

The 7-P approach to international multi-channel success

A practical 'how-to' whitepaper
for retailers from IVIS Group

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Multi-channel goes international

It's a little known fact that British retailers lead the world in multi-channel retailing. The multi-channel contribution to GDP achieved in the UK currently exceeds that of any other nation, and commercial expertise, technical know-how and marketing prowess around multi-channel – some now prefer the emerging term omni-channel – is becoming an incredibly valuable asset, as interest in multi-channel shopping sweeps the globe. British retailers who crack the formula for providing international customers with a seamless experience have huge opportunities.

Before they can achieve this, there needs to be an appreciation of the challenges ahead. With internationalisation comes a fresh new set of multi-channel challenges – commercial, operational, cultural, technical and legal to name a few. British retailers want to open physical and online stores overseas and give international customers the fully connected, convenient experience that omni-channel retailing aspires to. But there is an incredible amount that must be learnt first, or failures will be more common than successes in exciting new territories such as Russia, China, South East Asia and South America.

Of course, sales growth prospects look attractive in those countries and other emerging economies, compared to an almost stagnant home market. But what is in place in the UK to host, manage and market multi-channel retailing will need to be different in places like South East Asia and China. These differences also exist in high-performing online retail markets such as North America.

There are different levels of maturity and channel technologies with variable levels of consumer take up. There are diverse cultural tastes and unfamiliar retail business models, myriad payment platforms and tax systems, not to mention legal nuances in every country you touch. Meanwhile, the channels themselves are proliferating. We all know the impact mobile commerce is creating, and that social marketing is becoming a part of everyday life in all corners of the world.

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So can British retailers maintain their dominant position as multi-channel experts when they land in new territories? IVIS Group is confident they can, but only if the right planning strategies are put in place and the correct steps are taken to ensure specific customer needs are met.

British retailers have undoubtedly built world-leading multi-channel platforms for the domestic market, however they are serving a mature market here. Targeting overseas consumers might require more of a start-up approach. Our objective is to help retailers tackle these challenges, having amassed experience of working in the emerging markets of South East Asia and China, and developed markets like North America, and building a network of expert partners in recent years. We hope our 7-P internationalisation framework outlined in this whitepaper will inspire retailers to forge ahead and conquer lucrative new territories.

Qusai Sarraf

CEO, IVIS Group

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How market dynamics have changed

Years of recession, a mature market and cautious consumer spending have left many UK retailers with little option but to head overseas. We are seeing the likes of Tesco, Carphone Warehouse, Ted Baker, Next and Clarks announcing international strategies – all planning to combine stores with online offerings.

They are seeking a presence in Europe, the Middle East and the USA but are particularly interested in emerging economies. The BRIC countries are on their way to becoming global economic powerhouses. Combined, these countries represent 40% of the world's population, and analysts predict that by 2050 their total economies could eclipse the combined economies of today's richest countries.

Internet penetration is still comparatively low – none of the BRIC countries have reached 50% regular web usage yet - but their e-commerce market value already exceeds US\$109 billion. These countries clearly offer a powerful combination of rapid economic growth and speedily rising internet audiences.

China is big news. The Chinese Ministry of Commerce recently reported that around 200 million Chinese consumers made online purchases in 2011, totalling US\$77.9 billion. There are analyst projections that online sales in China will grow at an impressive 30% average annual rate through to 2015.

The Chinese market is full of anomalies though, making entry far from straightforward. Online retail is dominated by Taobao which offers deep discounting and a vast range. Retailers and brands have presence on Taobao Tmall, but they all look the same and lack differentiation. To illustrate such intricacies, in China you must specify on products the region in which they were made, as different tax tariffs are attributed to each region. Meanwhile, physical department stores operate an almost 100% concession

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model, posing real challenges to how fashion players and department stores should tackle multi-channel.

With a federated approach to tax, as well as distribution and delivery, the US market presents the same challenges for retailers trying to deliver the best possible customer experience consistently across channels.

Russia meanwhile has seen widespread acceptance for multi-channel shopping but faces the huge challenge of logistics. The current carriers struggle across Russia's nine time zones and are seeing 25% of deliveries being refused at the door.

