Recent findings by global market research firm Mintel indicate that European online retail sales are set to double over the next five years to 323 billion euros by 2018. While Germany, France and the UK may be the largest markets in terms of size, e-commerce growth figures are above average in the Netherlands. What will be the most important trends over the next few years? Steve Muylle, Professor of Marketing and Digital Strategy at Vlerick Business School, identifies ten ‘game changers’.
The European expansion of global market leader Amazon.com

American online retail giant Amazon.com – one of the fastest growing companies in the world – is expected to double its European market share in the next three to four years. Though Amazon only has five dedicated country websites in Europe, it is already one of the top three customers of multinationals such as Philips and Procter & Gamble. The company has long since expanded beyond books and CDs and now sells a comprehensive assortment of goods that ranges from disposable nappies to 3D printers. It also offers an unprecedentedly rich and advanced spectrum of online services that encompasses (facilitation of) the search process, competitive pricing, payment, delivery and customer service. Furthermore, several surveys have shown that consumers are increasingly willing to order goods from online retailers based in other countries, as long as the website is in English. If Amazon.com seriously decides to move in on the European market, it will have a major impact on the business cases of smaller advanced local suppliers.

‘Showrooming’

The term coined by The Wall Street Journal refers a new phenomenon in consumer behaviour: viewing and possibly gaining information about a product in a brick-and-mortar store, then buying the product at a more competitive price from an online retailer. This development represents a serious threat to retailers of all sizes. Large chains are increasingly endeavouring to protect themselves against it by forcing manufacturers to supply them with a differentiated offering: such a particular television that is not available online, but can only be purchased from the chain in question. Large manufacturers such as Philips will have to adapt their value proposition for retailers and their production and distribution processes in order to be able to meet these requirements.

Mobile retail

The development from ‘bricks and mortar’ to ‘clicks and mortar’ to ‘clicks only’ is about to enter its next phase: ‘mobile only’. BNP Paribas Fortis in Belgium recently launched Hello bank!, the first mobile bank to only offers its services through smartphones and tablets. Hello bank! doesn’t have any offices: it simply promotes its services through a website. There is no transactional functionality. Customers manage their current account and underlying savings account directly via the Hello bank! app. The mobile bank also competes directly with conventional banks by offering additional services such as insurance. A ‘freemium’ concept has been developed for this purpose: basic services are provided free of charge, additional services have to be paid for. (This ensures that the mobile offering does not cannibalise the existing offering.)

Online and offline pricing

Retailers are increasingly seeking ways to differentiate the pricing of products offered online and presented in store. The ubiquitous ‘package deal’, which includes the product itself (a television) and related services (delivery, installation and troubleshooting), is outdated these days. The price offered online is the lowest price. Customers then have the option of purchasing a separate service pack. Those who live next to a handyman can forego the latter.
Big data analytics

Big data analytics are processes used to analyse massive volumes of data to monitor trends. Big data analytics can be used to identify patterns (such as the fact that consumers are more likely to purchase a new television three days before the start of the World Cup). Analytics can also very accurately predict consumer behaviour and even future price developments. This makes it possible to monitor the degree of price sensitivity at a certain time, on a certain day, in relation to a certain category of products in a certain market segment, while also tracking the price charged by the competition. Amazon.com is already making full use of so-called ‘robo-pricing’: the online retailer no longer charges a set price for certain products, but alters the price from one day to the next and sometimes even from one hour to the next. Hence on Black Friday (the Friday after Thanksgiving, which marks the beginning of the Christmas shopping season) a flat screen television might cost $300 less than it did a few days earlier. Big data analytics have also resulted in the development of new business models. American price-prediction website Decide.com offers consumers the option of subscribing to so-called ‘price guarantees’. The company has access to such massive quantities of data and uses such advanced algorithms that it can predict the date on which a particular retailer will sell a particular television at a particular price. Consumers can sign up to qualify for the predicted price. If the television retails at a lower price within the next two weeks, Decide.com pays the difference. But with a prediction accuracy rate of 83% this rarely happens. Decide.com also offers consumers user and expert reviews, so they can learn more about a product before they buy.

Augmented reality

Smartphones and tablets introduce the possibility of projecting a ‘layer’ onto reality. While in the past you might have looked through the IKEA catalogue to find a chair you liked, the IKEA app now allows you to project an image of the chair on your living room to see if it fits and which colour will work best with your sofa. More generally, suppliers will use apps to emotionally enrich their offering, by offering an insight into their (transparent and sustainable) production process or the world of other users for example.

Social commerce

Social media platforms (such as Twitter and Facebook) are increasingly being used to sell products with alternative methods of payment. The potential reach of this approach is already being demonstrated in China, where Mercedes-Benz recently sold 666 limited-edition ‘Year of the Snake’ Smart cars through Sina Weibo, a local version of Twitter with almost 300 million active users. The cars were available at a price of 20,728 dollars apiece and sold out in less than eight hours. Chinese mobile phone company, Xiaomi, sold 50,000 smartphones in five minutes (!) through the same platform. 1.3 million potential customers attempted to reserve one of the phones. The promotion generated 810,000 comments and was forwarded 2.33 million times.

Decision support

Social media platforms will also play an important role in customer service. Dell customers who are experiencing a problem can upload a video of the problem (‘Ask Raf’). The company then produces a solution in the form of an instruction video. Dell has since created a whole video library for the Dell user community. Many suppliers also offer ‘configurators’, ‘buying guides’ and special apps that help potential customers make the right decision when buying online. Television manufacturer Sharp recently released an app that can measure whether a certain television will fit where the buyer plans to install it.
Customer collaboration

Sport shoe manufacturer Nike regularly launches public design competitions. The person who uploads the best new trainer design not only gets to see top basketball Kobe Bryant playing in their trainers, but is also the only other person in the stadium wearing the same trainers. Nike can choose from thousands of high quality product designs every year, and a significant number reach the production phase. The enormous engagement of the Nike online community is an added bonus.

Steve Muylle

Steve Muylle is partner and professor at Vlerick Business School and chairs the Competence Centre Marketing and Sales. Muylle is a Supervisory Board Member and, on the recommendation of NPM Capital, board member at Belgische Distributiedienst. He is also Professor of B2B Marketing at Ghent University and serves as independent director on corporate boards. Muylle’s research focuses on digital strategy and industrial marketing and has led him to work with leading companies such as Cisco, Dow Corning Corporation, Merck Sharp & Dohme, Milliken and Procter & Gamble. His research findings have been published in prestigious scientific journals, such as the *MIT Sloan Management Review*. Muylle conducts research and teaches in Europe and the US and frequently serves as a marketing and e-business expert in executive education programmes for leading multinationals such as 3M, BNP Paribas Fortis, DSM and Philips.