



Skillsmart Retail Analysis: Online retailing potential developments and its impact on people and skills

November 07

Ian Wheeler Research Manager
Skillsmart Retail

For further contact, please contact ian.wheeler@skillsmartretail.com

Skillsmart Retail Ltd, 93 Newman Street, London, W1T 3EZ, Tel 020 7462 5060, Fax 020 7462 5061, contactus@skillsmartretail.com, www.skillsmartretail.com

About Skillsmart Retail's Analysis Series

How we shop and where we shop is the source of countless headlines. Those who are employed in the sector and how they serve us also feature frequently in the UK press.

This series of reports is developed by Skillsmart Retail to provide readers with an in-depth analysis of the main business, employment and skills trends within the retail sector.

Skillsmart Retail is the Sector Skills Council for the retail sector. Its remit is to develop high quality insights into the development of skills at all levels of the retail workforce.

If you would like to comment on any of the issues raised in this paper please contact Ian Wheeler Research Manager at ian.wheeler@skillsmartretail.com or telephone on 020 7462 5070.

Online retailing potential developments; people and skills

1. Introduction	4
2. Development of online retailing	5
2.1 A recent history of online retailing	5
3. The current position	7
3.2 Consumer attitudes shaping what is purchased online.....	8
4. New Challenges, New Skills?	10
4.1 Market positioning through the website	10
4.2 Making the website work and work again	11
4.3 Fullfillment	12
4.4 Further dissolution of boundaries.....	14
<i>Current trends</i>	14
<i>Future trends</i>	15
5. The longer run development of skills	17
5.1 Initial analysis on the potential impact of online retailing and occupations	17
<i>Developers of strategies</i>	17
<i>Website developers</i>	17
<i>Fulfilment delivery skills</i>	17
<i>Handling returns resolving issues</i>	18
<i>Store based staff</i>	18
<i>Online assistance</i>	18
6. Conclusion	20
6.1 Higher Skills? or Lower Skills?.....	20

1. Introduction

This analysis explores how the adoption of online trading has introduced new opportunities for retailers and how these might affect those who work in the sector and the skills they may need. It is based largely on secondary sources and commentary from retailers themselves.

We briefly chart how online retailing has moved from being viewed as a minority hobbyist pursuit, to one which is now a mainstream route for retailers.

Like many IT based innovations, the development of online retailing channels presents businesses with a range of new choices. In this sense, the development of the technology is a 'driver' helping to shape the future of the sector.

However, culture and politics in companies and of consumers will be complementary drivers and will also shape how the new technology will be applied.

We speculate that on balance the development of online retailing is likely to further increase the depth and breadth of many job roles in the sector.

Within senior managerial occupations, online retail will pose a series of strategic challenges around the role of their online trading platforms and evaluation of their success. Professional and associate professionals will also be affected as online retailing will increase the breadth of activities they have to deal with.

The fulfilment of orders will also lead to new demands. Warehouse systems may increase in their complexity. Many delivery personnel will be expected to offer more than a perfunctory drop off of the item; some might even be expected to offer advice and expertise on the product being delivered.

The blurring of boundaries between online and traditional retailing will also present interesting challenges for store managers, sales and customer service roles. Where online and traditional retail operations operate seamlessly, many employees will require knowledge of the entire range of products and services on offer and skills to carryout a wide range of processes.

Within the retail sector previous developments have focused on reducing errors. It has also helped develop job roles that rely on modest levels of skills. The development of online trading may reinforce this trend.

2. Development of online retailing

2.1 A recent history of online retailing¹

Purchasing online by the mass of consumers became possible from the early to mid 1990's. Since its inception online retailing has undergone a number of phases as shown below in fig 2.1 below.

Figure 2.1 Online retailing timeline

- 1994-97 "A hobbyist's pursuit"
- 1998-2000 "Emperor's new clothes"
- 2000-01 "The dot-com bubble bursts"
- 2002-05 "A new realism – combining formats"
- 2006 onward "renewed confidence"

o 1994-97 "A hobbyist's pursuit"

Early adopters included Pizza Hut who offered ordering services in 1994. They were joined by a number of "adult" retailers. In 1995 Amazon.com was launched. In these earliest manifestations, the systems were often esoteric and home internet connections were less common. Take up therefore remained understandably limited.

o 1998-2000 "Emperor's new clothes"

Excitement had grown about the new economy the internet would create by the late 1990s. Much of the interest was created through a natural fascination with the future as the world approached a new millennium.