IVIS Group has experienced those challenges first-hand and in China, for example, we can see the country is gradually opening its doors to the exciting world of multi-channel. The current price sensitivity that characterises the Chinese e-commerce shopper will give way gradually as the market matures to a more sophisticated multi-channel paradigm based on consumer convenience and rich lifestyle.

The purpose of this whitepaper is to demonstrate three things: how the two growth drivers of multi-channel and overseas expansion are amalgamating, outline how changes in market dynamics are impacting multi-channel internationalisation, and explain how to prepare for successful international multi-channel through the 7-P internationalisation framework.

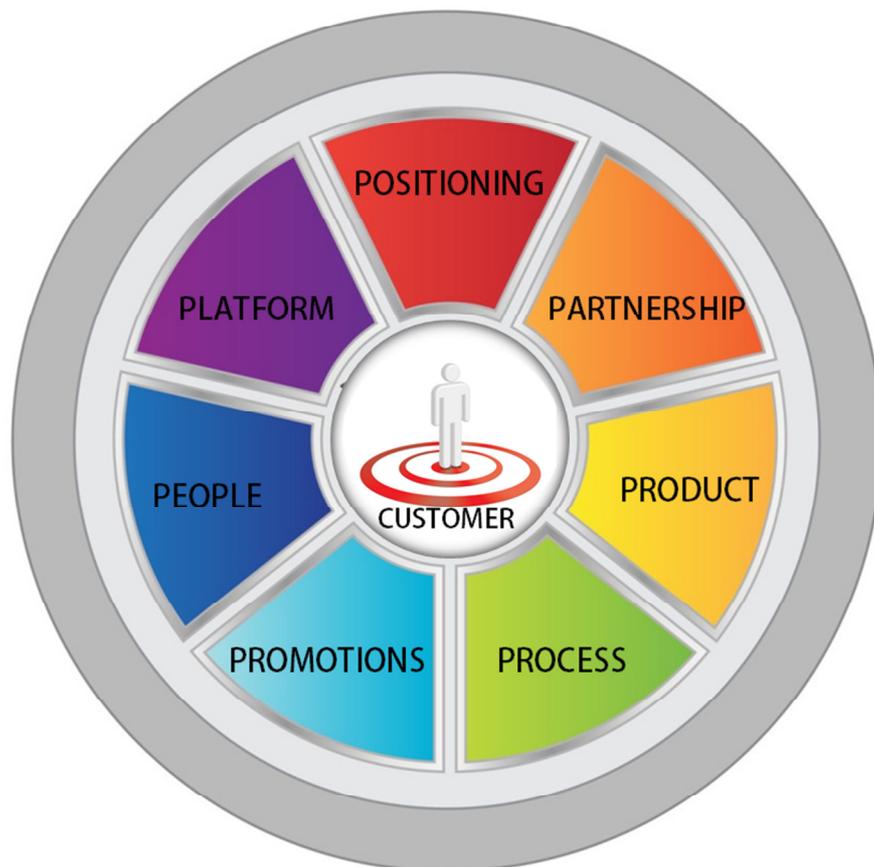
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The 7-P internationalisation framework

What are the 7 Ps?



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Positioning

Where do you want to be?

Established retailers have very clear brand values, well understood by the home market. However, the question “Where do you want to be?” in relation to the targeted market is pivotal. From our experience working with leading retailers including Tesco.com, Best Buy and Carphone Warehouse, we believe that the first step for retailers planning international multi-channel operations is to pinpoint how they see their brand values in the markets they are venturing into. Positioning is all about understanding detailed strategic brand planning. Where do you want to be in two or three years’ time? What will be your projected brand values in these new countries? How much do you understand about the customer segment you want to target?

This means balancing brand values with local trends and expectations, gathering reliable insights about target customer segments, and mapping out the competitive landscape. Some established retailers present their brand in exactly the same way to a home market (which might be more traditional), as they do to an international market with its own local style and tastes. In a vast country like China, for example, you can’t position your brand for the entire market. You must position for specific regions or cities. The market in Shanghai is very different compared to, say, Beijing, even though relatively speaking, they are not that far away from each other.

