E-commerce Strategy

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LESSON 1:
FUNDAMENTALS
OF THE E-
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E-Commerce Overview

So let’s start simple. What is e-commerce? It’s basically the buying and selling of goods and services enabled by the internet. That could be through mobile websites, through traditional desktop websites, or even through mobile apps. It can involve businesses selling to other businesses, businesses selling to consumers, and even consumers selling to other consumers.

E-commerce is also evolving at a rapid rate. There’s lots of examples on this slide, but if we just take Amazon as an example, they started off by simply selling books to consumers. They now sell every possible product across every possible category. They have a marketplace website business where consumers can sell to other consumers, and they have a more traditional retail business where buyers buy and sell on in big volumes to consumers.

They’ve also got a video streaming service. They’re a huge logistical operation, using everything from vans to drones to deliver products and services to people, and they’re also a massive web service provider. Amazon Web Services is one of the biggest and most profitable parts of their business. So that just shows how the business is evolving and how big players are massively capitalizing from it.

This graph just shows how the trend is only going one way. Those numbers involved are absolutely huge. Now, if you just think about your own personal buying, think of how many goods and services you used to buy a couple of years online and compare that to today. Think of your Christmas shopping, think of your grocery buying, think of the media and the TVs you consume. So much of this is now happening online.

Now, let’s look at the nuts and bolts of e-commerce. Effectively, what you’re trying to do is get a customer to your site, show them a product that is at the right price and meets their need, offer the service that they’re looking for, i.e., that you’re gonna get in that product at the right time, and then securely take payment.

Conversion Rate Optimization

Okay, now let’s look at a key concept of e-commerce, which is conversion rate optimization. So essentially, the conversion rate is just the percentage of people that come to the site, who go on to take the action that you want, which, in most examples, is buying your good or service. So let’s take an example of a clothing retailer. So there’s a whole host of people coming to the site to a variety of different marketing channels. We refer to these people as traffic, and some of these people are gonna drop out at each stage of the buying process.

So for example, when they arrive on the homepage, people will have a look around, and a certain percentage of those people will just decide that, “Now, the style of this brand or the style of these products or even the look of this website is not for me, and so we’ll leave.” But a good portion of the original traffic will stay. So they’ll go and look around, potentially click on a product category, like jeans, go into that, look at the range of offering there.

Again, some more people will leave at this stage because the price points are wrong or the product offering’s not quite right. But again, a portion of that population will stay.
They'll click on a product, go on to a product page, again, look at the price, the product specification. And hopefully, as many of those stay as possible, and they'll put that product into their basket. Then, once the product's in the basket, ideally, they go and review that basket and proceed to checkout.

And again, each stage of the checkout will lose a certain percentage of the traffic. Whether it's because it's too difficult for them to put their address in or they want to go and check where the prices are better on other sites, we'll lose a certain amount of people at each stage. But at the end, we'll end up with a percentage of people who've gone on to buy the product. And the process of conversion rate optimization is about making changes to the website and analyzing the data, so that the percentage of people left at the end is as big as possible.

So as we've just discussed, at each stage of the process, we're gonna lose people from the buying process, and so we need to try and minimize that. And the way that we do that is by doing three things.

First of all, we start with the basics, which is all about understanding your consumer and understanding how your offering gives them value. So what is about you that makes them choose you over your competition? Is it that you're cheaper, is that your service is better, is it that your brand resonates with them more?

Secondly, we need to choose an e-commerce platform that delivers against that. So there are certain e-commerce platforms that are brilliant for displaying a massive range of products and making those products easy to find. There are other e-commerce platforms at the other end of the spectrum that are tailor-made for showing one or two products in an incredibly compelling way. And you need to choose the one that supports your value proposition most closely.

Thirdly, we need to use marketing channels and target appropriate consumers who drive the right type of traffic into the funnel in the first place. So if all these things work well together, you get the right type of people coming to the site, who have displayed with a value proposition that relates to them, and then the site is easy for them to navigate and go all the way through the conversion funnel to purchase at the end.

**Value Proposition**

Now let's look at value proposition in a bit more detail and how it's enabled and supported by the other parts of the business. So say, for example, you are Netflix and your value proposition is all about providing awesome content to your consumers when and where they want it. That needs to be underpinned by technology that enables you to do that. Or, if you're a luxury fashion brand like Gucci, you need to make sure that your marketing is aspirational and premium and so targets the right type of people and delivers the right type of people to your website to go and to make purchases. Likewise, if you're an art gallery for example, you need to make sure that the design and feel of your website is aligned with that and is classy and suave. Finally, if you're a logistics or if you're a grocery business that is delivering fresh food to people, you need to make sure that you've got the logistics in place to make that possible.

So all of these functions need to work together across all different types of businesses to make sure that they deliver the promise they've made in their value proposition and that's why people will choose your brand or business over the competition. Almost all value propositions need to be underpinned by some logistical capabilities and then there will be knock-on effects for the commercials of the business. So let's just take delivery as an example. So, as a minimum, most consumers would expect to be able to buy from an e-commerce site and then have their product
delivered to them maybe in three to five working days after that and they might be willing to pay a fee for it. However, as different companies try and differentiate themselves from the competition, the level of service offered to consumers gets even better.

So if you take Amazon, for example, if you’re a Prime customer you can get products delivered the same day for no additional cost. And obviously there are costs for a business of choosing to match that service. The delivery companies still need to be paid, the warehouses still need to be paid and so it’s a decision for the business of, do they pass that cost onto the end consumer or do they choose to take it into their costs of doing business? Again, that decision will depend on how important the service is to their value proposition and also how much competition there is in their sector and across different categories and the different channels. So, for example, if I’m selling my golf trousers through our website and those trousers are also available on Amazon and we’re charging someone $7.95 for five-day delivery and an Amazon Prime customer can get them delivered the next day for free, we need to be very conscious that we might lose sales to that channel if we don’t match it. But conversely if we do match it, we still need to pay the delivery companies and so that impacts our margin.

