



NETSUITE

The Secret to Turning
Online Revenue Into Profit

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Summary

For over one hundred years, the retail industry has been gathering detailed information about customers and their preferences and using this data to plan out every inch of their floor and shelf space to maximize merchandising and increase sales of their most profitable products. However, as consumer sales have steadily migrated to the web, this concept has failed to follow. As a result, online merchants have struggled to achieve the same level of success as their retail counterparts.

Fortunately, the technology to help e-tailers take advantage of customer data that ten years ago didn't exist, now does. Today ecommerce is at the dawn of a new era in which the power of customer data and the rules of retail science can be used to optimize every single sale, and turn revenue into profit.

Back-end data is where the profit is

If you're an ecommerce merchant, you might think that profitability lies in the ability to sell more products, grow revenue, and provide your customers with the ability to get to the items they're interested in and purchase them as quickly as possible. The real secret to ecommerce profitability, however, lies in what some in ecommerce consider a dying breed: brick and mortar retail. During the approximately 150 years of modern retailing, the industry has spent hundreds of millions of dollars learning about customers, analyzing their actions, and understanding how to motivate them to buy. All of this taught retailers how to better manage their pricing, products, and inventory – creating a body of knowledge that is known today as retail science.

Turn Online Revenue Into Profit: 5 Tips

Old Thinking

- Front-end creates revenue
- Sell what customers want
- Carry more, sell more
- Promote everything
- Show everything

New Thinking

- Back-end drives profit
- Sell what you have
- Carry less, sell more profitably
- Promote best sellers
- Show most relevant

As a result of years of data-gathering and customer analysis, retailers large and small today employ multiple, detailed store layout plans called planograms throughout the year to help plan merchandising for every department, category, and shelf depending on seasons, promotions, and trends. These planograms have become

their blueprints for success and now, with the rules of retail science and an ecommerce platform integrated with business operational systems – orders, inventory, financials, marketing and customer support – online merchants have the ability to create the tools to help them achieve the same success.

We're now entering a critical new phase of ecommerce as increasing numbers of online merchants understand the value of the data that already exists in their systems and realize that while the front-end drives revenue, the back-end drives profit. As the rules of retail science begin to take hold in ecommerce, we can expect to see the dramatic rise of online as a percentage of total retail sales, jumping from just 6% today to as much as 20% or more in the next ten years.

Revenue's growing, so why aren't profits?

The ecommerce industry is driven in large part by highly skilled technologists, software engineers, and programmers who understood early on the power of selling products unhindered by physical location. In the early days, e-tailers didn't worry about the ins and outs of traditional retail merchandising as they pioneered the brave, new world of online selling. Now, however, as the industry has matured, it's realizing that growing revenue is not enough – it also needs to make a

profit. As expert technologists, they've taken advantage of all the latest technology platforms to make their online stores as customer-friendly and easy to navigate as possible – so while revenue might be increasing, why aren't profits?

The answer lies in part with the fundamental ecommerce assumption that success and profitability is all about the fastest, most efficient customer experience. That means enabling customers to find the item they're looking for as quickly as possible, giving it to them at the lowest possible price, and then making it easy to check out and be on their way. However, this assumption runs counter to retail experience. How can you make any money when you're selling the customer one item – and maybe not even your most profitable item – and then allowing them to leave as quickly as possible? Retail science will tell you to make the customer walk through your store to get to the item they want and that they should be enticed along the way with appropriate opportunities to buy more. Even better, their sought-after item should be bundled with complementary products that not only make their original item more attractive, but add value and profitability.

Sell what you have, not just what customers want

This, of course, is not to say that online merchants should not give customers what they're looking for or stick them with products they don't want – that's a model for failure. What we're saying is that ecommerce needs to start thinking more like a retail merchandiser and offer more, profitable options based on the retail science of customer purchase behavior and inventory assortment. The result will

In-Store vs. Online



- Sell what you have
- Reorder based on velocity
- Promote most profitable items
- Customer profiles and location focus
- Use multi-channel
- Build repeat buying relationships
- Make decisions on order data



- Shopper searches for what they want
- Reorder when running out
- Promote most purchased items
- Generic personas
- Single channel
- Focus on customer acquisition
- Make decisions on traffic

benefit both the merchant and the customer.

To create those enhanced merchandising opportunities, though, requires data and lots of it. A comprehensive understanding of customer preferences, purchasing history, sales trends, and product demand is critical, to which operational rules gleaned from decades of retail industry success are applied, creating a strategy and a road map for ecommerce success.

Another common ecommerce assumption is that the more sophisticated and comprehensive your site search is, the better for your business. The reality, though, can be far

different. Keyword search can be a profit-killer, enabling customers to locate, select, and purchase a product more quickly, which reduces time on-site and diminishes ecommerce's opportunities to sell more and sell more profitably. Search, when combined with product reviews and price comparison tools, enables customers to compare every aspect of your merchandise – including prices – with every other merchant selling the same product. The result is a steady erosion of profit as you struggle to maintain competitiveness and market share while increasing profit-draining inventory.

