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**Online Communities:
What Should a Retailer Do?**

Next Generation Retail

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Executive Summary

Most retailers have found success in providing online product ratings and reviews, and many have dabbled in engaging directly with participants in social networks (e.g., Facebook, MySpace). Many retailers are seeking to do more in the area of community, but the lack of clarity in both ROI and specific implementation ideas are causing many to pause and look for guidance. Viewing community initiatives as a "check box" item will not create the desired change in consumer behavior to generate meaningful financial impact. Instead, retailers should view community initiatives in the broader context of more open interactions between retailer and consumer and among consumers themselves.

This paper describes two specific community concepts that leading retailers are beginning to successfully deploy with positive economic outcomes—private event retailing and fan networks.

Private Event Retailing

Most retailers are faced with two chronic problems: inventory overstocks and diminishing effectiveness of email marketing. For example, Forrester surveys show that in 2003, 31% of consumers deleted email advertising without reading it. In 2006 that number had reached 72%. [1]

A new community concept called private event retailing, which first appeared in Europe, addresses both of these issues. Private events are invitation-only, limited-time sales that enable a retailer to build viral excitement and a sense of urgency. A recent BusinessWeek article[2] covers the rise of this concept and the explosive revenue growth achieved by companies employing it. One company, French retailer Vente-Privee, has reached half a billion dollars in revenue in a few short years while seeing its revenue triple year-over-year from 2005. With the success of private event retailing in Europe, U.S. venture capitalists have made numerous investments in pure-play retailers employing this approach.

Several key characteristics combine to make private events compelling for both retailers and consumers:

Private – Unlike nearly all US ecommerce sites that allow anyone to browse and buy, a private event is only open to those who have been invited. Limiting access offers several benefits:

- A sense of exclusivity and the perception of unique buying opportunities

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[1] Forrester, "Email Marketing comes of Age", Shar Vanboskirk, March 2, 2007.
[2] http://www.businessweek.com/globalbiz/content/jan2008/gb20080111_222659.htm

- Brand protection for luxury brands selling at a discount (since comparison shopping bots don't have access to private event deals)

- Since customers are not shopping anonymously, it's easy to measure a campaign's success and understand how interest in an event spreads virally

- Increased comfort for customers to share thoughts about the products online

- An immediately different online shopping experience

Limited time – Private events typically involve selling a limited number of a small set of products. Since products will only be available for a short time, consumers are compelled to act quickly: to attend an event as soon as it begins in order to have the most choices and to quickly buy before available inventory is gone. This creates the perfect conditions for an impulse purchase—something very hard to achieve in traditionally destination-oriented ecommerce. Branded product overstock situations are the ideal supply for these events, creating strong demand and confidence in making impulse purchases. Private events can also be targeted at early adopters, giving influential customers early access to hotly anticipated new products.

High-end experience – No buying experience online mimics the feeling of walking into a high-end store with the right fixtures, furniture, music, and overall buying ambience. Private events approach this online through artistic, high-production-value representations of the products for sale, using video and other graphics-rich techniques that help elicit the desire to buy. This also helps to enhance the brand for the product manufacturer even if the merchandise is sold at a discount. This is not the feel of an outlet store or warehouse—this is an exclusive club.

Social – The nature of private event retailing leads to social interactions. Customers must be invited in order to access an event, yet invitees may then invite others to participate as well. Some retailers even offer customers that recommend other attendees (i.e., help an event spread virally) points to apply to future purchases. Shoppers can provide comments and feedback about merchandise being offered. Customers receive new event notifications via email, and can easily share an invitation with friends with the click of a button. This weekly enticement continually creates conversations among the group and drives peer-influenced impulse buys.

Combining these elements into a well-designed user experience creates a whole new ecommerce experience that has proven to yield oversized returns, and is a perfect compliment to a retailer's core ecommerce site.

Fan Networks

Most retailers segment their customer base to better understand their customers and create targeted promotions. The most common approach is to segment customers demographically and develop targeted promotional circular and email offers. But so much more can be done to address the unique needs of a targeted segment and improve financial results. A community approach, if executed well, can

create reinforcing behavior that drives customers repeatedly back to your site for community interactions and transactions without requiring a constant push from intrusive email campaigns.

Fan networks are social networks for a retailer's most passionate and influential customers—its fans—and are one example of a community approach grounded in an economic rationale. They start with foundational social networking capabilities: member profiles, the ability to invite friends and form groups, and the ability to contribute content. But fan networks add retailer-specific capabilities: blogs that enable "inside" experts to dialog with customers; deep product info and reviews, tips, ideas, and solutions provided by other members; unique offers targeted at members; and the ability to syndicate this rich content to the retailer's ecommerce store and to members' Facebook profiles and other websites. As a customer, imagine being able to tap into your network of trusted friends from within a retailer's store—being able to see the products that friends have reviewed and recommend *while you're ready to purchase* can have a tremendous influence on conversion.

To create a successful fan network, retailers must:

- *Become a more open company.* Encourage buyers and category managers to participate in an "insider" blog to give members early access to upcoming products and events, and enable them to poll members for feedback. Making internal experts available to members personalizes the company, and provides a channel for valuable input.

