Is Your Commerce System Aligned with the New Retail Realities?

The pace of retail is accelerating and your success depends on staying ahead of today's high-value digital leaders. Do you have the right technology platform and commerce solution provider to help you succeed in today's retail environment?

Leading retailers are realizing their existing commerce systems are hindering their growth. This constraint is caused by a fundamental misalignment between the core objectives of the retailer and business model and technologies of traditional software suppliers. Frustration over high solution costs is just the beginning. The real pain for retailers is the inability of existing commerce software to innovate at the speed the market demands. This Executive Brief uncovers the key challenges faced by your peers and shows why commerce strategies need to change if retailers are to offer a superior shopping experience to consumers and re-energize their growth.

THE NEW RETAIL REALITY

Retailers that succeed recognize one basic fact: not all customers are created equal. In fact, recent research shows that only 22% of online shoppers influence an astounding 69% of all purchases. Given this knowledge, it is no secret that your success as a retailer depends on attracting and retaining these high-value digital leaders. A recent survey by the University of Arizona uncovers these facts about the leading 22%:

- **Mobile and Multi-channel:** They are 2.5 times more likely to rank mobile and multi-channel as critical online shopping capabilities over their less-savvy counterparts. Because mobile is evolving so fast, this means you must have the ability to move faster than your competitors in order to win the sale.

- **High Service Expectations:** They also rate the importance of retail service twice as high as others. Online retailers must offer best service practices to succeed.

- **Highly Informed:** Using an average of 3.5 information sources prior to a purchase, they often know more than the store associate when they visit a physical location. As a result, seamless integration between the online experience and the emerging digital store is mandatory, as is the continuous introduction of new services that accompanies such environments.

As a retailer, you are being pressed to meet this new retail reality. You must meet the needs of these digital leaders if you hope to grow rapidly on a global basis. You need to continually enhance your capabilities and provide personalized in-store experiences, deliver warehouse inventory information to stores in real-time, allow your organization to utilize trial pop-up stores with web-only inventory and enable your customers to take advantage of buy anywhere/fulfill anywhere capabilities. Yet at the same time you must rein in costs amid ongoing pressure on margins. You wonder if your existing commerce solution allows for innovation when so much effort is spent just keeping your system up and running?

LOSING SLEEP OVER MISALIGNED SOFTWARE RELATIONSHIPS

A recent survey of 156 ecommerce executives shows that few are confident that they can meet these challenges. Over 70% of those surveyed stated that they are concerned that their existing systems are not capable of evolving to meet tomorrow's requirements. This lack of confidence is based on three glaring flaws inherent in on-premise ecommerce solutions.

Forrester says 70% of retailers are concerned about their systems' ability to support their business.

The first is the fact that retailers and traditional software suppliers are simply not aligned to achieve common objectives. For the retailer, the objectives are straight forward: grow sales profitably; expand globally; move faster than the competition; and offer a superior shopping experience. For the software supplier, the objectives are: sell as many licenses as I can; lock the client into my technology platform; and hold back new functionality so that I have something to sell when it comes time to renew the license contract. There is an inherent pricing and revenue disincentive for the software supplier to provide you with continual updates. Hardly a recipe for success.