The same applies to the whole of Asia, with consumers in Thailand having different tastes and styles to consumers in Malaysia or Singapore. The US market also requires different positioning and marketing for many parts of the country ranging from the East to the West coasts; acknowledging different lifestyles and trends.

So once you know your target segments, how do you plan to differentiate yourself in the market? Does rushing towards Taobao Tmall, as many retailers do when they arrive in China, or pushing products through Amazon or eBay marketplaces in the US make

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sense given your brand values? Could your brand become loved for its customer service credentials and quality produce? What would shoppers want to see? And what levels of service would be considered impressive?

Some British retailers risk missing opportunities because they're too cautious. We have seen established British retailers over analysing, spending several years observing the market before they make their move. A well-planned multi-channel strategy offers an alternative viable option to over cautiousness and reduces the risk in testing the market.

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Partnership

Who do you need to be with?

Almost any company planning multi-channel operations in new territories must take into account the need for partnership. The drivers and the models of partnership would be different from one country to another, and depend on many factors. However, we view it as an essential building block. In some nations, it is imperative to associate the newly arrived venture with a strong local positioning. A good example to illustrate such markets is South Korea. Most retailers developing their business in this market understand the need to partner with a strong local brand, as Tesco did with Samsung.

In other countries - Malaysia for example - consumers are happy to be associated with a foreign brand. Yet even in such markets, it is crucial for incoming retailers to have the knowledge and insight a local partner can provide to overcome issues such as legal red tape, taxation, and the challenge of recruiting and retaining a reliable workforce.

A major downside of going it alone is appearing ignorant of local tastes and cultures. The French department store group Galeries Lafayette opened a luxury store in Beijing in 1997 but experienced consumer indifference and was forced to close. It is now planning to re-enter the Beijing market in 2013 - this time teaming with Hong Kong's retail stalwart I.T Limited, to reduce risk exposure.

When you have set up meaningful partnerships and alliances you can give your products a rich cultural context in which to shine. You are effectively offering customers a lifestyle experience, rather than just the products. Partnerships work particularly well when both parties have matched the branding with the local culture, taking account of specific needs of the target segment. Alliances can help enormously with market positioning as well as helping to meet operational and marketing objectives.

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Product

What do you want to offer?

Once retailers understand the local markets they are targeting, detailed planning must go into the offering - i.e. the product. Of course this means determining the right product range and beginning to understand volumes and stock flow requirement, taking into account how product will be cross-merchandised and fulfilled for multi-channel purposes. Where will it be sourced from, and will suppliers be able to meet fulfilment demands?

Underpinning these product planning concerns is a requirement for accurate, reliable product data. Operating in a mature market, retailers have come to expect product data to be readily available and easy to manage, making the product lifecycle easy to plan. However, this may not be the case with goods sourced ready to be sold in overseas markets. In South East Asia and China there is very little available in terms of data providers for the different product and packaging attributes, so this needs to be addressed.

A focus on product should include planning who takes responsibility for product lifecycle management, and how product will be managed through a complex multi-channel supply chain. In large geographical markets such as the US and China, the physical constraints compound the challenges retailers face in ensuring quality of service for customers as well as stock management. Yet these same questions exist for customers looking to use multi-channel as a means to achieve internationalisation – who should you partner with? Are these partners local or international? Do you need local distribution or can you fulfil from a central location?

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Process

How will you do this?

Perhaps not surprisingly, when you combine multi-channel with international expansion, process becomes a very big issue. At the outset, a clear and quantifiable vision for the omni-channel initiative is needed. Typically, this is not a straightforward task, particularly when the organisation is not clear about what can be achieved, over what time period, and in relation to the question “what does good look like?”

There are no shortcuts when it comes to connecting store processes and multiple e-commerce processes across many territories, because each location will have a different set of circumstances to adapt to. If you want to offer Click & Collect and localised pricing and marketing campaigns in each new country, you will have to work with different legal processes, tax rules, and payment gateways in each place - and these are just three challenges.

