

BREAKING THROUGH THE BARRIERS TO ONLINE GROWTH

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THE “EASY” GROWTH IN online retail sales has ended in many mature markets. In the Netherlands, for example, annual growth in online retail sales dropped from about 30 percent in 2007 to 9 percent in 2012.

Despite this slowdown, retailers can still expand their online sales faster than their competitors can—and certainly faster than same-store sales. But to do so, they will need to examine what is preventing consumers from purchasing more online—and then systematically address all the reasons behind the reluctance.

To understand the pulse of online shoppers, The Boston Consulting Group recently surveyed 1,000 Dutch consumers. Their responses about the purchases they make—and don’t make—online are instructive for retailers and carriers that want to increase online sales in nearly all mature markets.

The Dutch consumers reported that they could conceivably conduct up to three-quar-

ters of their nonfood purchases online. But capturing this substantially higher share of purchases would require retailers, carriers, payment providers, and others to meet shoppers’ exacting expectations. It is not enough, the surveyed consumers said, to remove just one or two of the barriers impeding online shopping. On average, the survey revealed, consumers face five barriers that prevent them from increasing their online purchasing. Because the barriers vary by customer segment and product category, all the players in the supply chain will need to work on several streams of initiatives to boost online sales.

Consumer behavior, of course, varies by market, but the survey suggests broadly that, in mature markets where broadband is at or approaching saturation, the name of the game has changed. Online sales growth is earned, not given.

The Size of the Prize

The stakes are enormous. Consider the Netherlands, where online sales currently

make up approximately 11 percent of overall retail sales. About 71 percent of the Internet shoppers we surveyed in that country make less than 20 percent of their purchases online. (See Exhibit 1.) But, the survey also suggests, many among this large majority of Dutch shoppers are willing to boost their online buying substantially. Respondents told us, for example, that they could move online up to 78 percent of consumer appliance, 69 percent of clothing and footwear, 78 percent of consumer electronics, and 59 percent of beauty and personal care purchases.

Although it is relatively easy for companies to get a customer to make a single purchase online, it is far harder to captivate and capture those customers. Consumers generally do not become online loyalists until they have made between five and nine purchases. The trick is in converting occasional online buyers into loyal customers.

Increasingly, of course, the online experience is influencing all sales, even those in physical stores. Many consumers research goods online yet purchase them offline. At the same time, many also test products offline and then purchase them online, a practice known as “showrooming.” Some order items online but pick up their purchases in a retail store.

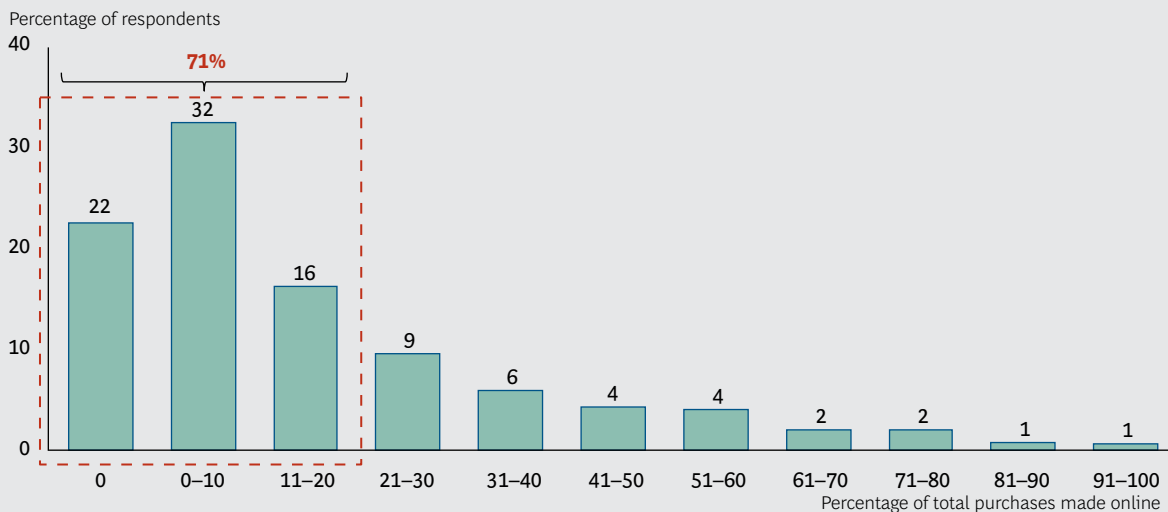
As retailers build their multichannel franchises, consumers will demand an increasingly seamless and hassle-free shopping and fulfillment experience.

