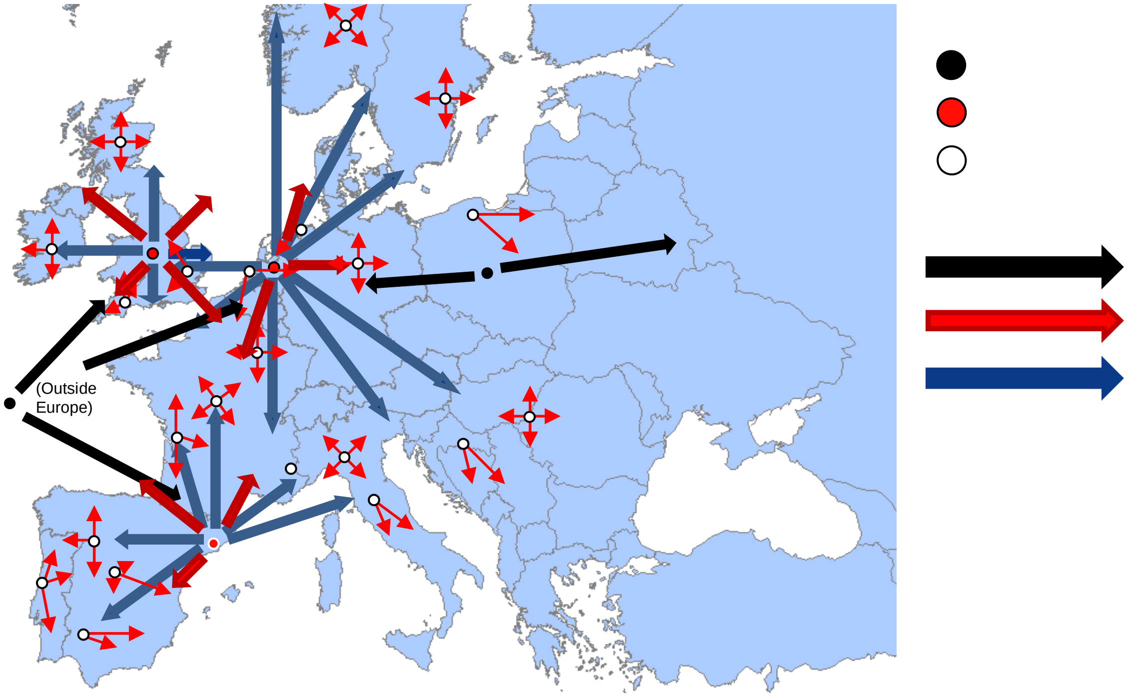




Characteristics

- Consumer customers are directly serviced from stores
- The servicing store is selected based on inventory availability and proximity to the customer (= pick pack ship from store)
- Service areas overlap extensively based on where inventory is available
- Using the stores as Pick Up Drop Off location is an alternative to store distributed
- European examples are ToysXL, IKEA, Bouwmaat