During this period, internet start-up companies received huge investments from venture capitalists seeking to have a stake in this new world. Some commentators liken the situation to a 'Gold Rush' with investors believing presence in this new online world was paramount.

As a result, strong emphasis was placed on unconventional metrics of business success, because this was perceived as an unconventional medium. So instead of the value of companies being measured in terms of either the property they owned or the sales achieved new measures were introduced. These included 'click-rates' or 'number of registered

¹ Tim Stacey (2007), 'Engaging your business in the challenges and opportunities of e-commerce', notes to presentation given 27/03/07

users'. In essence these disguised the reality of high abandonment, low conversion rates, and low sales.

During this period, Amazon was unusual in being resolutely realistic about short-term prospects. It only made an annual profit in 2003, but has outlived many failed initiatives of the 'dot-com boom'.

- **2000-01 "The dot-com bubble bursts"**

A variety of factors caused the bubble to burst, a major one being the poor trading figures for online retailers over Christmas 1999. This was the first concrete measure of how registrations, hits and market share would really translate into sales.

- **2002-05 "A new realism – combining formats"**

Despite the general perception of 'dot-coms' as worthless, many of them survived. However, they had vastly reduced valuations that now reflected performance as measured by the same criteria as any other retailer.

During this period, many conventional retailers now began to develop their online retail presences. Others purchased online retailers on the cheap, and the market underwent a great deal of consolidation.

- **2006 onward "renewed confidence"**

In the first half of 2006, online retail growth was ahead of shop-based retail.² Retail growth in general surprised analysts in the second half of 2006, buoyed by clothes and online sales.³

Many individual retailers have reported considerable growth in the contribution that online retail brings to their companies. Online retail is now a confirmed part of the retail landscape. The debate is often about just how much growth it can make in the medium and longer term.

² 'Online sales grow faster than retail', *Financial Times*, 28/07/06, accessed 06/07, <<http://tinyurl.com/25uaj8>>

³ 'Clothes and online purchases give retail sales a boost', *Financial Times*, 17/11/2006, accessed 06/07, <<http://tinyurl.com/ytkvbe>>

3. The current position

As of May 2007, Britons had spent over £100bn online⁴ assisted by the increased penetration of broadband among households. Access is above 70% for 15-54 year-olds (highest for those aged 35-44) above 50% for 55-64 year-olds, and significantly lower (around 25%) for those aged 65+.⁵ Users are spending more and more time online, and almost 40% of users say shopping research is a 'major use' of the web. Fig 3.1 summarises a number of factors that have contributed to the growth of online trading.

Figure 3.1 Reasons to be optimistic

- Over 75% of the UK now has access to the internet
- Every three months, an equal number of people to the population of Sheffield gets broadband installed
- Over 50% of people are online every day
- People now spend more time using the internet than watching TV
- Women's use of the internet is set to overtake men's in 2007
- The internet is a bigger marketing channel than outdoor (such as posters and bus shelter adds), radio and cinema
- More than 70% of people consider search engines to be an important source of information when making purchases
- More than half of those who research online then bought offline in the automotive, gardening, DIY, furnishings, mobile phones, home appliances, electronics, computer hardware, clothing and health and beauty categories.⁶

⁴ This is based on a broad definition of online sales, where travel counts as the largest online category.

⁵ Richard Perks (2007), 'Online shopping – what consumers tell us', notes to presentation given 27/03/07 Retail Week Conference

⁶ Tim Stacey (2007), 'Engaging your business in the challenges and opportunities of e-commerce' 27/03/07 Retail Week Conference

3.2 Consumer attitudes shaping what is purchased online

For some time it has been understood that purchasing online is also shaped by product line. Electrical goods, CDs, DVDs, games and books have all reported high levels of online activity. Other product ranges have reported more modest increases.