So that’s just looking at delivery. The same can also be said for returns. So, again, it’s quite common to ask consumers to send the products back to you at their cost, but there’s lots of companies that are differentiating themselves by saying, no, actually, if we send you the product you can return them to us for free if they’re not exactly the size or the fit that you like. Likewise, with product packaging. Again, just receiving the product in a brown box or a plastic bag, again, it’s the kind of basic hygiene factors that consumers expect, quite rightly, but there’s other companies that are providing amazing consumer experience when the product’s delivered. If you think about when you buy or receive an Apple product, that experience of un-boxing the product, getting the product out is a big part of the user experience, but none of that comes for free and so all of that needs to be worked into the commercials of the business and evaluated at whether it’s worth paying the price to help differentiate you from your competition.

**Business Model**

Okay, now let’s look at the business model a little bit more holistically, as there’s a huge number of things we need to consider when getting the business model right. This slide helps map out some of the key areas for us. So first of all looking at key partners. The list of potential partners for your business is massive. If you think just about getting your products, you’ve got your suppliers, getting your products to your customers, you’ve got freight forwarders, warehouse partners, couriers and marketing your products, you’ve got potential agencies, and across all of these you’ve got decisions to make about whether you want that resource to be internal in your business or partnering with external agencies. As I would say, there are a huge number of options there and getting the decisions right about which ones you work with will massively help you be successful and also maximize your efficiency.

Secondly, looking at key activities. Again, running a business, there are so many different things that can take your time and resources, and one of the greatest challenges is choosing where to spend that time and also choosing which things not to do. Something I’ve always found very useful is having a really clear objective of what the business is trying to achieve and having a clear set of strategies to deliver that and then having a number of tactics to help deliver those strategies. And that will help you have a list of key things you’re going to do to help deliver the overall strategies and the overall objectives, and everything that isn’t on that list is best not done.
That leads us nicely on to discussing revenue models and there are three main categories. Firstly, individual sales. Secondly, subscription-based services, and thirdly, where you make money out of the people visiting your site. So individual sales are the ones that we’re all most familiar with and they cover a huge range of different e-commerce categories and this is basically where each time you’re looking for a good or service, you start your search, you find a website that delivers what you’re looking for and you go on to purchase. I’m sure you’ll all be familiar with lots of retail e-commerce sites, clothing sites, a whole host you’d be familiar with.

Subscription businesses are really a new trend that’s becoming more and more popular for a number of reasons and are really disrupting a lot of the individual sales categories. So a great example of this is Dollar Shave Club (2021). This is traditionally a category that we bought on an individual basis, but the Dollar Shave Club sell an opportunity to sign people up over a longer period of time by using incredibly innovative marketing and high impact marketing and also a really good value proposition for the consumer. The real benefit of these subscription businesses is that they tend to tie customers in for a longer period of time and as a result will generate much higher revenue per customer acquired, and because they’re making more money from each customer, that gives them more money to recruit new customers. So again, it becomes a self-fulfilling process of recruiting more customers and keeping them for longer.

The third revenue generation is where people are visiting your site to consume your content and you can make money from those consumers again in a number of ways. The most typical way is by serving advertising on your site so when these visitors to your site are consuming your content, they’ll potentially click on that advertising, go through to a different person’s website, and buy products from them. And the more people you can get to your website, the more money you can generate, because people will either be rewarded on a cost-per-click basis, which is when someone actually clicks on the advert on your site, or on a cost-per-million or cost-per-thousand basis, which is the more people that come to your site, the more eyeballs see your adverts, and you make money for each one of those.

It’s interesting, there’s a few different layers that kind of add complexity to these revenue generation models as well. So Freemium is a good example. This is where the initial offering is free but then additional goods and services are added on top that the customers ask to pay for. Again, a couple of good examples of this would be Dropbox, the software as a service where the user comes in and gets a certain amount of storage for free and then once they’ve seen the value of that, they are willing to pay extra to get more storage to make the service more valuable. Another example would be in-app purchases. Again, often the initial user experience and the initial game is free, but to get maximum value out of the product, the app will ask the customer to pay a small additional fee and by that time they’ve bought into the value of it and are willing to do so.

The other thing to note is that there’s quite a lot of blurring of the lines between these three different business models. So, for example, Amazon, again, does offer individual sales but it also offers a subscription model of Prime where you don’t get your goods as part of that subscription, but you do get your delivery taken care of. There’s also lots of clothing businesses that offer you the opportunity to either buy their product as a subscription where you get a regular delivery of the certain products. So say for example, there’s lots of sock subscription businesses, where you can get a new pair of socks each month and they offer that as a subscription or as a stand-alone purchase.

So it’s all about working out which of these either individual business models work best for you or working out how to blend them together to get the maximum amount of revenue per customer.
Moving to E-Commerce

But there are also some potential pitfalls along the way of this transition from traditional retailer to a more e-commerce focused retailer. One of these is approaching the change with your existing resource and existing mindset. So, we mentioned that Argos is a great example of how they managed to do it. But that transition wasn’t necessarily smooth. So when they first started trying to do it, they were kind of dabbling in e-commerce. But they still had the core of their business focused on how to drive as many sales as possible through the stores. And it wasn’t until they were almost at the point of collapse where that real burning platform was created, for them to take the bold step of really backing everything to do with e-commerce. And then, thinking about how the stores and how the existing infrastructure can support that.

So it’s, again, really important to be clear on what your priorities are and whether e-commerce is really leading things and also how that works together with the existing offering. Secondly, there can be a lack of familiarity with the business model. So, there are lots of similarities in retail between traditional retail and e-commerce. For example, understanding what the consumer wants. How you merchandise your product in a way that makes it easy to find. But often the implementation of that and some of the particular examples of it are very different when you get into an e-commerce world. And so it’s important that businesses recognize that and employ the right type of expertise. Either internally, into their business, or by partnering with external agencies, or doing joint ventures with different businesses to make sure they have real e-commerce expertise and real understanding of the e-commerce business model to give themselves the best chance at success.

And thirdly, there can be a lack of insight into the capital investment required to move to e-commerce. This is both from an initial set-up point of view but also from an ongoing operation point of view. So from the initial set-up, it can be very expensive to build new websites and create the infrastructure required to support them. And secondly, from an operations point of view, there can be lots of additional costs that aren’t necessarily foreseen from the outset.

So for example, from the outside looking in, it may look that on the face of things actually, you don’t need many employees to run a successful e-commerce site. And it should be reasonably cheap to send the product from your warehouse to the end consumer. But actually, when you get into the detail of that, you can find that to get people converting in the way that you want, you actually need a very high level of customer service, that can require a very high number of highly skilled customer service people that has a significant cost associated with it. And going to the delivery example, again, people might purchase in a slightly different way online. For example, buying two products that are the same, just in slightly different sizes, seeing which one fits best and sending one of them back.