The Barriers

The survey findings show that the barriers preventing consumers from making more purchases online are neither new nor surprising. Generally, the barriers cited by the Dutch consumers fall into one of three buckets: the limitations of the online shopping experience (such as the inability to touch a product), the uncertainty of deliveries, and the difficulties in returning goods. (See Exhibit 2.)

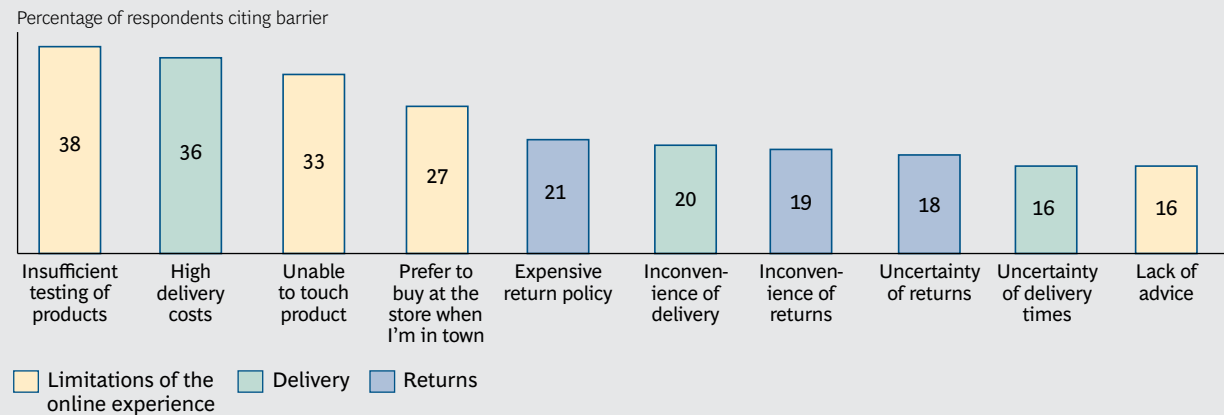
What is surprising, however, is the number of barriers cited and the way that different barriers arise for different product categories and consumer segments. That means that companies will not boost online sales simply by removing one or two of the barriers in search of a quick-win. (See Exhibit 3.) Indeed, even fixing several barriers may have little effect on the online sales for certain categories of products. Rather, retailers will need to target the removal of all the barriers impeding online sales in specific categories or consumer segments if they expect to increase these sales in a meaningful way.

EXHIBIT 1 | Most Dutch Internet Users Make Online Purchases Infrequently



Sources: BCG e-commerce survey of 1,000 Dutch consumers conducted December 2012; BCG analysis.
Note: The bars do not total 100—and the first three bars do not total 71—due to rounding.

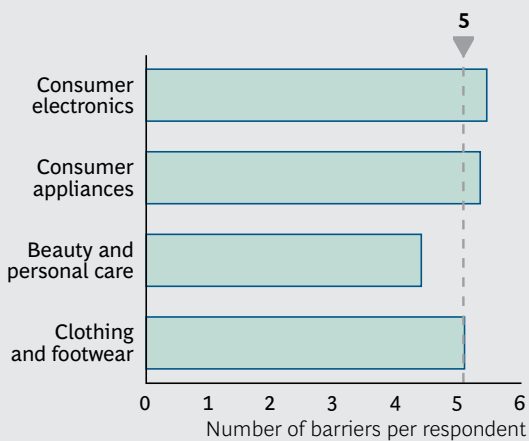
EXHIBIT 2 | Several Barriers Prevent Dutch Consumers from Purchasing Online



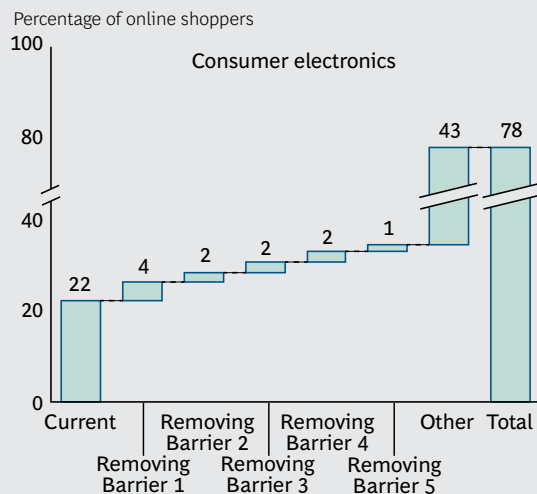
Sources: BCG e-commerce survey of 1,000 Dutch consumers conducted December 2012; BCG analysis.