Online retail is not considered a suitable channel for items where:

- Delivery costs are expensive compared to the price of the product
- Home delivery can be inconvenient
- Fit, feel, sight and/or touch are often important to the purchasing decision

Also significant are cross-sector brakes on the take-up of online buying by consumers, such as security or problems with using sites.

○ Shopping and socialising

Shopping is a social and emotional activity for many people, and shopping online is unlikely to excel at sating either need. Impulse purchasing is also unlikely to occur online, though this is not so much a reason not to shop online as a type of shopping that is simply unlikely to occur.

○ Security

Information from Ofcom suggests people remain concerned with giving personal details online. Around a quarter would never give out debit or credit card information, or personal phone numbers.⁷ Identity theft is on the rise, and users of on-line services have been targeted in particular.⁸ These concerns continue to act as a break.

○ “That site’s useless!”

Online, customer choice is not limited by what is available locally. Competition is potentially fiercer because of increased supplier choice, and customers are much less likely to give a site a second chance.

A website can never provide as much information in one go as a shop floor – where customers can quickly scan an aisle – and it is often not clear whether a website actually stocks the product required without extensive searching.

○ Accessibility

Despite internet access being increasingly pervasive, there is still much less uptake among people aged over 55. Lack of standards-based design can restrict the number of sites available to people who have to use a screen-reader or interpretative device other than a computer monitor.

⁷ Shapiro (2007), op. cit.

⁸ ‘Your life in their hands’, *Financial Times*, 23/05/07, accessed 06/07, <<http://tinyurl.com/3532xt>>

Whilst the growth of online trading has been impressive, investors in online retailing are also managing their expectations about future expansion. Growth is tempered by a range of factors as shown below.

Figure 3.1 Reasons to manage expectations

- Online shopping can be characterised as broadly 'home shopping' Home shopping made up less than 4.5% of the market in 1994, and has fallen to under 3.5% in 2006. In itself this is not a large market
- Many customers are unlikely to ever buy certain products without seeing them first
- Returns can be difficult, and one bad experience can put a customer off a site for good
- Although the number of households with *broadband* is increasing, overall internet penetration may be levelling off
- People *like* shopping, and the young like shopping most of all. Clothes-browsing online is highest amongst 45-54 year-olds, and buying highest amongst 35-44 year-olds⁹

⁹ Perks (2007), op. cit.

4. New Challenges, New Skills?

Most large retailers have made the strategic decision to have an online presence as well as physical stores. Although some choose to match their entire offer on the internet, others have chosen to focus on a particular area of products and then expand these as they learn more.

Once this broad decision has been made, the retailer has a range of other decisions to make about the online format. These decisions will lead to challenges for skills and work organisation.

Challenges include online marketing, sales, fulfilment, returns and how all of these in the online world relate to traditional stores. This section speculates about the potential impact on the skills in retail.

4.1 Market positioning through the website

Good website design can help retailers establish or reinforce their brand and status amongst customers. When retailers develop a website they are often balancing a range of messages depending of course on their target consumers.

- **A credible retailer**
 - Some retailers use their websites to establish credibility; this is particularly relevant for those selling products that require trust from customers
- **A retailer who has it all**
 - Others wish to demonstrate their authoritative range. Many retailers will wish to be viewed as a one-stop for an entire range of related products.
- **A retailer helping you make a decision**
 - Many customers will use websites as a means of exploring their options. If a retailer can help them do this then they may capture more sales. This can be as simple as comparing the advantages or disadvantages of one product against another. Some clothing retailers have highly sophisticated websites to help people envision how they might look in a particular garment.
- **We can help**
 - Offer assistance and advice on products, add-ons or key features.
 - For multi-channel retailers, all these considerations will also need to take into account that the website should bear some resemblance to the experience offered in the stores.

4.2 Making the website work and work again

It is also clear that there are a range of highly technical skills around the actual development of the websites themselves. Many of these skills are specifically around the design. In addition to these technical skills, there are also a range of creative skills such as copywriting. Both of these need to be embedded in an understanding of the business of retail and selling. The following is a non-exhaustive list of themes which illustrate the challenges retailers are confronted with, and which also highlight potential skills issues.

- o **Online visual merchandising**

There are also a wide range of decisions retailers need to make about how products are displayed and organised on a website. In many respects these build upon the visual merchandising skills which permeate traditional retailing.