So while the business model might have accounted for just having to handle the cost of sending the product to the consumer, they actually should have been factoring in the cost of sending product to the consumer and having it returned. So these are just two examples of how knowing how e-commerce businesses work compared to more traditional businesses can help you foresee some of the investment you’re going to require.

E-Commerce Solutions

We’re now going to look at the different e-commerce solutions available. And we’re going to start by looking at the bespoke solution. So this is effectively where you design exactly how you want your website to look and operate, including everything from homepage layout, category infrastructure, what the individual product pages will look like, what the checkout process will be. This might include what pop-ups come up throughout the user journey. And it could even include some back-end stuff
of how the data’s captured and analyzed. And the advantages of this are that it’s like an incredibly tailored solution that can help you deliver exactly what it is that you think your consumers value most. It also allows you the ability to test things often in an A/B method, where you test two different solutions and you monitor the data to decide which one works best and implement that across your operation. And then make the changes that come out of all those different iterative tests. It also works well in organizations that are highly sophisticated, and crucially, that have a really good understanding of what their business model is and what they’re trying to achieve through their e-commerce model.

The downsides are that it can be very expensive, as there’s a huge amount of customization and development work required. Appliances Online (2019) are a great example of how effective this can be. They were started about 16 years ago when a gentleman in the UK was in the pub with one of his friends and bet him one pound that he could completely revolutionize the way that white goods, like dishwashers and washing machines, are sold. Fourteen years after that, he sold or floated his business for £1.2 billion as a result of getting this e-commerce solution absolutely right.

Another solution is a hosted solution. This is basically an out-of-the-box solution, and the best example, or a good example, is Shopify. As with anything, there are also some disadvantages. And the key disadvantages of the hosted solution are that it can be difficult to scale the platform. So I mentioned that it’s very good if you’ve got a simple offering of one or two products. But if your business grows and your offering grows to multiple products across multiple categories, it can sometimes be very difficult to structure that within a hosted solution.

Another way your business might grow is international. And again, sometimes it can be difficult to have multiple store fronts in different countries under the same website URL using a hosted solution. There’s also limited customization. Both from a site functionality point of view, so again, it might not be possible to have the particular product display functionality that you’re looking for or pop-up that you’re looking for. And secondly, in terms of integrating your website with your existing or your other back-end systems, so things like ERP systems, that might be difficult to do using the hosted solution and whatever back-end provider you’re using. And thirdly, costs. Because there are transaction fees and monthly fees associated with using hosting solutions. And so as your business grows, using a hosted solution at some stage may well not be the most efficient way of doing things.

The next solution is what’s called an off-the-shelf solution. And this is where you typically buy, but they’re sometimes free, to begin with. Going back to that Freemium model. A package from a provider like some Magento or WooCommerce and you get a website that is customizable within a certain set of parameters. And this is often better for more complex projects than the ones where you might use a hosted solution. So a good example of this is where you’ve got several different products across a range of different categories. And the categorization structuring of those products to make them as shoppable as possible, isn’t supported by the hosted solution. Whereas you can get it from these off-the-shelf solutions. They’re also more adaptable. So again, there are a range of different plug-ins that you can add into them. And the scope of those different plug-ins is greater in this solution. The thing you need to be aware of is the hosting and the ongoing support of these off-the-shelf solutions, is something that needs to be taken care of internally and by the website owner and so there’s additional resource and costs associated with that. So effectively, this is a nice halfway house between the two solutions that I spoke about earlier.

So as your business grows, from potentially being single or a limited offer in business and hosting is the most appropriate solution for you, but you’re not quite ready to take the step of going to a fully bespoke solution and incur all the costs and complications associated with that, an off-the-shelf solution might be a nice stepping stone to continue to support your growth.
E-Commerce Sites

As with everything else, you also have to make decisions about whether you want to do this internally or use external resources to do it. And so now we’re going to look at some of the advantages and disadvantages of having your e-commerce site provided by internal resource. So the advantages are that if you have the skills and the capability to do this, it can be a low-cost way of getting things up and running. It can also be a very quick and easy way of getting your initial proposition into the market and tested quickly. The disadvantages are that if you don’t have the sufficient skills and as a result, you don’t produce a website that has the hygiene factors in place and provides a service that your customers are expecting, then this can massively undermine your value proposition. And as a result, damage your brand.

Secondly, if it’s not your core competency, then your attention may be drawn away from things that are more important to your business and that you are more capable of delivering. So it’s a good general principle to focus on the things that you’re really excellent at and then look for other people to help you on the things where they’re better.

Next, we’re going to look at the advantages and disadvantages of an in-house team when you’re building your own website. So again, the same advantages of increased control, where you can really tailor it to exactly what you’re looking for. I’d also continually optimize that over time. A link to this is the second advantage of it being relatively high-speed. So you’ve got control over what you’re wanting to do and you can make changes at high-speed, which is really what you’re looking for, for being able to test lots of different versions and see which ones work and then continually iterate to get to the best solution over time. And thirdly, the ability to alter all stages of the development, even after the development’s happened.

So again, this isn’t something where this is much harder to do if you don’t have the internal resource because you constantly have to be going back to the internet provider or the e-commerce provider to help you with that.

Disadvantages again, if you don’t have the expertise to do it, it can damage the overall brand. And secondly, it requires a different type of management to manage an internal team. And if you don’t have that skill set, it can compromise the completion of the project. So the type of project management that’s often used for IT projects. It’s what’s called Agile Management, where small projects are broken off into bite-size chunks and then they’re delivered over a short period of time and then moved on to the next one or revisited to optimize further.

The alternative to having an in-house e-commerce team is outsourcing it to a third-party e-commerce provider. The advantages of this are that you get the tailor-made skill for the project you’re looking for, as that’s exactly what the agency’s there to provide. They’re driven to a deadline so you can make sure things are delivered on time and in full. And you can also really accurately define the exact specification of what you’re looking to do and make sure that’s what the third-party provider delivers. Disadvantages are that it can be very difficult to find an appropriate partner. And you’re also putting a huge amount of faith in an external part of your business. And so that whole process of finding the right blend of talent and skills and that understand your business model, understand your business culture, can be quite a difficult process.

