Delivering the Best Online Shopping Experience

featuring Jeffrey F. Rayport
OVERVIEW

Consumer commerce has changed radically over the past half century. Today, abundant supply is chasing relatively scarce demand, and new technologies have empowered individuals, giving rise to a new breed of consumer. “Consumer 3.0” is firmly in control of the shopping landscape. To succeed in this environment, all companies in every industry need to be engaging customers online and meeting their expectations, though the expectations bar has never been set higher. The world of retailing is no longer built around products but around consumers.

It is critical in this environment that companies adopt a thoroughly customer-centric focus. Five principles can guide companies, pointing the way to strategies that captivate Customer 3.0 and turn the new market dynamics to competitive advantage.

CONTEXT

Mr. Rayport explained the forces that have reshaped the consumer landscape and five principles that can help companies leverage the opportunities of the new reality.

KEY LEARNINGS

Consumer commerce has entered a new reality where supply is enormous and demand relatively scarce.

The retailing landscape has changed dramatically over the past half-century, and so have consumers. Driving the changes have been two trends:

Trend 1: The supply/demand relationship has inverted completely since the mid-20th century.

- In the 1950s, demand dwarfed supply. The industrialization of developed nations in the middle of the 20th century gave rise to a consumer class. Consumer demand was abundant relative to product supply. Americans drove long distances to shop in department stores for products designed for the masses.

- By the 1970s and 1980s, the supply/demand relationship had shifted into relative balance. More brands emerged, offering consumers more choice. Economic ups and downs dampened demand, and companies catered more to customers. Big-box discount retailers emerged. Call centers provided one-to-one customer service.

- Today, near-infinite supply competes for the scarce resource of demand. The supply/demand relationship is the exact opposite of what existed in the 1950s. Online shopping has brought many new brands and products. Consumers have near-infinite product choice
and 24/7 shopping convenience. Merchants compete for the scarce resources of consumer attention, demand, and purchasing power, an imbalance accentuated by the lingering effects of recession. High standards of product quality, performance, features, and functionality are the norm.

**Trend 2: Customers 3.0 have arrived, and now firmly control their new media landscape.**

Recent years have brought enormous change in consumers’ relationship with technology. Consider:

- **Social media and advances in technology have changed shopping.** Today’s technologies have brought new ways of shopping (e.g., Square, QR codes), new non-purchase ways of accessing products (for example, renting designer dresses online), and new influences over purchase decisions (customer reviews, the opinions of friends). “Social shopping” has created a new reality for marketers to navigate as they compete for scarce consumer demand.

- **Generation C, the sweet spot of the consumer market, embraces mobility and social networking.** The 23% of the population born from 1978 to 1994 (from younger Generation Xers to older Ys), a.k.a. “Generation C,” are digital natives and big users of both mobile technology and social networking.

- **Meet Consumer 3.0.** Among Americans of all ages, 65% have used social networking, 43% within the past 24 hours. Worldwide, active smartphone accounts are estimated to reach 1.7 billion by 2013, meaning that one-fourth to one-third of the Earth’s population will have mobile access to the Web. Among smartphone users, daily app usage is up to an average 77 minutes. With tablets flying off the shelves and smartphones commonplace even in emerging markets, we’re entering a “truly post-PC world.” Newly empowered consumers carry access to 24/7 shopping in their pockets.

These forces have shifted the balance of power in the consumer marketplace and the arrival of Consumers 3.0 has given rise to a new shopping reality.

**Newly empowered Consumer 3.0 is in control of the shopping experience.**

Offered near-infinite choice in what they buy and unprecedented convenience in how they shop, Consumers 3.0 clearly control the shopping experience in their new media landscape. To win repeat business in a world where expectations have never been higher, companies have to meet the expectations of these savvy consumers.

What are the expectations of Consumers 3.0? Surveys show that when buying online they:

- Give equal consideration to product price and shipping options.
- Want a choice of shipping options, though they usually choose the most economical.
- Want easy and inexpensive return policies.

“We’ve entered a new reality—a world of near-infinite supply at the highest levels of quality, performance, features, and functions. Consumers are awash in choice.”

—JEFFREY F. RAYPORT
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In short, consumers demand nothing less than a seamless shopping experience online, and increasingly offline. In fact, innovative shopping experiences are blurring the lines between online and offline worlds.

The new reality doesn’t just pertain to B2C companies; B2B companies need to deliver to higher standards as well. That’s because the new reality affects the buying habits and attitudes of everyone, even when people make purchase decisions for their company. In this new reality, every business in every industry must constantly be interacting with consumers online, winning them over in novel ways.

**Five principles can help companies engage Consumer 3.0 and reap the opportunities of the new environment.**

The world of retailing is no longer built around products, but around consumers. It is critical that companies adopt a “front-office focus”; i.e., be focused completely on customer centricity. Five principles can guide companies, helping them to meet customer expectations, deepen customer engagement with their brands, and leverage the opportunities of the new landscape.