Product categorisation by a variety of criteria, intelligent textual and contextual search, and perhaps even 'web 2.0' innovations such as user-assigned keywords are all methods used on websites. For instance, Argos a retailer that has a comprehensive online offer has a homepage dominated by a list of categories and sub-categories. Next has its home page organised along simple categories of women, men and children with further sub-categories.

- o **Good old fashion selling in a new medium**

This will vary by product ranges being sold. Electronics retailers may need to offer extensive specifications for products, or a buyer's guide to help. All of these must be written in an accessible style. As the manufacturer's standard text is often not enough.

Fashion retailers must excel at demonstrating how an item will look. A number will offer advice on combinations of clothes. Good quality visuals are essential. Again, standard manufacturers cut and paste photos often aren't good enough.

There is evidence that seeing a product is popular will encourage other users to display 'herd mentality'.¹⁰ User reviews may not always be positive, but build credibility and can make some items quicker moving.

- o **Closing the sale**

Retailers will also need to work hard to ensure they can close as many sales as possible. Elements that help close sales include.

- Obvious and consistent links to shopping baskets
- Account management
- Privacy and returns policies

¹⁰ 'Swarming the shelves', *The Economist*, 09/11/06, accessed 06/07, <<http://tinyurl.com/y2zpgz>>

- Availability and timescale information given up front

Ensuring the site meets World Wide Web Consortium (W3C) Web Accessibility Initiative (WAI) standards is important to ensure everyone can use the site.¹¹

- **Online transactions**

Many retailers have striven to keep the number of 'clicks-to-sale' to a minimum. The theory is, the greater the number of pages a customer has to view and 'clicks' required to complete a transaction the higher the odds of failing to making a purchase.

Retailers will need the technical expertise to achieve slick websites. Constant monitoring of the website activity is required particularly to review drop-off points.

There is also third party payment systems, such as Pay Pal which can decrease the number of steps required in the transaction.

- **Encouraging repeat custom**

Developing an ongoing relationship with the customer is an important way of driving repeat sales.

Content management systems can automate refreshing of pages, and make it quicker and easier for new content to be added.

Retailers are also using a range of themes such as wish-lists, recently viewed items and user profiling and cross-selling are increasingly becoming de rigueur.

4.3 Fulfilment

Fulfilment online raises an important range of opportunities and of course challenges for retailers.

In traditional stores, the logistics of ensuring a branch network of 600 or more stores are adequately stocked is challenging, but the methods of doing so have evolved overtime.

For online only, the process can be simpler. One warehouse and deliveries are made direct via the post to customers. ASOS and Amazon operate effectively using this model.

However, with many retailers offering both online and traditional routes, combining the two can be challenging. Multi-channel retailers must plan an appropriate network to meet requirements, but ensure that changes do not undermine the existing network.

- **Delivery**

A single strategy may not be optimal for every product – size and rate of turnover may vary greatly across a product range – yet customers often expect a single delivery to fulfil an order or they think something is amiss. This can reduce confidence from the perspective of the customer in the ability of the retailer to deliver.

- **Time slots**

Customers have become more interested in having specific timeslots for deliveries. The ability to offer specific timeslots for deliveries is a huge plus for customer service as is any information that can be given to a customer that allows them to track their order.

- **Added value delivery**

Service combined with the delivery of the product is also growing in importance for the customer. But is also an important opportunity for the retailers to strengthen their relationship with their customers.

The service can simply be as simple as taking the groceries straight into the kitchen and an articulate delivery person.

However for technical products such as mobile phones the added value could be more significant. Guidance on using the technology could increase loyalty use and thereby the amount spent on browsing or telephone calls.

- **Returns**

As the complexity of online retail increases, so does the complexity of returns. First and foremost, efforts must go into making returns unnecessary. Better advice and comparison tools may help, as will consistency checks on product quality.

Beyond this, clarity appears to be greatly valued by customers. The simpler the process, the less it will register as a negative. Centralised systems and planned routes to recovery or manufacturer returns can give the same efficiency benefits as supply chain improvements, but in the opposite direction.

4.4 Further dissolution of boundaries

As we have seen, the debates about online retailing and its potential effects on the sector have broadly 'settled' on an understanding that online and store formats will co-exist and by and large retailers will pursue the benefits of both approaches.