The second thing is it could be quite expensive. Because again, there’s uncertainty involved in the process. And so the provider may well want to make sure that they are guaranteeing that they’re going to generate enough income from your piece of work. And so the overall upfront costs can often be expensive for these types of work.
So as I mentioned, it can be very difficult to choose the right partner, so it’s important that we get it right. And these are some of the things that we should be looking for when choosing that partner. So, it’s really important they’ve got a varied set of skills, because ideally, you want to be able to get all the skills you’re looking for from one provider. So, for example, you’d be hoping that they’ve got a really good understanding of all the back-end execution of your website, and the hosting requirements. You’d hope they’ve got a great understanding of consumer user experience, and user design, and also are really well versed in all the different conversion rate optimization tactics that we mentioned before.

Then, looking at the bottom left image, it’s also really important that they document all aspects of the specification at the specification stage. So you want to have real clarity on what you’re asking the vendor to do right at the outset, so that if anything does change after that, that’s when changes can often become expensive and delay the product. So it’s incredibly important that both sides, both you and the vendor, are really clear on exactly what this project is going to deliver and any uncertainties are ironed out at that stage.

Then the other two key things really go hand-in-hand. First of all, they’ve got a proven track record of delivering projects that are similar to yours, and secondly, that they’ve got a client base that shares some similarities with your organization, because this is basically the best and easiest way of getting an approximation of whether they’re going to be able to do a good job to do the type of project you’re looking for. Because fundamentally, have they done it before to the standard that you think is acceptable? Because often, an agency may be brilliant at doing a simple...or single-product site, but the skills required to do either a multi-product offering, or even a subscription business may be very different, and also, the skills required to deal with a big business versus a small business can be totally different, too.

So, we’ve spoken about the importance of getting the specification process right, and also about managing this process through, and this slide goes into a bit more detail on that. So, as previously mentioned, it’s incredibly important to get it really clear on what it is that you’re looking for the project, and the e-commerce site, to deliver, and this goes right back to making sure you’re thinking about your value proposition. What is it that your customers value from you more than others, and then, making sure that the project delivers a specification that delivers that. So once you’re crystal clear on that specification, you then move into the build phase. And again, because these projects can be very big and very long, it’s useful to break it down into bite-size chunks.

So start with a particular part of the project, deliver that, look at how it’s been done, feedback at that stage, make sure everyone’s happy about it, and then move onto the next stage, then repeat that process all the way through the project, until all of the specifications have been delivered. So the next stage is looking at the specific stages that we need to go through to build the site. So, step one is about mapping out the site. So, this is really understanding all the different pages that you’re going to need on the site, and how they relate to each other. So, really simply, you’ll have a home page, leading into a category page, often leading into product pages. That’s kind of that flow. Then, you’ll have to think of how the cart then leads through to the checkout, and the flow of those pages. And then, you’ll have other pages, like Terms and Conditions, Contact Us, Customer Service, and again, you need to think about what are all those pages that need to be included, and how do they all link together.

Next, move on to wireframing. And so, for each one of those pages we’ve mentioned there, you need to lay out what’s referred to as a wireframe of where all the different elements of the page go. So things like, where’s the lead image going to be, where’s the copy going to be beside it, where’s the drop down of more detailed information on the product going to be? Then, once you’ve got those
wireframes clear and everyone’s happy with them, you then move on to concepts, and this is where you start kind of coloring in the lines, I guess, and putting in the pictures that make your website different to all the competition. And again, once you’re happy with that, you moved on to a first draft phase where you’ll get to see, by this stage, a really quite worked up version of what the website’s going to look like. And again, once you’re happy, you move on to the final stage, which is about encoding, and effectively, turning those pictures and functionality into all the coding language that makes it all work.

**Key Considerations**

It’s also incredibly important to make sure you pick the right domain name. So, what’s the website going to be called? And effectively, there’s two key things you want to be delivering here. Firstly, is it memorable, so does it help stick in people’s minds? And as a result, that’ll make it much easier for you to grow brand awareness, because once someone’s heard about it and become aware of you, it sticks in their mind. And then, secondly, is it searchable? So, again, that can...that’s partly how memorable it is, but also includes things like, how easy is it to spell? How many competitors in that type of area with misspellings could there be close to you?

So, getting those two things right makes it much easier, and much more likely you’ll be successful. So, earlier, when we spoke about conversion rate optimization, we mentioned checkout as part of that, and the checkout is probably the most important part of conversion rate optimization, so where people actually hand over their hard-earned money to you. And the key things you need to get right in this process are ideally, your checkout should be multi-currency, so that it can be used in lots of different countries to give you the best possible chance of growing your business internationally. Secondly, it should be multi-card commerce. So you want to, again, make the opportunities big as possible so that people can use as many of the different cards that they may have. So you’re removing all the potential barriers at that stage of the process. Thirdly, it needs to have tokenization. This is a technical thing that makes people’s very valuable data, to do with their credit cards, safe while it’s being transported around the internet. And fourthly, it needs to be designed in the right way, and also have an adaptable design, so that you can test different designs to get the best user experience, and maximize the conversion rate.

Another key consideration is how all of this site design works across different devices, because as we know, people are browsing the internet on more and more devices now, whether it’s a mobile phone, a tablet, or a traditional desktop, so you need to make sure that all of the designs work well on all of those different devices. And it’s also important to understand how people typically use those different devices in different ways. So, at the moment, it’s still fair to say that a lot of research is done on mobile phones, and then people often convert to desktop or laptops to make the final conversion. However, that trend is definitely blurring, and people are now more and more willing to make transactions on their mobile phones, often through the use of a single-click checkout. So you need to make sure, as I said, that you understand how each of these different sections look on these different devices, and there’s some good tools available to help you do it. So, the software shown helps you see what that looks like on different devices.