The second concern is the high internal costs of deploying and maintaining traditional on-site software, combined with strained internal IT bandwidth. These same 156 executives cited an average of 34 full-time technical resources, at an annual cost of $212,000 per person to support their online initiatives. Total commerce platform costs came in at a whopping 7.6% of online sales. These high costs mean that retailers are not inclined to incur the additional IT costs and external outlays required to implement a major upgrade. In fact, only 13% reported upgrading their software more than once a year. But your customers continually want new functionality to enrich their shopping experience. The bottom line: high costs, combined with the lack of alignment cited above, creates an ever widening capabilities gap (see Figure 1). Your retail customers continually want more, but you are held back from meeting their expectations until your current software capital expenditure is amortized and your software supplier finally gets around to issuing a new major release.
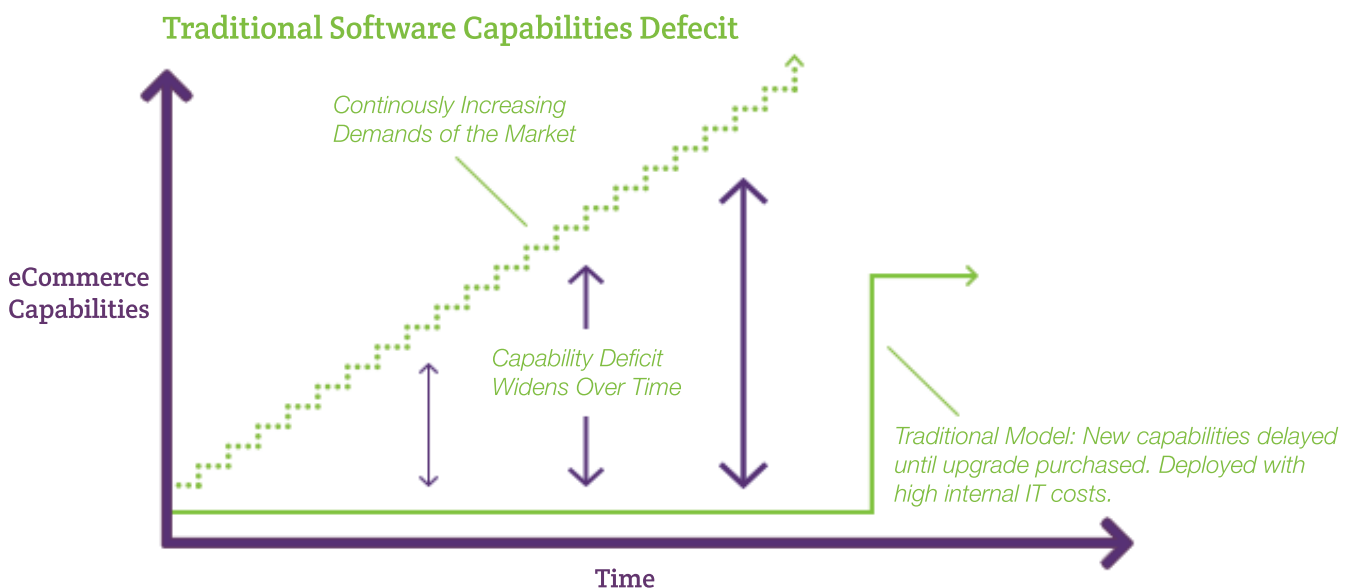
Finally, there is the fact that your commerce software supplier is at heart a technology expert, not a retail expert. The people that design and build the software do not spend every waking moment thinking about retail best practices. They think about software best practices. Traditional software suppliers are not only out of alignment with you from a revenue perspective, they have different fundamental interests. All this means your software supplier is at odds with you more often than they are on your side.

The retailer's objectives are:

> grow profitably
> expand globally
> move faster
> and offer a superior shopping experience.

A software supplier's objectives are:

> sell as many licenses as I can
> lock the client into my technology
> and hold back new functionality to have something to sell at license renewal.

Traditional Software Capabilities Defecit

Continously Increasing Demands of the Market

eCommerce Capabilities

Capability Deficit Widens Over Time

Traditional Model: New capabilities delayed until upgrade purchased. Deployed with high internal IT costs.

Time

Choose an Ecommerce solution provider who:

1 Is aligned with your goals to grow faster, globally and profitably

2 Can provide you with expertise about current and future retail best practices

3 Makes it easy for you add new functionality and maintain availability

THERE IS A BETTER WAY

To achieve your future goals you need to work with a software supplier that is aligned with your goals to grow faster, grow globally and grow profitably. To start, your commerce solutions provider should have the same financial incentives as you. Traditional software suppliers lose interest in you the moment the license contract is signed. Instead, you want to work with a partner who's most important day is when you go live with their solution. A shared success revenue model with your commerce solution provider achieves this objective. You both benefit as online sales increase and your solution provider will do whatever is necessary to grow your revenues faster.

In addition your partner should provide you with fresh insights into best practices for retail and online shopping. They should tell you something about online retailing that you don't know that can help you anticipate the needs of your customers. As you grow internationally, they should be able to guide you in areas beyond pure technology, such as logistics, tariffs or labor challenges. Your commerce provider should motivate you to adopt new retailing practices, such as pop-up stores or virtual point-of-sales.

Finally, your commerce provider must have the technology platform to meet the needs of today's rapidly-evolving retail environment. This means a cloud-based solution.