Current trends

There are further trends which underline how eventually, online retailing in the future could be seen as a relatively unremarkable format for shoppers as the two become fully integrated.

Two key factors may eventually blur the distinction between online and off-line buying. These include;

- The increasing availability of online shopping in stores
- The success of hybrid offers such as Argos.¹²

o Every location

Physical retailers have already been able to incorporate some of the advantages of online retail into stores. For example:

- Automated kiosks can offer
 - o A broad range of out-of-store products in smaller city centre stores
 - o Simulation of purchases as they will appear in the home, and
 - o The provision of information about products, guides and comparison services;

These developments sit alongside the growth in self-service checkouts. Such automation can reduce margins and help reduce prices for customers.

Significantly, these enhancements do not remove the support provided by staff in-store: if a customer is comfortable with the systems they can use them unaided, and if they need some help they are not on their own as they might be at home.

o Every option

Increasing retailers have providing customers with opportunity of using every option which adds to the convenience for the consumer, but can also help the retailer fulfil the customers desire.

Giving the options of ordering in or out of store and the options of picking up goods or having them delivered provides four different systems from

¹² 'Home Retail dismisses rivals' efforts', *Financial Times*, 03/05/07, accessed 06/07, <<http://tinyurl.com/2mcmsk>>

which a customer may select the most convenient. Already such options are offered by Argos, Ikea, Comet and PC World to name just a few.

There are even more permutations if options for returns are also flexible. Next is a good example of how the permutations can go further. Shoppers can view a catalogue, view and buy online and have the clothes delivered to the door. Should they wish to return once tried on they can send through the post or return to store.

New technological innovations continue to present new opportunities in the future for this type of mixing and matching in retail.

Future trends

Payment systems may see the biggest changes arising from new ICT. Online systems such as Paypal and Google Checkout offer improved safety and reduce fraud. Already the enhanced security of CHIP and PINN is being challenged. Further developments in electronic payments look increasingly likely.

The leap in technology looks likely to emerge from a technology-spanning system of payments with phones, cards (including contact-activated RFID – Radio-Frequency Identification – cards) and the internet. Its final form is impossible to predict.¹³ There is already some friction between companies looking to capitalise on this disruptive shift.¹⁴

As ever the potential of these new ideas will be tempered by the conflicts between vested interests, such as credit card companies who need to position themselves to ensure they do not lose out.

The potential is illustrate by the following not so fanciful scenario

o Seamless shopping

Physical retailers' brand recognition and reputation are powerful assets when competing in this arena, but their greatest strength may be in integrating the benefits of store and website.

Tesco already operates one of the biggest databases in the world, generated from their clubcard reward system. The future may lie in a fusion of ICT and physical infrastructure to provide a truly personalised service.

¹³ 'A cash call', *The Economist*, 15/02/07, accessed 06/07, <<http://tinyurl.com/2eazgc>>

¹⁴ 'Angry eBay pulls Google adverts', *BBC News* website, 15/06/07, accessed 06/07, <<http://tinyurl.com/2nxy2m>>

A customer is heading to a friend's house using a train. She checks her phone for somewhere to pick up a bottle of wine. During the journey on her mobile she is able to locate a wine retailer in the town and its website. The store's site then recommends some varieties current special offers

On getting off the train her mobile gives her directions to the store. When she gets to the store, the customer picks her purchase, and a member of staff who has been prepared for the customer suggests some complimentary items. Once they've got everything they want, the customer simply walks out through a checkout arch, and products and payment are automatically scanned.

5. The longer run development of skills

5.1 Initial analysis on the potential impact of online retailing and occupations

Developers of strategies

Deciding how to use the online route and measuring its contribution to the company will be a major task of senior corporate managers and senior officials.

Those occupations most affected by the range of challenges will be those in senior marketing positions as well as a range of supporting roles such as finance.

Website developers

Once the overall strategy of the offer has been agreed there will be a whole range of higher level skills needed to develop and maintain the actual structure of websites.

Technical skills, how to monitor and develop a website will continue to grow. The bulk of update work to a site will be adding, removing and updating items.