Another important thing to consider is the back-end that supports all of these e-commerce sites. So, if you’ve got multiple front-facing e-commerce sites, potentially in different countries, it’s important that they’re all supported by a communal back-end. So, for example, on the Royal & Awesome golf brand, we’ve got websites in the UK, America, Australia, and we also sell our product through Amazon Marketplace. And all of those different websites draw on the same stock, so it’s important that we’ve got one database of stock that knows the exact stock holding, so that we can communicate with all those different platforms, so that we don’t sell stock that we don’t have. This
database will also need to be hosted somewhere, and the database will also include information like product images, and all the images and videos that are supported on your site. And some of these files can be massive, and so, if you’ve only got a small number of them, it’s possible to essentially host that database. However, if you’ve got lots of them, or they’re big files, you often need to use what’s called a content delivery network to help get these files out around the internet, so that when people are viewing one of your international sites, or even viewing your products through a marketplace like Amazon, they can quickly see that image or that video without it taking a long time to load. So choosing the right hosting platform both minimizes your cost, and also maximizes the performance of your different websites.
LESSON 2: MANAGING E-COMMERCE LOGISTICS
Converting Customers

So logistics can be, though it must be a hygiene factor, and it can often be a differentiator for your business. So we’ve already spoken a lot about Amazon and how they’re taking the retail market by storm by having unbelievable convenience across a huge range of products. And that’s massively supported by having a really complex and highly innovated logistical network. It can also be absolutely fundamental to your business model.

So we’ve already mentioned grocery as well. And again, if you’re selling fresh produce that needs to be with people in a certain time, it’s absolutely fundamental that your logistics infrastructure supports that.

Warehousing

So a key part of your logistics infrastructure is your warehousing. And as with everything else, there are lots of different ways that you can do this, and three of the key ways are displayed here.

So the first is self-managed warehousing. This is where you own and operate your own warehouse. So you have your own staff working in it, you handle everything from storing the product, picking the product, and making sure they pass it on to the couriers. The next option is outsourced warehousing. That’s where all of that process is handled by a third-party warehouse. And the third is dropshipping. This is where customers buy from your site but the product they’re buying never actually touches your infrastructure. So it would be delivered and fulfilled through a third party. An example of this might be Amazon Marketplace. So a customer will go to Amazon, buy a product from Amazon Marketplace, and it is sent directly to them from a different vendor who has nothing to do with the Amazon infrastructure process.

Process Logistics

Now let’s look at the level of control that you get form each of these options, and also the level of skill required to deliver them. So looking at the self-managed option. The level of control you get is huge. You’re in complete control of exactly how this process works. And linked to that, the level of skill required to do it is very high. And so, there is a potential risk to the business that if you don’t have that skill in place, it can harm the customer experience, and as a result, the brand. Conversely, outsourcing the process does surrender some amount of control. However, if you have the right service level agreements in place with your provider, you can still have a very good level of control over how this process works. And then, crucially, the level of skill required for you is much lower, as you’re effectively getting experts to do what they do best day-in day-out and help you manage this warehousing process.

And thirdly, dropshipping. So this really does sacrifice a large amount of control because the processes that are going to be in place for getting the product to the end user are those of the third party, rather than your own. And so you have to be happy that they represent what your value proposition is all about and what your brand is trying to do. And the level of skill required is very low because you’re effectively outsourcing all of that to the party that handle the fulfillment.

Packaging

The packaging that you deliver your products in also says a lot about your business and has a big impact on how consumers perceive and value your brand. So the whole process of receiving a product that you’ve paid money for, and then unwrapping it and basically getting in to touch that
product is a really important part of the buying and user experience. So if you get that right, it can massively amplify people’s feelings for your brand. So, for example, Apple, they do this incredibly well, where everything in the packaging is incredibly sleek, incredibly simple, and it really aligns with their brand positioning.

Conversely, if you get this wrong, it can be incredibly frustrating. I think we’ve all wrestled with those highly packaged electrical goods that you need scissors or a knife to get into and you’re pretty pleased when you get away without cutting your finger off. And so that’s an example of where you’re already frustrated before you’ve even started using the product. And so those are things you absolutely want to avoid.

There’s also an additional benefit of getting the packaging right of advertising. If you deliver the product in a beautifully branded bag that all the way through the supply chain, wherever someone might see it, that’s raising brand awareness of your product. So when it’s sat on someone’s doorstep waiting to be delivered, people can see it there and that all helps the presence of your brand grow. Likewise, it’s an opportunity to include flyers and tokens about new products that your business offers when customers are buying your products because you know they already like what you have to offer because they’ve chosen to buy some of your products. So this is a great opportunity to increase customer loyalty and increase customer value.

So all of these things work together to reinforce the perception of the brand, and you’ve got to make sure that that’s a positive one. There are other considerations and potential problems about getting the packaging wrong, too. So I’ve already spoken about the poor customer experience of struggling to get into the package, but there’s an additional consideration. I think we’ve all had those packages where you’ve bought a small product and it arrives in a giant box with card and tissue and everything all around it to stop it rattling around in the box. So that often says to the customer, who are often now very environmentally conscious, that this supplier is not taking those environmental considerations seriously. And again, that can have a negative impact on how the brand’s perceived. There’s also a very real commercial cost of that because packaging is usually charged by the courier based on the volume that the packaging takes up. So by having packaging that is much larger than it needs to be, you’re often spending large sums of money effectively shipping air around the country.

So it’s really important, both from a consumer perception and from a hard-nosed commercial point of view, that you optimize the packaging as much as possible to make it as efficient as possible.

**Purchasing**

So another key function that underpins the business model and your value proposition is purchasing, and this is essentially all about getting the right products in the right place at the right price. And the right price is very important because it allows you to sell them on to your consumers at the lowest possible price and drive significant volume, or it allows you to maximize your margin that massively helps your profitability. It’s really important that you factor in the costs and the time taken to ship the products from wherever they’re manufactured to wherever you need those products to be.

There’s always trade-offs involved in this. So, for example, we’re a UK-based business and we manufacture a lot of our products in China, which come with great prices, really good quality, but it doesn’t cover quite a bit of shipping time. So, for example, it takes six weeks to send a product from China to the UK, and we also have to pay duty on that product. We’ve also got options in manufacturing in Turkey, which, because it’s part of the European common trading agreement, there’s no duty on it, and because it can be put on a lorry rather than in a boat, it only takes a week to get to us. And then we could also source even more locally in the UK, where manufacturing costs
might be higher, but delivery times and duties would be much lower. So these are all things that we weigh up when deciding what’s the best way of sourcing our products so that they’re at the right price, to the quality we require, and where we need them at the right time.