The ‘Tesco in a Box’ drive in the 1990s was an attempt towards productising processes across various departments and work streams in order to use the model internationally. Even with such planning, challenges still exist in various degrees due to local and cultural differences. One illustration of this was Best Buy, which entered China with a US management approach to operating the business. It used its own expertise to provide support to customers, but soon realised that customers in China placed as much emphasis on having information direct from manufacturers as they did from retailers themselves.

What is needed regarding processes is a balance between centralising and localising. By all means leverage your best practice processes, but be aware that these will need to be adapted to fit different locations.

Central to the successful deployment of processes internationally will be joined-up thinking in the company. This requires the need to

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think and act horizontally across departments and work streams rather than in isolated, vertically focused streams. Business transformation is required - managing change so that everyone works together effectively. Barriers can exist between the e-commerce department and the rest of the retail business, and this needs to be addressed. The likes of Aldo, H&M and Zara have achieved a great deal, and are expanding internationally while staying true to the multi-channel vision. However, non-traditional retailers have fewer hurdles to leap in terms of streamlined processes, and this is why Google, Apple and Samsung are setting new standards as they position themselves as the new merchants of the world.

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Promotions

How do you win market share?

If you are setting out to fully embrace the concept of omni-channel – giving customers a seamless brand experience across multiple touchpoints – you will need to have consistency in price and promotions across all touchpoints, and for each different country market. This means ensuring consistency of the offer and brand values so that the customer is always dealing with you as a familiar brand, and is never disappointed.

At IVIS Group we understand that planning and execution of promotions is one of the main challenges facing retailers transitioning their business to multi-channel. Promotional activity, when planned well, is an incredibly powerful tool in creating the first step towards omni-channel. While a particular market may be associated with heavy discounting, for example, if this does not align with your brand values, it is important that you define a clear marketing strategy and execute against it. For example, careful use of correct product bundling and having appropriate collaboration with partners could help in such situations.

In the US, as with some markets in Eastern Europe, there is still a strong coupon culture. Customers take comfort from physical forms of promotion, and these will need to form part of your overall promotional strategy across instore and online.

In South East Asia and China, price promotions currently dominate, which is different from the lifestyle-gear promotional campaigns typically sought by European consumers. There are differences down to regions and cities regarding the planning and execution of promotions. Shoppers in tier three cities in China can sometimes be driven simply by exclusivity or what is called 'status shopping', where few shoppers can afford to pay for certain goods.

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People

What experience is needed?

In a mature retail market like the UK, domestic companies understand the local working culture, and have in place the right individuals and appropriate organisational structure and decision making processes to ensure smooth multi-channel operations.

But elsewhere in the world, expect to experience very different ways of working. For instance, in Asia you may find that meetings consist of over 20 people. While this is an attempt to inform many stakeholders simultaneously, it often results in a reluctance to make final decisions. In Japan and Korea your business associates will always nod politely in what appears to be agreement, when it actually only means they understood you and nothing has been agreed yet. In the UK, signing a contract usually signals the end of negotiation, while in other countries it means it has just begun.

What is needed is an understanding of the cultural gap between your organisation and the key players you will be working with in the new territory. Failing to tackle communication stumbling blocks will certainly slow your entry to market. So at IVIS Group, we advise spending time identifying your teams' capabilities and measuring strengths and weaknesses, ensuring that information is cascaded to the right individuals, and that teams really do take ownership of projects. It might also be necessary to set up special training and coaching programmes, and to encourage a move from the traditional vertical focus to communicating horizontally across all working streams of multi-channel.

We all know that people, process and technology are the three cornerstones of effective multi-channel retailing, so starting with a full understanding of the people you have and the experience you need to make international multi-channel work must be a priority from day one.

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Platform

What infrastructure is needed?

Most retailers have made significant investment in technology and systems, and are keen to leverage these when expanding internationally. Some are re-platforming with a view to improving their capabilities for international multi-channel. However, it is important to understand that systems designed to fit in a mature market may be too complex for smaller, less mature markets which currently are in a start-up mode.