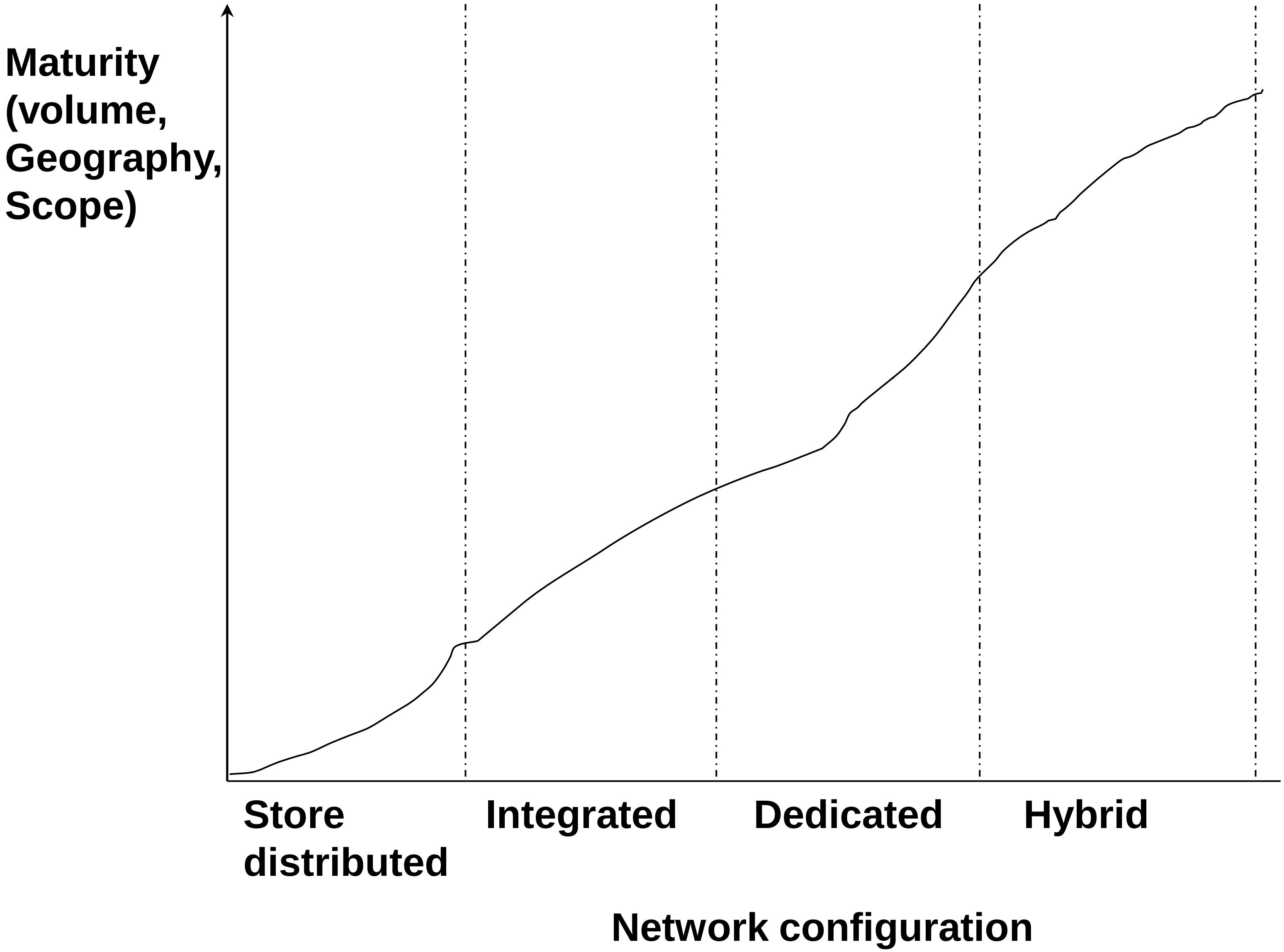
5 Hybrid model



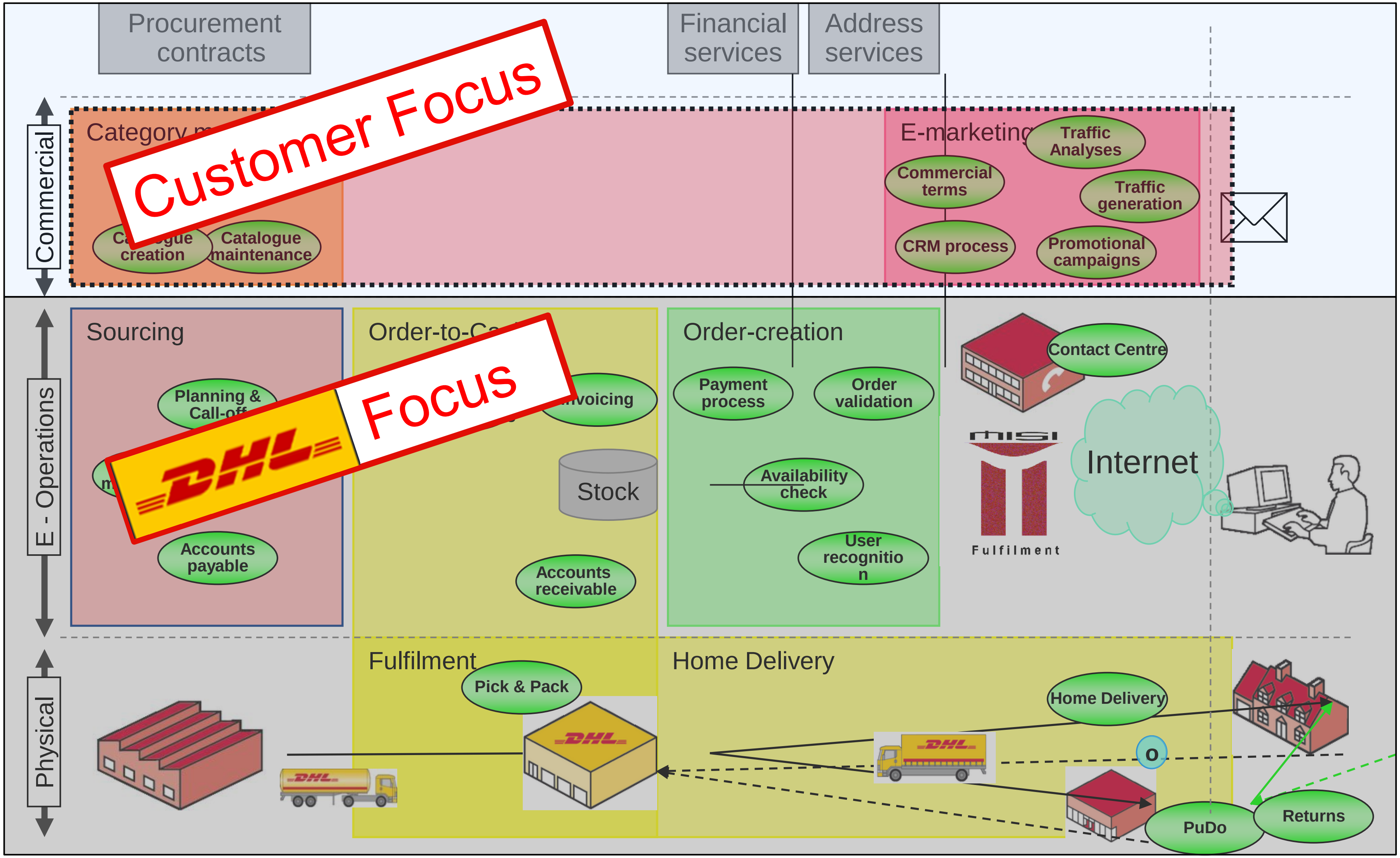
Characteristics

- Online orders can be collected free from the selected store or are delivered at cost to the customer home via a courier for an additional delivery fee
- Centralized DC is used to distribute both store and online orders to each country. In each country the online orders which the customer has selected to be collected in the store are delivered with the regular replenishment orders to each store. The direct to consumer home delivery orders are delivered centrally to the local/domestic courier company for next day delivery
- Returnable items can be returned (free of charge) to a local store
- Example: Zara