**Distribution Logistics**

Another key element of logistics is that last mile delivery service. This is the general term given to how the product finally gets to the end consumer. And there are different ways of doing this and different considerations. One way is super-fast couriers, so it tends typically [to be] the most expensive, but the fastest service, and often come with highly tracked services. You then get inexpensive couriers or carriers, which again, gets the product there, but might not be tracked and might take a little bit longer, but typically costs the person sending it less money. Got signature required option, which means that it is really safe, that the product definitely gets there in the end, because it needs to be signed for by someone. But again, there’s some convenience trade-offs with this, because it does mean that somebody needs to be in to receive the product that might not be the optimum solution for all products.

And then, also there’s pick-up points. And again, we’ve mentioned this earlier of the blending between traditional retail and e-commerce. And also we’ve spoken about partnership and in the ways that even people that are purely e-commerce businesses can partner up with people who have real-life, brick-and-mortar locations to make sure that there is a safe, secure place where people can pick up the product that they’ve purchased.

Linked to all of this as well, you need to consider the returns policy and the returns process if people choose not to keep what you’ve sent them. And again, there’s kind of two schools of thought on this. One school of thought is that you want to make that process as difficult as possible so that you get as fewer returns as possible.

Another school of thought is that you want to make it as slick as possible so that people value the service you gave them as much as possible. And again, there’s very different costs associated with both of those, both in terms of an upfront cost of how much it costs to deliver those services, but then also there’s cost considerations from a long-term point of view to do with brand health. So there’s lots of data that supports the fact that if you buy from a business once and it’s difficult for you to return that product, you’re very, very unlikely to buy from them again in the future. So another good example of this in the UK is a retailer called ASOS (2019). If you buy product from them, it’s got an incredibly easy returns process where you just have to check a box for why you’re returning it and you can either repackage it in the package that you’ve been given and pop it into the nearest postbox or you can even arrange a courier to come and collect it from wherever you are at the retailer’s expense.

And so, again, that is a process that makes it very likely that you are going to buy from that retailer and massively helps their conversion that we spoke about earlier, because as you’re making the purchase decision, you know that, “If I like it, great, I’ve got the product I wanted. If I don’t, I can return it with no hassle and no cost.” Now let’s take a quick look at how this process is different when the product you’re selling is actually a digital good. Let’s look at a couple of examples. So we’re going to look at Netflix and we’re also going to look at a business that sells educational content online. So both of these businesses need to create the content and they need to store it somewhere. So in Netflix case, the content creation is partly done by them, but also partly content that they source from other production houses. And then that content will be stored on some central servers and most likely distributed through a Content Display Network. In the case of the online education
provider, again, they most likely produce their own content and they will be hosting that somewhere central to then be distributed more widely around the internet.

So then, moving on to how they scale the distribution of their business. Again, Netflix are very lucky that they have their own proprietary portal the consumers log into. So their scaling effectively comes from getting that portal on to as many different devices as possible and so that requires lots of partnerships with different device manufacturers and understanding how those platforms work and making sure their user experience on that platform is as optimum as possible. In the example of the online education business, they may well distribute that product through a range of different partner websites, all under different brands, that help get their product in front of as many different people as possible where they can then download that content and get their online learning.

The other interesting consideration for these digital products is how you handle returns and refunds. Because, obviously, people get instant access to the product and there’s no tangible good that you can ask them to return. So in the case of Netflix, they handle this by having a monthly subscription and you can view as much as you want during that time that you are paying the subscription. But as soon as you cancel your subscription, your access to the site is no longer available. This is much more difficult in the education example because there’s a good chance that people can download the content, save it elsewhere and then say that it wasn’t what they were hoping for. And so, it’s very difficult to work on that so the risk of that leakage needs to be factored into the commercials of that business plan. So it’s all about being aware of how your product can be used and factoring that into your plan.

Another key thing to consider from a logistical point of view is the seasonality of your business. Basically, this refers to when people come and buy your products. So in an ideal world, it’ll be brilliant if the same amount of people came week after week, month after month to your site. Or in fact, in an ideal world, they’d be growing steadily, but it’ll be evenly spread across the year. But in reality, a lot of the time there are certain peak times of the year, where customer numbers are much larger. So the obvious one for this is Christmas. But in our business, the Morphsuits side of our business, the massive peak is around Halloween when people are buying costumes to celebrate that event. And so, we need to make sure that we’ve got the processes in place to deal with much larger customer numbers and much larger sales at that time. So the key considerations for us are staffing. So in our warehouses...and we actually use third-party warehouses that we mentioned earlier, but we need to make sure that they have the staff on hand to ship significantly higher volumes of packages than they would at any other time of the year. We also need to make sure that we’ve got customer service people on hand to answer inquiries and we’ve got people on hand to process transactions and refunds at that time of the year as well.

Secondly, stock availability. We need to make sure that we’ve got all the stock in place at the right time so during that peak time of the year, we can maximize sales with as few out of stocks as possible. And thirdly, we need to make sure that people can access the site.

So for an e-commerce business, this is really about having the site hosted in a stable enough way so that when you get these big influxes of traffic and of new visitors, the site is able to sustain that. In a more traditional retailing example, the same thing happens at Christmas time with all the big retailers that they need to make sure that they’ve got all the staff in place in their stores to make the customer service experience as smooth as possible. We need to make sure that they’ve got the stock in place to sell at Christmas time. And thirdly, in terms of accessibility, because Christmas is often at a cool time of the year and the weather can be pretty extreme, it’s important that they factored that into their plans, so that they don’t lose out on sales at the most important time of the year due to inclement weather.
The other important thing to consider about seasonal businesses is it gives you less time if you’ve got a seasonal peak in your business to course-correct and to optimize your business plan than you would if you’ve got a more steady, year-round business. And that’s another important consideration when you’re working out your business plan and how you’re going to run your business.
LESSON 3: SETTING UP E-COMMERCE PAYMENT METHODS
Payment Methods

A really important part of this process are the payment providers. These are the people who provide the software that sits behind the website that takes the payment details from the customers, processes the transaction, and then passes the payment on to the retailer. And they do all this in a safe and secure way that are trusted by shoppers. Just imagine how difficult it would be if you were having to do all that coding of this new process, passing on that really sensitive data yourself in the coding of your website. And so, this is a really good example of where it’s best to outsource that bit of software engineering to these proven experts that know what they’re doing and that people trust. Now let’s take a look at the different payment types available. So, obviously, there’s things like credit cards, debit cards, and e-wallets, but within each of these is also different providers. So you’ve got the likes of American Express, Mastercard, and Visa. And you’ll sometimes see on different websites that some of these are available, and some of them aren’t, and why is that?