ADVANTAGES OF THE CLOUD

The cloud has many advantages over on-site software, but three are important to highlight. The first is traffic, which with seasonality and special promotions, can easily peak at ten times your normal volume. With on-site software, you are responsible for determining the capacity requirements. To avoid the disaster of downtime, you end up provisioning for the maximum peaks. What this really means is that most of the time you have expensive excess capacity sitting idle. With a cloud-based solution, you end up paying for actual application usage. Your commerce provider takes over the task of worrying about hardware and networking requirements, and traditional software licensing fees don't apply. Your financial commitment and risk decrease as a result.

Next, your commerce partner should make it easy to continually add new functionality, while maintaining availability in order to close the capabilities gap. Traditional software models place a heavy burden on you, the retailer, for determining version compatibility, capacity requirements, and testing of upgrades. The fact that only 13% of online retailers upgrade their commerce software more than once per year, due high costs and complexity, demonstrates this fact. Essentially, retailers who have chosen an on-site solution have doomed themselves to a perpetual capabilities gap. The decision to upgrade should not be predicated on your limited internal IT resources, nor should it be delayed due to technical constraints. Updates should occur multiple times per year. With a cloud-based system, all upgrades ard handled by the commerce solution provider, enabling you to take advantage of continual innovation.
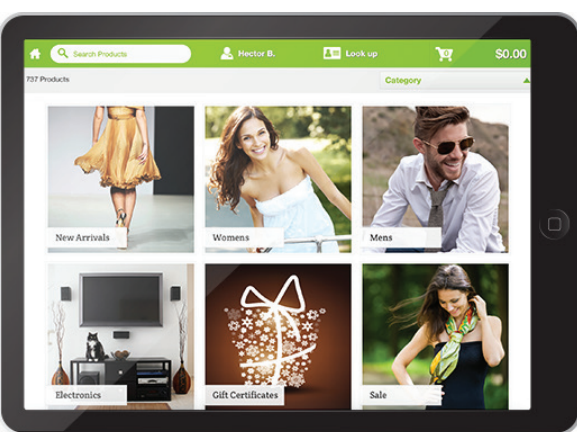
Finally, cloud-based solutions make it easier to rapidly expand your business into new geographies and markets. Moving internationally involves multiple technical issues, such as new database structures, search engine compatibility and integration to new third-party software, as well as provisioning new hardware. A cloud solution transfers the risk of all these activities over to the commerce solution provider and lets you concentrate on being a retailer as opposed to a technologist. This means you can expand in to new markets quicker, recognizing a faster time to value.

THE GREATEST RISK IS TO DO NOTHING

The pace of retail is accelerating. **The question is: Do you have the right technology platform and commerce solution provider to help you succeed in this new environment?** Most of your peers believe the answer is "No" if you rely on traditional on-site software. On-site software is too difficult to innovate, too slow to deploy to new markets and places too much risk on your organization. Financially, traditional software suppliers have no incentive to change this equation.

To reduce your exposure, you need work with a commerce software supplier with a business model aligned with your interests. You both need to be encouraged to grow online revenues faster and to expand into new markets. By using a cloud-based model, you can continually take advantage of new innovations as they become available and quickly deploy these capabilities in new markets. Technology risk shifts to your commerce software supplier, giving you greater peace of mind an allowing you to concentrate on keeping ahead of the bellweather 22 percent.

Bhappu, A., Lawry, C., Garf, R. (2012) "Who are Digital Divas and Why Should They Care?" Online. Available: http://www.demandware.com/uploads/resource/Digital_Divas.pdf

"Understanding TCO when Evaluating Ecommerce Solutions" Forrester Research, Inc., October 13, 2011.

Advantages of a cloud model:

Continuous innovation:
receive 6 major releases per year

Time to market:
launch new brand and international sites faster than your competitors

Peace of mind:
minimize the complexities in your systems and focus on your business

ABOUT DEMANDWARE

Demandware, a leader in digital commerce, enables the world's premier retailers to move faster and grow faster in the changing face of retail. Demandware's enterprise cloud platform minimizes the costs and complexities of running global, omni-channel commerce operations, and empowers retailers to respond with speed and agility to new market opportunities and continually evolving consumer expectations.

demandware
move faster, grow faster

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