1. **Target the Core: Overwhelm the Microcosm**

   The idea is to target a highly specific core customer segment, or several. Find the “most rabid users among them.” To that niche, deliver a commanding, targeted abundance of content, apps, and services designed to appeal uniquely to their interests. That is “overwhelming the microcosm.” It is the way to truly own that niche.

   Toyota Scion used this strategy to target a very specific demographic: male used-car buyers aged 18–24 who like to tinker (“Tuners”). Scion reinvented the car-buying experience, offering a new car at a used-car price point that Tuners customize online. Features that appeal distinctly to Tuners, like the capability to design a coat of arms for the car’s exterior, were ways that Scion “overwhelmed the microcosm.” Advertising was highly targeted: no television but sponsorship of events that appeal to the demographic.

2. **Socialize the Brand: Ensure Membership Has Its Rewards**

   Once the rabid core is identified, social media allows companies to create “communities of conviction” about the brand, based on customers’ location, identity, interest, or another condition. This means more than garnering fans or “likes” but creating rewarding membership experiences.

   An example is what Nestle has done to turn around the once-sleepy Nespresso brand. Various online and offline experiences and social networks have been created around this brand for people passionate about coffee. As a result of this strategy, Nespresso has grown at a 30% compound annual rate for the past five years.

“Scion built an entire ecosystem around the user.”

—JEFFREY F. RAYPORT
3. **Work the Web: Let the Outside In . . . And Let the Inside Out**

By adopting open-source thinking, viewing websites less as “walled gardens,” companies can unleash the Web’s vast network effects. There are two basic ways:

— *As an aggregator: Letting the outside in.* By aggregating the content of others, companies benefit from heavier traffic. An example is StumbleUpon, which accounts for 50% of social media referrals today, as well as startups like Instagram, Foodspotting, and Snapette.

— *As a syndicator: Letting the inside out.* YouTube once was not a website but more like a utility for video viewing online, via the syndicated YouTube player. The company built up its volume of video streams by virtue of its ubiquity—letting itself out. Best Buy offers another example of this strategy. The retailer increases brand reach and sales by letting itself out across the Web via multiple touch points: local apps, online magazines, crowdsourcing product ideas, etc.

4. **Design for Occasion: Tailor Each Interaction to Its Form Factor**

The idea here is to customize online content interfaces, particularly mobile interfaces, for consumption contexts and occasions.

For example, the private sales sites Gilt and Ideeli open boutiques at specific times of day and have tablet and smartphone interfaces optimized for their shopping-on-the-go experiences.

Ocado, a grocery store without inventory, is another example of tailoring shopping to form factor. Shoppers browse photos in a showroom, scanning codes of chosen items into their smartphones for home delivery.

Curiously, many companies have not yet optimized their shopping experiences by form factor, but doing so is extraordinarily important because sales and conversion rates differ by form factor. Tablets generate the highest rates of both sales and conversions, followed closely by PCs and distantly by smartphones.

5. **Integrate the Experience: Mandate a Unified Field Theory**

The same type of information doesn’t need to be available at every customer touch point, as long as “a unified field theory” reigns. The delivery of content and commerce over multiple media channels should be orchestrated to establish the best brand ecosystem.

Apple’s retail stores are a great example of such an ecosystem. The stores are sparse, without much inventory, but with lots of innovative shopping experiences going on (roving sales people, or “queue-busters,” can consummate purchases anywhere in the store). Integrating offline and online worlds, customer data from Apple’s online store is accessed for a more seamless shopping experience (e.g., receipts are automatically emailed). Innovation has helped Apple retail stores reap the highest sales per square foot in U.S. retailing.

“Tablets may well become the optimal shopping environment of the future.”

—**JEFFREY F. RAYPORT**
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BIOGRAPHIES

Jeffrey F. Rayport
Operating Partner, Castanea Partners

Jeffrey Rayport joined Castanea as an operating partner in 2009 with over 20 years of experience in publishing, information services, and marketing services. Formerly, Jeffrey was the founder and chairman of Marketspace, a global strategy consulting practice. Prior to that, he was a faculty member at Harvard Business School. Jeffrey is also a columnist for BusinessWeek Online and has published a bestselling book on reinventing service businesses.

Jeffrey earned an A.B. from Harvard College, an M.Phil. in International Relations at the University of Cambridge (U.K.), and an A.M. and Ph.D. in the History of American Civilization at Harvard University.

Angelia Herrin (Moderator)
Editor for Research and Special Projects, Harvard Business Review

Angelia Herrin is Editor for Research and Special Projects at Harvard Business Review. At Harvard Business Review, Herrin oversaw the re-launch of the management newsletter line and established the conference and virtual seminar division for Harvard Business Review. More recently, she created a new series to deliver customized programs and products to organizations and associations.

Prior to coming to Harvard Business Review, Herrin was the vice president for content at womenConnect.com, a website focused on women business owners and executives.

Herrin’s journalism experience spans twenty years, primarily with Knight-Ridder newspapers and USA Today. At Knight-Ridder, she covered Congress, as well as the 1988 presidential elections. At USA Today, she worked as Washington editor, heading the 1996 election coverage. She won the John S. Knight Fellowship in Professional Journalism at Stanford University in 1989–90.