Well, the key reason is that each of these providers apply different terms and conditions, and crucially, different fees, to the people using their product. So, American Express is often the one that you won’t be able to use, and the reason for that is that their fees are higher than some of the competition. So every time a retailer, or a customer, places a sale through an e-commerce site using an American Express card, the charge for that retailer will be higher than the charge if they were using a Visa card, and even higher than if they were using a debit card. So these are things that retailers will often consider about which types of card they want to accept based on the cost that they know they’ll be charged by the provider.

The other interesting thing is that there are sometimes different category norms between different categories. So, for example, you might well have booked a flight recently, and you’ve seen the standard price of your flight, and if you want to use a credit card, there’s an additional fee. This is because that airline is passing on the fee that the credit card charges them on to the consumer, in this case, you, whereas if you go to a clothing website, it’s very unlikely that you’d be asked to pay an additional fee to use a credit card. So again, it’s important to understand all these different nuances so that you can either decide to pass the cost on to your consumers, or make sure it’s built into your overall cost structure. And again, it’s about getting a balance right between providing the best possible and most convenient service to your customers, but also making sure you do it in a profitable way.

So, we’ve looked at how payments are taken from the consumers to the retailer, now let’s look at how payments are made between the retailer and the payment providers. So there are typically some common terms and conditions associated with this, and they kind of fall into three categories. There’s, first of all, the length of time it takes to get a payment from the payment provider after the sale’s been made, there’s also the percentage fee they’re going to take for each of those transactions, and the third thing to consider is, in the event of a return or a complaint, how much of the fee is clawed back to the end customer. And these are all things that you’ll want to weigh up when you’re choosing which payment provider you want to use, and pick one that best aligns with your business objectives. The other key consideration is how these different payment methods fit the markets you’re planning on operating in, and how they’ll also fit the markets you plan on growing into, because there are different consumer understands and consumer expectations in different markets. For example, in some countries, the vast majority of customers pay with a Visa or a credit card, where in other developed markets, like Germany, there’s a much higher percentage of cash on delivery, where people actually pay for the product when they receive it, rather than when they make the initial purchase. And again, these are things it’s important for you to understand so you can plan accordingly.
So, we’ve already spoken a little bit about payment gateways, and here’s just a few examples of some of the options available. And it’d be worth taking a little bit of time for you to go and have a look at each of these, and look at the different pros and cons of each of them, and deciding which is most relevant for you.

**Tokenized Payments**

Now let’s take a look at what actually happens behind the scenes when a payment is being processed. This’ll also explain why, sometimes, when you’re making a purchase, either online or at a cash register, and you’ll have inputted your PIN number, and the card machine will be saying, “Dialing, processing payment,” and it all takes a little bit of time. So this is what’ll help us understand what’s going on while that time’s being taken. So, the customer gives their information to the merchant or the retailer. That information is then encrypted so that it can be safely passed around between these different people in a safe way. That information’s then passed on to the acquirer, who will be the likes of Visa and Mastercard. That information’s then passed on to the network, where there’s communication between the network and the bank to confirm that there are the funds available there. The information is then passed on to the token vault, where the encryption is decoded so that the information can clearly be seen, and then, the information is passed back down the channel so that the merchant finally gets recognition that, yes, there are funds there, and the process can be completed.

So, with all this money coming in and out of the website, it’s important that it’s joined up with an accounting package, because we want to be able to see how much money’s coming in, in terms of sales, but also how much money is going out, in terms of the fees we’ve mentioned that go to the service, or the payment providers, any cost going out in terms of refunds, and also the costs of each sale, in terms of costs of good, and also any variable marketing costs. All of these things, it’s ideal if we can see them in one place so we can get a clear view of how much margin we’re making per sale. And there are different ways of providing this join-up between the financial information of your website and the accounting packages that sit behind it.

The most simple way, and labor-intensive way, is through manual data exports. So, this is where you simply download spreadsheets out of the back-end of your website, transfer them across to whatever your accounting software is, and upload them there, and manage it through that process. Next, we can use automatic pieces of software. So this is if you’re using a payment provider like PayPal, there’s a good chance that that’ll have a pre-existing connection with a major accounting package, like Sage Pay.

The third way is developing a custom API. This is where you get your website speaking directly to the accounting package through a custom-made piece of code that helps that process happen. And so, again, like everything else, you need to decide which of these different methods is most appropriate for the site, scale, and complexity of your business.

**E-Commerce Transactions**

Now, let’s look at the full nine-step process for an e-commerce transaction. So, it starts with the customer placing an order, and then, that order is passed from the merchant, or the retailer, on to the payment gateway. The payment gateway then forwards the transaction on to the payment processor, who then forward it on to the credit card’s issuing bank, so that’s whoever you’re banked with and whoever you have an account with, and asks them for an authorization request. That bank then, hopefully, grants you the authorization, which is then passed back to the payment gateway,
that is then passed back on to the merchant, and then, the merchant fulfills the order, so sends the product back out to the customer. And all of this process happens in literally two seconds.
LESSON 4: MANAGING E-COMMERCE CUSTOMERS AND LEGAL GUIDELINES
Customer Service Management

So we spoke a lot earlier about conversion rate optimization, and one of the key things that can negatively impact conversion is getting your customer service and your user experience wrong. And so some of the key problems are highlighted here. So, for example, a mobile site that doesn’t work as it should. This is often because it’s been designed for a desktop or a tablet page and it doesn’t reformat correctly. So it looks all wrong when the consumer is looking at it.

Secondly, stock availability issues. Again, people can’t buy what’s not available for them. And so you’ve done all the hard work by recruiting the customer, making a value proposition and then at the last stage you fail and miss out on the sale. It’s also a problem with pages take a long time to load. People have incredibly high expectations of how quickly they’re going to be served things. And so if your website is not quick enough you’ll lose customers. It’s also important that people can see the key buttons they need to be able to press. So if you don’t have an Add to Cart or a Buy Now button in a highly visible place, then that’s going to impact your conversion and your user experience. People also don’t like surprises at the last minute. So by adding in delivery charges at the last minute when they’ve already got their head around how much they’re going to be paying for the product can be another key conversion killer.