Evolution model

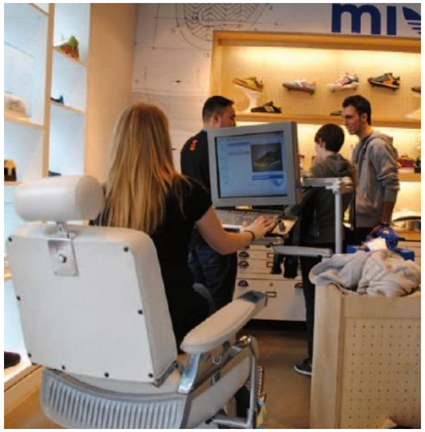


DHL Model for e-commerce market enteries



4 X channel retail

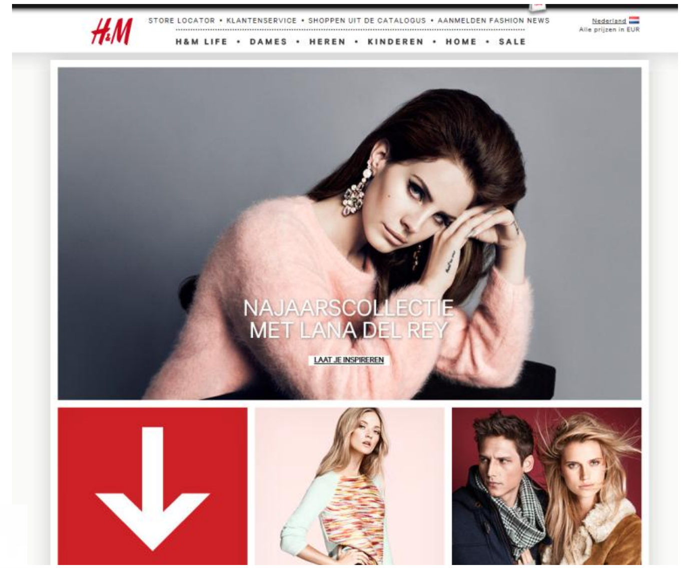
Kiosks
in
Chicago



Customers in a
retail store
purchasing
online

PanoPlaza:
online shopping in real
shops

E-commerce 1.0



Retailer

The future: Buy everywhere, fulfill everywhere, return everywhere

Your Customer Sees One Brand...

DHL Buck Consultants International

Survey results *: X channel retail

- 50% of US shoppers who switched channels also switched brands
- Average multi-channel shopper spends up to 61% more
- 60% of in-store shoppers don’t hand over $ until they have done online research

* Source: Nielsen

Information Asymmetry

The sales woman knows...

- Current price points in-store only
- Upcoming in-store promotions or discounts
- Stock on-hand quantity

The customer knows…

- In-Store stock levels & available to promise
- Web store price, in-store price, and best competitors price
- Upcoming promotions at all sales points