We believe the focus of the business must be on core e-commerce processes and competencies and it is important to identify and deliver the systems that meet these core demands. At the same time it's vital to provide the agility and flexibility to adapt quickly to market dynamics.

Again, it will be a case of studying each market carefully and building knowledge about expected sales volumes, likely promotional activity, fulfilment channels and revenue channels. There are major questions such as how customers search online, and how they order and pay for goods in different countries. Google is not the favoured search engine everywhere and in some countries Facebook and Twitter do not exist.

Achieving the balance internationally is often a challenge. Key elements that any system must provide for each market include localisation features that offer multi-lingual and multi-currency capabilities, fraud protection and comprehensive taxation, legal and payment gateways. This is in addition to integrating the channels and securing partnerships needed to create a lifestyle offering. Finally, there must be an understanding of how to link to local bricks and mortar stores, incorporating all logistics, fulfilment and marketing operations.

Moving beyond the basics, international markets need to be supported to achieve growth. This means providing systems and solutions that can give each market accurate and rich product information, personalised and targeted promotions, and a centralised view of customer information.

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The challenge and opportunities ahead

A very particular challenge and opportunity faces expansion-hungry UK retailers entering the 'newly advanced' economies of the world. Internationalisation offers a rich source of potential growth, and there is scope to acquire new segments with the very latest multi-channel services such as Click & Collect, mobile commerce and cross-channel marketing campaigns. Consumers around the world are eager for the convenience and richness omni-channel brings and the UK is a world leader when it comes to pursuing this vision.

Despite this leadership position, a UK approach won't necessarily work in other countries, where commercial, legal, technical and cultural landscapes differ dramatically. Setting up bricks and mortar stores overseas is challenging enough, and failures are well documented. Integrating multi-channel offerings brings another level of complexity.

There are huge opportunities to build profitable international multi-channel retailing operations in Europe, South East Asia, China and the Americas, as long as the right strategic planning is in place and detailed local knowledge is built up.

In addition, we are also witnessing a new trend where brands from developing markets are making their way to European countries including the UK. The driver is two-fold – one benefit is opening in a new market, as is the case with European retailers going East, while an additional benefit is the opportunity to reposition brand values. For example, Bosideng, a Chinese fashion brand known mostly among domestic shoppers, has just opened a new flagship store in London. Opening a store in central London's glamorous shopping district establishes Bosideng as a global player. This position is further enhanced with the complete integration of multi-channel, and we then see how multi-channel internationalisation works in both directions.

We have distilled our experience and packaged it into the 7-P framework outlined in this whitepaper, and believe these seven steps can begin to propel retailers going global in the right direction.

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How can IVIS Group help?

IVIS Group has accumulated over 18 years' experience in multi-channel, and five years' experience in internationalisation, working with clients including Tesco.com, Carphone Warehouse and Best Buy. With three offices in London, Kuala Lumpur and Beijing, and multi-channel offerings rolled out to over 15 countries in Europe, South East Asia, China and the US, IVIS Group is in a strong position to offer retailers practical help for multi-channel internationalisation.

Through our focus on multi-channel, local market knowledge, network of subject matter experts and tried and tested solutions, we are confident we can offer UK retailers global reach and competitive advantage through a combination of our consulting, services and solutions. These include:

1. Strategic consulting. Multi-channel maturity model MCM²® and the 7-P internationalisation framework

Our multi-channel maturity model MCM²® distils nearly two decades of experience in delivering strategies and blueprints for global multi-channel solutions. Drawing on our ongoing work with Tesco.com throughout its extensive internationalisation programme, and our projects with Parkson department stores in China (www.parkson.com.cn) and Malaysia (www.parkson.com.my) to name just two examples, we have a bank of knowledge for others to tap into.