And then error pages. When people are clicking on links and not getting to where they’re expecting to, having to navigate backwards all negatively impacts the overall experience of your website, the overall perception of the brand, and crucially the amount you can sell.

Customer Service Platforms

So here’s some customer service platforms that allow us to handle these customer service inquiries. The key things that these providers do is they allow us to group together particular types of customer service inquiries into general themes, so we can see what are the key issues that customers are facing and the key challenges that they’re facing. They also allow us to manage individual customer inquiries. So if there is backward and forward between your customer service team and an individual customer over a series of different messages they can track that all in one place, so that the consistency of the conversation is kept and it allows different customer service agents to handle that conversation through the process. And it also allows you to track really accurately the amount of time taken to resolve customer service inquiries and also the eventual outcome and success of those customer inquiries. There will be lots of other features and benefits that these providers provide and again it’s well worth you checking them out and seeing which one best suits your business.

Customer Service Templates

Another really effective tactic when dealing with customer service is to use customer service templates. These are effectively set responses and sequences of response that deal with the key issues your customers face. So, for example, you may well get lots of inquiries about “What’s the status of my order?” and having a set response to that can make the whole process much more efficient and much more consistent. The same goes for returns and also common product inquiries. So, again, having these set templates allow all the customer service agents to have the answer for the customer right at their fingertips and make sure that the same answer is given time and time again to any different consumer. This ensures a really consistent and valuable consumer experience but also ensures that your business can scale as the number of customer service inquiries increases. We’ve introduced these customer service templates into our business and we’ve seen improved
turnaround times for any customer service issues. This has resulted in a reduced backlog of issues. We’ve also seen increased customer satisfaction and it also requires less resource for our business to give the customers an overall better experience. So it’s a real win-win.

**E-Commerce**

There are some key customer service considerations when you’re working internationally. The first one is the linguistic challenges. So it’s very important that you speak the local language, so you can effectively deal with the customer service inquiries as they come in. Again, this can be another benefit of the template system that we spoke about earlier. That if you don’t have in-house international language expertise you can gather the most common customer service inquiries, lay out what your classic responses are to those, and get them translated ahead of time, so that you can efficiently deal with international customer service inquiries.

It’s also really important to understand all the fulfillment challenges associated with different markets. So there can be local couriers and local carriers. They all have different terms and conditions to some of the more local couriers that you’re used to. And, again, you need to fully understand those processes and what service they’re going to provide to your customers, so that you can plan accordingly. And you also need to understand the market that you’re going into. The key to loss of business and success is about understanding your consumer and how they value your proposition and also how you market to them. And that can be much more challenging if you don’t know the local market.

So, again, these things can be addressed either by doing some market research or potentially partnering with people in these local markets to help address these challenges for you. Now let’s look at some of the other key customer service considerations. Data protection is an absolutely key one. Customers want to know that their data is safely looked after when they’re dealing with you. And there’s been a couple of high-profile examples recently where businesses like TalkTalk in the UK have been hacked. Customer data has been lost. And, as a result, that business has been fined a huge amount of money and also lost customer trust that does incredible damage to the overall brand perception.

Another consideration is taxation. Again, there are different taxation rules and regulations in the different industries that you operate both in terms of retail tax and corporation tax. And there’s also different considerations about where you should have your business based because there are different corporation taxes associated with that. So, for example, a lot of gaming businesses that can be based anywhere and serve international markets are based in countries like Gibraltar where the corporation tax is incredibly low.

You also need to understand how, as your business grows internationally, what are the tax considerations for that? Because it might be that you hire someone in a different country it means you effectively have an ongoing entity in that market, and as a result, you’re liable to pay taxes in that jurisdiction. Another consideration is copyright, again on sites where you’re using images or videos. Many source these from a variety of different places, sometimes through partners, and you need to be clear on where you can and can’t use those images, so that you’re not putting yourself at risk of potential fines and cost. Another issue is privacy. Again, this really comes down to how you use the data that you gather about your customers. It’s fine if you use that to enhance their service in a way that they’ve given you permission to do, but it’s not okay if you use that data in a way that they are unhappy with both from a legal point of view but again from a customer trust point of view. And also note that trust takes a long time to build up and [not] an awful lot of time to lose. So it’s really important from a business point of view that you keep that front in mind.
And finally it’s interesting about accessibility issues. This is effectively about making it possible for people to get onto your site to buy the goods and services that you’re looking to sell. So part of this might be that certain sites are harder to get onto in different countries. For example, Facebook is not available in China at this stage and also for us to kind of access to the internet more generally, so thinking about browsers and download speeds. So, again, you’ve got particularly a data-heavy site. You might need to consider how you tailor that to areas where accessibility to high download speed isn’t as good as you might be used to.

**Laws and Guidelines**

Now let’s look at some of the laws and guidelines that we need to consider. It’s also important to highlight at this stage that these are just a few areas for us to start thinking about. But when it comes down to it, it’s really important that you get the right legal advice at the right time, so that you can get the detail of this absolutely right. So first it’s important to research any cross-border considerations of how your business would be different if you’re doing business in different markets. Secondly, it’s important to recognize that not all markets have the same laws and guidelines. There’s lots of laws in different jurisdictions that are created to protect the consumer. And these will be different depending on the markets that you’re in. So, for example, the EU has very stringent laws in place across lots of different categories and in lots of different ways to make sure that consumers are protected in a huge number of different ways, whereas that might not be the same in some other markets.

There’s also some countries that treat domestic businesses different to overseas ones. And so, again, understanding these nuances could help you from falling foul of any disadvantages and also might uncover some advantages for you to help yourself compete against your competition.

**Privacy Policies**

Most businesses that hold sensitive customer information need to have an up-to-date privacy policy in place. And a couple of the key things to note are that you need to make sure that you update these policies to take into account any changes in these regulations and these regulations are being changed on a very regular basis. There is a very significant change going through EU regulation at the moment that needs to be taken into account on these policies.

The second thing you need to be aware of is how the changing technologies impact your privacy decisions and your privacy policies. So, for example, the amount of data that social media sites are able to gather about their users now creates both a huge marketing opportunity for the businesses using those platforms but also makes some really big privacy questions that need to be carefully considered and carefully addressed so that you’re getting the balance right between maximizing sales but not risking potential consumer trust.
References