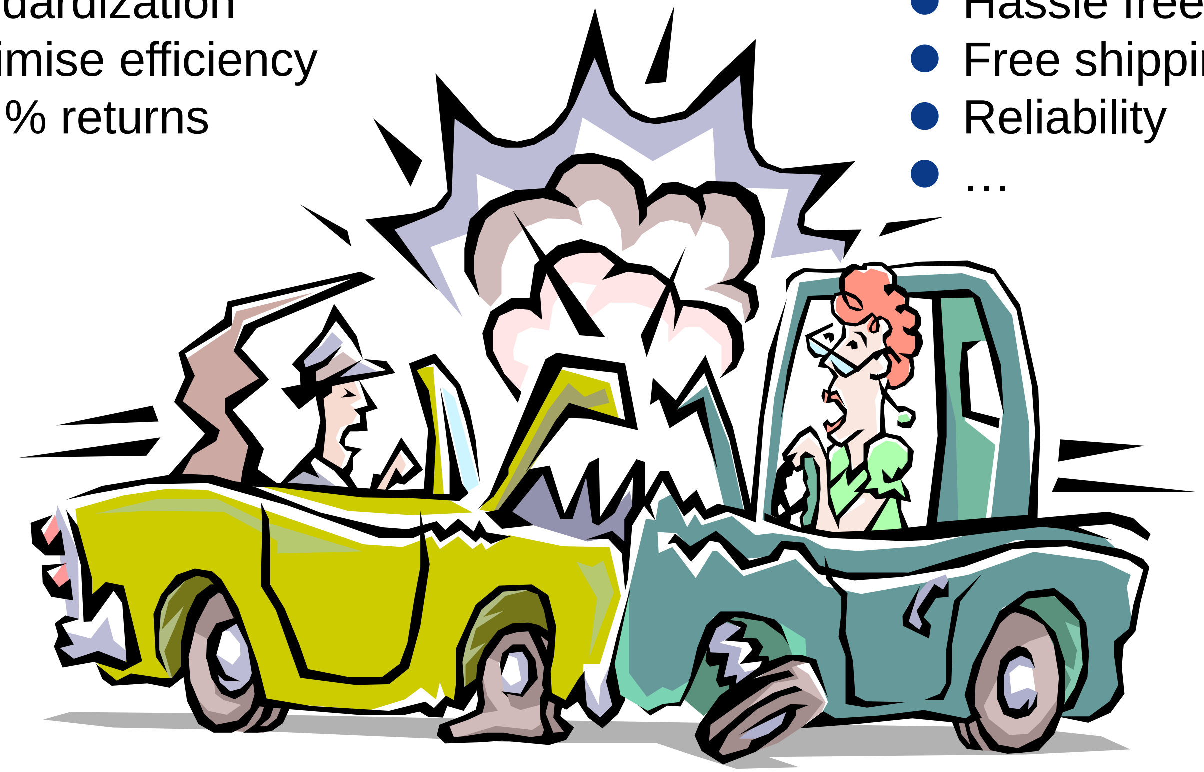
There are competing forces

Logistics - Operations

- Large orders
- Standardization
- Maximise efficiency
- Low % returns
- ….

The business

- Sell anywhere, return anywhere
- Hassle free returns
- Free shipping
- Reliability
- …



Efficiency
Scale

Cross channel
Customization
Increased complexity to satisfy the customer

Can these trends co-exist? A clear and aligned business model is required

What it is all about….

Cross channel

Margin

A channel vs an integrated approach

Business strategy elements	Channel focused approach (channels operate in silos	Brand focused approach (integration as standard)
Operating Structure		
Customer Order Data		
Staff training		

Factors underpinning a convenient and easy cross-channel customer experience

Channel focused approach	Brand focused approach
Cross-channel fulfilment (e.g. Click& Collect) ✗	Cross-channel fulfilment (e.g. Click& Collect) ✓
Cross-channel returns ✗	Cross-channel returns ✓
Unified brand experience ✗	Unified brand experience ✓
Discontinuity between channels fails to deliver consistent brand experience	Consistent customer experience enabled across channels

Source: DHL Freshminds report

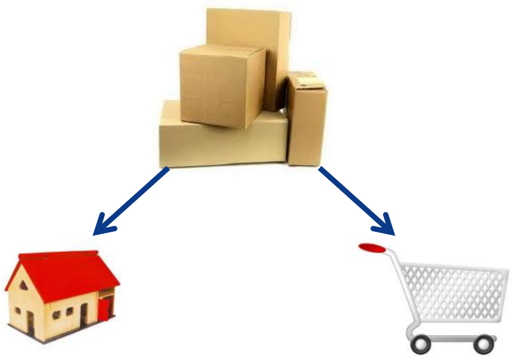
Supply chain implications and pre-requisites

- IT, IT and IT
  - I.e. Inventory visibility (by store, in store, DCs, across channels)
  - Inventory allocation
- Retail store capabilities
- Organization responsibilities and incentives
- Processes
- Cross border cross channel returns
- Cross business model returns (i.e. franchise, shop in shop etc)

Stock pool spectrum

Common single stock

One Stock Pool fulfilling all channels with no stock ring-fencing



Strengths

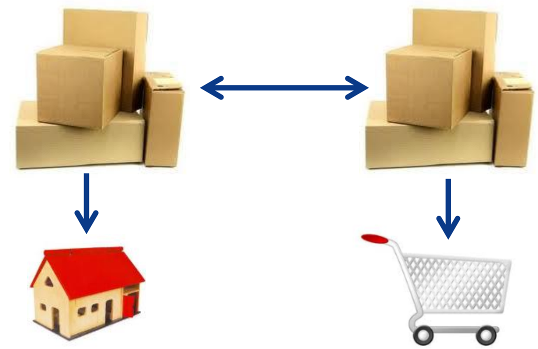
- Not as many over-runs/overstocking
- Easy to react to demand and recycle stock
- Easy to manage from a systems perspective