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2. Enterprise Solutions. Product information management (PIM), pricing and promotions management (PPM) and multi-channel platform Sonetto® Retail Suite

Providing rich product information and synchronised promotions across channels are two of the main objectives facing retailers transitioning to multi-channel. These challenges are even greater in an overseas market. IVIS Group has developed the Sonetto® Retail Suite to provide a powerful pricing and promotions management (PPM) platform as well as a product information management (PIM) system. Sonetto® Retail Suite also provides an end-to-end multi-channel e-commerce platform – IVIS Commerce Services (ICS). This platform builds on the foundation of Sonetto® to provide order management, customer management, stock and delivery management as well as payment processing and multi-channel storefronts across web, mobile, kiosk and tablet.

3. Internationalisation services. Visualisation, product enrichment, testing and quality, and international research (SSCAN)

We have developed a wide range of services that provide retailers with cost effective and time efficient routes to market.

Visualisation: Providing the right image for your brand is critical as part of your multi-channel strategy and in an era of standardised channels it is important to provide differentiation from your competitors in the market. Yet design cannot be made in isolation from your customers and the dynamics and expectations of the local market.

Starting with analysis from which we produce the initial visual identity, we move into visualisation using mood boards, wireframes and customer journeys. There are then two iterations of usability testing and design review before documenting and implementing the design.

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This approach ensures you have a design that meets the values of your brand, provides differentiation in the market and fulfils the needs of your customers.

Product Enrichment: Ensuring your product information is 'customer centric'; focusing product information on the customer, their preferences and lifestyle, and the channel from which they view the information. Product information is merged with rich media such as video or photos and dynamically formatted to meet the preferences of each customer.

There are internal challenges of multiple suppliers, data sources, quality of photography, creating style guides and departmental divides that need to be overcome. You'll need to transform product information and inspire an otherwise passive shopper into becoming an ambassador of your brand.

Testing and Quality: At IVIS Group, based on our years of experience developing and testing software, we take a best practice approach to testing based on the IVIS Group Testing Methodology which is an amalgamation of industry leading testing methodologies adapted to our agile practices.

The IVIS Group Testing methodology is divided into four main phases which are Planning, Development, Execution and Review. Each of the phases are aligned to a specific software development phase but depending on the software development model, any or all of the phases can be executed in an iterative fashion to ensure total testing coverage of software functionality and non-functional aspects.

With a team of dedicated and experienced testing professionals, IVIS Group has won numerous accolades and certifications for our testing services.

SSCAN: In any internationalisation project there will be a degree of research needed, hence, a research methodology was created to balance the need for comprehensive market research with the efficiency of running the programme. SSCAN is a systematic method made up of five steps: **S**cope (identify end goals and deliverables), **S**ource (determine sources of research data), **C**rosscheck (cross-validation of information and amalgamation into a common framework), **A**nalyse (using a number of industry standard tools complimented by in-house developed to identify patterns) and **N**eed (building the final conclusions and recommendations).

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Since 1994, IVIS Group, a recognised and respected multi-channel expert, has been at the forefront of transforming traditional retailers into highly competitive, modern omni-channel businesses. IVIS Group is unique in the marketplace in delivering both sustainable business change and enabling technology to successfully transition retailers from single (or disparate) channel to multi-channel. Business change is delivered through a proven customer-centric methodology: Multi-Channel Maturity Model (MCm²®). Enabling technology is delivered through Sonetto Retail Suite; a powerful combination of ecommerce platform and intelligent business rules-driven pricing and promotions management. The methodology and technology enables retailers to enrich the customer shopping experience by giving 'consistency across channels' and talks in a customer-facing language when describing products and promotions. IVIS Group is present in three countries, our solutions are running in 15 and our network of partners and Subject Matter Experts expands to 30. IVIS Group has assisted retailers to expand into Europe, South East Asia, China and North America.

Founded in 1994, Tesco.com, The Carphone Warehouse and BestBuy Europe feature in the company's stable of clients.

For further information, please contact:

Paul Bolton
Director of Product and Strategy
020 8579 3335
paul.bolton@ivisgroup.com

Claire Armitt
flannel communications
01273 760996
claire.armitt@no-flannel.com

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*IVIS Group Limited, CP House 97-107 Uxbridge Road, Ealing, London, W5 5TL. Tel: +44 (0) 208 579 3335
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