- *Identify and cultivate relationships with your mavens.* Mavens are your passionate expert customers. They wield enormous influence over the products that their friends and colleagues purchase. By providing tools to enable them to rate and review products, offer tips, feedback and ideas, and help other members solve problems, fan networks provide a vehicle for deepening your relationship with them.

- *Mine behavioral data to improve the experience.* Integrating data about the experiences people have on your ecommerce website and within your fan network enables you to dynamically improve the experience for shoppers. Which products are hottest these days? Which products are others with similar profiles interested in? Which products have my friends viewed or reviewed recently? Make dynamic information like this available to members to help them quickly identify products of interest.

Fan networks have several key characteristics that dispel traditional retailing myths.

Table A: Myths

Category	Myth	Reality
Best customers	Only reward your top individual spenders	Identify and cultivate relationships with your most *influential* customers
Merchandising	Only promote products that you have on hand	Give early adopters access to upcoming products
Buyers	Buyers don't need to interact with customers	Buyers can learn a lot by establishing a dialog with customers
Storefront	Drive shoppers directly to your online store	Syndicate your store to the places on the web where people spend their time

Myth #1: Your best customers are always the ones that spend the most money with you.
This rule of thumb assumes customers have no influence on other customers' purchases and only considers what each customer purchases in isolation. From a community perspective it's more important to consider the total spend of an individual customer *plus the amount that customer influences others to spend with you*. Everyone knows friends that are experts in a category and are usually the first to buy the latest product. We turn to them for advice, and they have significant influence over our purchases. They're the mavens in our life. Many people belong to informal groups (such as book clubs) or more formal organizations (e.g., associations, teams, etc.) that provide advice and guidance when making purchases. Other industries are much more advanced in understanding adoption curves and the roles of early adopters, but retailers are lagging. To get started, identify those customers that are often the earliest to buy new products—your early adopters. Enable them to invite their friends and the members of the groups they belong to, and provide them with tools to easily share information with one another and identify others with similar interests. By focusing on them, you can leverage their natural influential behavior to virally grow the community, increase loyalty, and drive demand to your store.

Myth #2: Wait until you have the product in inventory before you try and sell it. The rationale for this rule is obvious. Trying to sell something you don't have in stock will only frustrate your customers and cause them to either postpone a purchase or potentially go to a competitor. How can this rule be wrong?

This rule assumes that a single behavioral characteristic applies equally across your entire customer base. Your early adopters pride themselves in being the first among their friends to know about the latest products, and they highly influence the purchases within their personal network. These early

adopters are always looking for new products and yet nearly all retailers ignore this most influential segment and their particular needs. By reaching out to this group online and sharing information about products that are coming, retailers can accomplish the following:

- Capture pre-buy commitments from this group before the product hits inventory
- Tune forecasts based on feedback and dialog
- Enable them to share the information with their friends for highly credible viral marketing that can increase the pre-buy demand and commitments
- Increase loyalty to your brand as the place they most often learn about and buy the latest products

Myth #3: It's not the buyer's job to interact with customers. Though retail buyers make the critical decisions about what they think their customers want, few retailers have a process to enable interaction between buyers and customers. Most retailers are faceless organizations to their customers and don't seek to make their category experts available to them. The explanation for this is partly technical and partly cultural. Until recently, it was time-consuming and cumbersome to gather meaningful input from customers in a manageable and timely fashion. Fan Networks offer built-in tools to support and encourage dialog: merchant blogs, ratings/comments, and polls make it easy to learn about opportunities and problems, and get feedback to improve product selection and demand forecasting.

Myth #4: Sell through a single website storefront. Most retailers still view their single website storefront as their largest store, and tremendous energy and resources are spent trying to entice customers to come to the site to buy. Many retailers leverage affiliates, but each affiliate has the identical problem of drawing traffic. Instead, what if a store can be placed *where the customers are spending their time*, rather than trying to get the customers to come to the store? Ecommerce widgets allow retailers to enable customers to "take the store with them" and place "the store" on their Facebook page, community site, etc. And since retailers can place ecommerce widgets anywhere they currently place banner ads, it's now possible to enable shoppers to securely transact directly within the widget, rather than driving them back to the merchant's ecommerce site to transact.

Where to Start

A good place to start with private event retailing is with your own overstock inventory. Private events, since they enable people to participate from anywhere in the world, provide much broader reach than any physical outlet store, and you can reward your best customers with access to these special offers. Most retailers find that they are able to achieve higher price points for marked-down items with private events and, given the faster turns and lower costs than physical outlet stores, at lower selling and inventory costs.

The best way to grow a fan network is to identify your most influential customers, invite them to join and participate in the network, encourage your buyers and category managers to reach out to

customers via the network's retailer blog and polls, and seed the site with content and commentary. Be patient—it takes time to cultivate an active community.

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About Optaros

Optaros is an international consulting and systems integration firm focused on providing software solutions that truly enable business agility. This is done by *assembling* software components into composite applications. Optaros' Retail Practice helps retailers leverage Next Generation Internet technologies for ecommerce re-platforming, new online retail concepts, increased employee productivity, and multi-channel efforts. For more information about Optaros, please go to **www.optaros.com**.

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