Weaknesses

- Conflicts of interest between channels
- Dynamic visibility difficult

Hybrid Models

Separate Stock pools allocated to channels with cross channel balancing capability



Strengths

- Flexible
- Lowers risk of Conflict of Interest
- Lowers risk of rapid fluctuation in stocks
- Enables good visibility

Weaknesses

- Requires more complex IT systems

Segregated Stock

Separate Stock pools allocated to each channel with no cross-channel capability

Strengths

- Simple
- Enables good visibility
- Low risk of conflict of interest

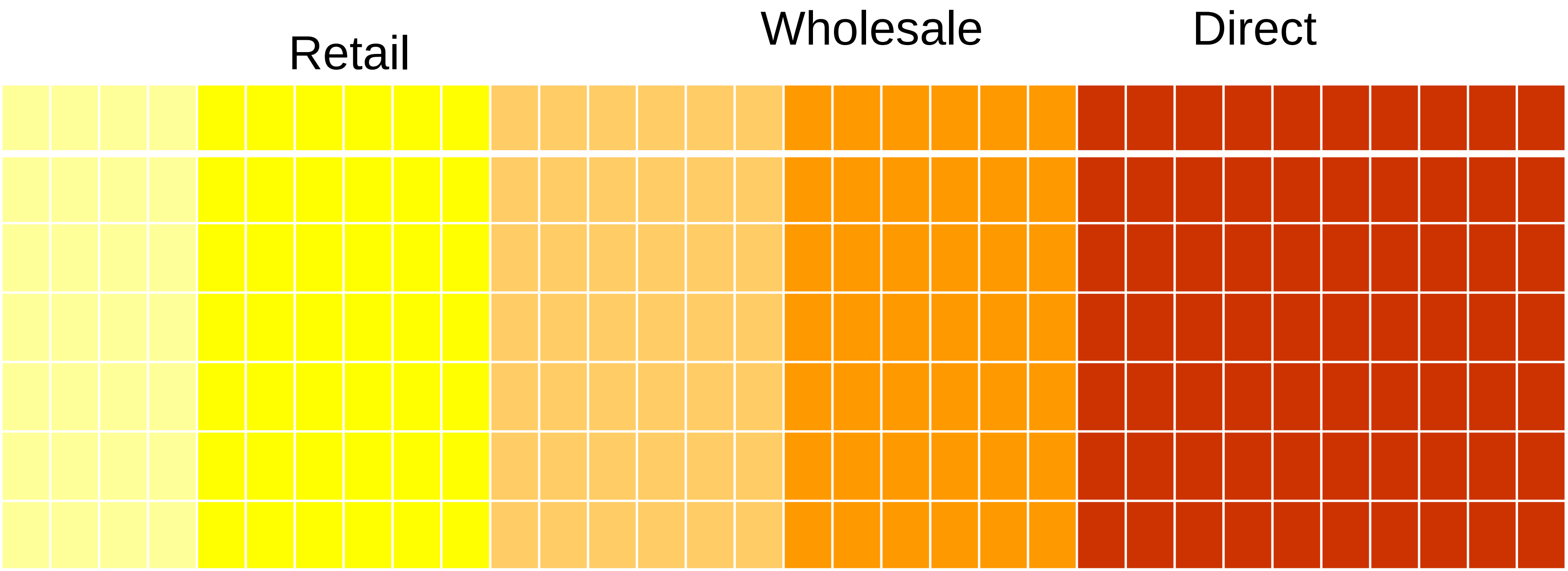
Weaknesses

- High inventory position
- Risk of channel over/ under stocking

Source: DHL Freshminds report

The future- dynamic inventory allocation across channels

Inventory segmentation



5 Key Take aways

- Market growth of e-commerce and cross border trade will further accelerate
- The supply chain makes a difference in E-commerce
- Agreement and alignment on the business model is crucial
- Towards Cross channel retail

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