There is every indication that effective writing to sell will also be a key skill combined with good retailing skills. Other creative skills will be needed as websites will require art and photos to be of the highest standard and placed the right areas.

Another area of opportunity and challenge for retailers is the management of the data that an online retail route provides. The database of information must be maintained. Given the levels of detail now reached by some sites, this is no easy task. Large retailers in particular will require dedicated teams to make sense of the data. Staff in other roles, while not needing the same level of detail, will have to begin incorporating statistical analyses into their ideas.

As a result of this data, marketing campaigns can be potentially much more targeted to specific customers and products. To some extent this can be automated, but will require oversight, and more strategic offers must be done 'by hand'.

Fulfilment delivery skills

Getting the products in the hands of the customer again presents a range of opportunities and challenges. It will be a key area where retailers can reinforce their relationship with their customers.

○ **Running the warehouse**

Increased centralisation is creating some very large warehouse complexes, with stringent efficiency demands. Within these warehouses staff will need to make good use of technologies available for tracking stock and predicting demand will be vital to operate them.

○ **Delivery**

As the main, or in some cases only, human point of contact between customer and organisation, delivery workers may increasingly be required to take a more hands-on approach.

Currently they tend to operate as a 'sealed box' component of the system – they move the product with no consideration what it is beyond size and weight.

Grocery retailers are already beginning to change this. At the very least, many delivery services will communicate product preferences. This can give the edge in highly competitive markets. As we have seen, technology retailers may be increasingly keen on delivery staff demonstrating the features of products.

Handling returns resolving issues

Reputations of retailers commonly hinge on the successful resolution of a complaint or returned product. This is key part of the online retail experience which can delight the customer or taint their experience,

High quality customer service skills will be required. They may also require some collecting of information, and some reassuring of the customer might mitigate the negative perceptions generated.

Store based staff

There is every indication that the future will be more 'hybrid' with retailers following mixes of online and store selling techniques. The development of online retailing will therefore have impacts on store management and those in sales occupations.

Store based staff will need to have knowledge about the entire range of products and services offered by the retailer overall, not simply the stock in their store. Staff will also be introduced to a wider range of processes to allow for a wider range of activities to be conducted.

Online assistance

Some retailers of online products (web hosting and suchlike) offer live chat with expert sales assistants.

With some clever technology, it is possible for a sales assistant to be informed what the customer is looking at, and help out with questions.

Excellent interpersonal skills will be needed because the medium is currently inherently less personal. However, the flexibility of on-demand customer service in this manner might allow a smaller team of more highly trained assistants to deal with a larger number of customers than in a physical store.

6. Conclusion

6.1 Higher or Lower Skills?

There is a rich history of labour market literature which has explored how new technologies have led to either the reduction in the numbers of people employed in an industry or level of skills needed.

It remains difficult to predict whether the net effect of online technologies will lead to an increase in the demand for higher skills in the sector or decrease in the retail sector. How organisations develop cannot be reduced to a form of technological determinism.

The new technology of the internet has simply presented retailers and society generally with complex new choices. The precise outcomes of which are unknown.

However, there are important trends that provide those who wish to see higher skills promoted in the retail sector with some reason to be optimistic.

Firstly, it would appear consumers continue to ask for better service. Even retailers who have previously offered a 'no frills' approach including IKEA have increased their level of customer service. Some high end retailers will decide to use the internet to enhance the relationship with customers in ways that require higher levels of skills amongst their staff. In addition projections of future retail employment suggest that the numbers of elementary occupations, whose skills levels are characteristically modest, are set to reduce in the future.

As ever there are counter trends. There remains a relatively large proportion of the population (around a quarter) who are struggling to make ends meet. These consumers will be naturally interested in cost savings. Retailers who serve this 'value end' may use the internet to control costs and simplify job roles.

However an initial analysis of the some of the possible consequences of online retailing and new working practices suggest that the depth and breadth of skills required for many job roles will increase.

7. Join the debate

Skillsmart Retail is the sector skills council for the retail sector. Its remit is to develop high quality insights into the development skills in the retail sector.

If you would like to comment on any of the issues raised in this paper please contact Ian Wheeler at ian.wheeler@skillsmartretail.com or telephone on 020 7462 5070.