EXHIBIT 3 | Removing Barriers Individually Is Insufficient

On average, about 5 barriers must be removed before a respondent will buy online



Removing barriers one by one therefore does not generate enough potential



Sources: BCG e-commerce survey of 1,000 Dutch consumers conducted December 2012; BCG analysis.

Note: Due to rounding, the bars on the right do not total 78.

Older consumers, for example, often want to receive advice before they make an online purchase, while younger consumers—who tend to read blogs and keep up with social-media chatter about products—want the ability to touch and test a product.

Tackling these barriers is hard work, but it isn't impossible. Until a few years ago, low credit-card penetration and security concerns were two of the larger barriers to online sales, across many product categories, in the Netherlands. Today, neither of those is a top-ten barrier thanks to the development of iDeal, an online payment

method built around direct debits from consumers' bank accounts.

We believe that other barriers will be eliminated through similar, active solutions that address the shortcomings of online purchases head-on. Furniture retailers, for example, try to overcome the inability of online customers to touch and feel products by sending out fabric samples and simplifying the product-return process. Likewise, clothing retailers are creating virtual fitting rooms to alleviate customers' concerns about how clothing might look and fit while worn.

For consumers searching for clothes, individual fit is indeed a huge barrier to online sales, given the variation in clothing sizes among manufacturers. UPcloud tries to solve this problem by sending a virtual tailor into shoppers' homes. The service enables consumers to use a webcam to take their exact measurements and then to store the measurements in a profile that they can use at participating retailers. The service has helped reduce the percentage of items returned and has increased repeat visits by consumers. Increasingly, other forms of content and community—such as blogs, forums, and various interactive media—help the online channel resemble the offline channel.

The Fix

An ad hoc or isolated approach to removing barriers will have limited success in increasing online sales. The following guidelines will assist in the development of a comprehensive approach.

Solve for Segments and Categories.

Retailers need to decide which products and consumers matter most in the online channel; they then must focus on understanding what is preventing those products from selling and those consumers from buying online. Different segments, for example, have different expectations about the delivery of goods. For middle-aged consumers, delivery during a narrow window that they select is desirable. By contrast, students are more interested in picking up goods at a parcel locker that is accessible 24/7.

Priorities need to be set based on the profitability of product lines and customer segments, the competitive landscape, and the strategic focus of the company. A single-model-fits-all approach is doomed to underperform. Retailers should also be thinking about the online shopping experience as part of a long-term initiative to offer advanced customization, which tailors product presentation, assortment, and pricing to customer segments or even individual customers. Taking such an encompassing approach raises the degree

of difficulty—but also the opportunity to create deeper and longer-lasting customer relationships.

Fix Organizational Constraints. Organizations can be their own worst enemies when it comes to improving the online sales and fulfillment experiences. No single executive or team is able to see and solve all the causes of customer dissatisfaction. For example, the online marketing team might offer special deals to entice lapsed customers to return—without realizing that those customers were dissatisfied with the delivery or return procedures. Without fixing the root cause of consumers' dissatisfaction, retailers can waste resources by blindly chasing online sales.

Cooperate Across the Value Chain.

Retailers, carriers, financial institutions, and logistics and fulfillment providers all have important roles in improving the online shopping experience. Retailers will need to reach out to their partners in order to resolve many of the key barriers, especially those related to delivery and return. Nespresso, for example, is collaborating with local postal providers to offer a service that makes it easy for consumers to recycle used coffee pods whenever a new batch is delivered.

Several online fashion and footwear retailers have had great success following many of these principles. Some focused initially on shoes for young women and designed their offers around the concerns of those shoppers, offering free deliveries and returns to encourage shoppers to sample several pairs of shoes for fit and look. Most retailers chose to outsource fulfillment, deliveries, and returns in order to improve overall efficiency. This model has proved to be successful—in a matter of only few years, these retailers have managed to capture a significant part of the market.

TO INCREASE ONLINE sales, companies need to step outside the comfort zone. In the multichannel world that retail is moving toward, consumers have high

expectations for the sales, service, and fulfillment experiences. Companies that meet these expectations will cement

relationships with their consumers and generate long-term growth in online and overall sales.

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