Carry less and sell more

Retail science has proven that the real key to success and profitability is using all your customer data to sell smarter. The rules of retail science will show you how to operate more efficiently and

merchandise better – revealing the proper way to manage inventory, when to discount, how to predict new product demand, and how to use the customer information already in your system to help you sell fewer but more profitable SKUs and create appropriate and desirable item bundles that will attract customers and boost average order value (AOV). Smart bundling also makes individual products harder to compare, helping you avoid customer comparison shopping and the lowest-price trap. It's not necessarily just about more revenue – it's about more profit. Profit is simply a reflection of inventory and revenue, and the ability to employ proper assortment planning can help you maintain the right inventory level.

Another commonly-held ecommerce assumption is that a successful e-merchant must stock every item in every brand, size, and color in an effort to ensure customers find absolutely everything they want. The reality, however, is that carrying that much inventory will break just about any bank. There is almost nothing that will drive down profitability faster than a warehouse overloaded with merchandise. In the eyes of retail, this stock-it-all strategy is backwards – good merchandisers will use customer data and a robust product information management (PIM) system to create real-time alternative-item options, substituting similar items when necessary to save the sale.

By managing your inventory better, you're able to carry the least amount of your most profitable items while still meeting customer expectations and increasing customer satisfaction. Retail science reveals how to buy smarter, tracking the speed – or velocity – of sales rather than just remaining inventory. This enables you to better anticipate when to reorder instead of waiting until stock runs out. Better planning means less overstocked or understocked inventory. And while it's easier to see the downside to overstocked inventory, it's harder to estimate the damage done to your bottom line by understocking. Having real-time inventory data and the ability to track sales velocity relative to popularity or seasonal trends make it much easier to evaluate and justify overnight restocking to meet sales demands if that means selling more of your most profitable items.

Taking personalization to the next order of magnitude

Personalization is one of ecommerce's favorite tools for up-selling or cross-selling and it is reasonably successful at generating more sales by using customer buying history to make educated guesses as to what complementary products customers might be interested in based on what they have bought. But personalization is a simple and imperfect science based solely on purchasing history. Applying the rules of retail science to comprehensive, real-time, well-managed customer data will enable ecommerce to supercharge personalization.

To take personalization to the next level, ecommerce needs to utilize the classic "Four P's" of retail merchandising profitability: product, price, promotion and placement. By wrapping customer data into the rules of retail science and personalizing not just individual item selection, but the entire online store for each customer, ecommerce can significantly boost sales and profits.

Conventional ecommerce wisdom has online stores presenting everything to everybody in alphabetical and tiered departments and categories. But why, for example, should a male customer interested in power tools have to scroll through women's, children's, and home goods departments to get to what interests him? Why not just show him the categories and departments in which he's interested? Once the unnecessary distractions are eliminated, you've created the environment and opportunity to sell that customer more relevant products in which he or she might be interested. To stay with our example, if a man visits your online store to buy a weed-whacker, retail science would recommend showing your selection of weed-whackers (what they want), along with related safety accessories and maintenance items (what you have that they might need).

This does not mean undertaking the hugely expensive and challenging IT task of redesigning your website for every customer – it simply means using the latest ecommerce platform technology and retail science to manipulate content across the entire online store using your existing grid, making every part of it individually meaningful to each customer. It's about making your site content work harder and smarter – selectively determining what to show to whom and when.

It's like putting retail store departments on wheels

Decades of retail experience and data-gathering has enabled retail merchants to arrange their stores based on both customer preference and the best way to present the most profitable merchandise – positioning racks, displays, and shelves in every department and category to optimize the shopping experience. Unfortunately for them this can be a laborious task so the big chains standardize it across all their stores based on general seasonal or promotional campaigns. Imagine how convenient and efficient it would be for them if each store could put every department and every display on wheels and have them magically reconfigure to meet every customer's personal preferences when they walked in the door. While retailers certainly can't do this, ecommerce can. Using your back-end customer data, you can better manage the content within your navigational hierarchy to show each customer only the departments, categories and merchandise he or she is interested in, as well as the products with the best margins for you. This can significantly improve user experience and satisfaction while boosting AOV and your profit.

By gaining better control over your back-end data, you can use that data to bring the power of retail science to bear on your entire ecommerce operation. That's the key to profitability.

The future of multi-channel marketing

As we enter the era of multi-channel marketing utilizing the rules of retail science, it becomes clear that cross-channel barriers remain and that all D2C marketers – ecommerce, retail, DR, and email – will benefit from embracing the changes that can bring about a totally seamless, cross-channel customer experience, regardless of where the consumer chooses to shop and buy.

While ecommerce can benefit from adopting and exploiting retail science rules, likewise brick-and-mortar retailers can more fully develop an online shopping experience for their customers, utilizing the latest ecommerce platform technology to create a truly personalized online customer experience that can go far beyond today's planograms to achieve a holistic shopping experience that transitions easily and effortlessly from brick-and-mortar to online and back again. The days of separate and siloed online and in-store customer experiences are over.

In addition to implementing a seamless multi-channel experience, ALL marketers will benefit from turning their attention to their back-end data and using this data to drive sales across all channels, increasing overall revenue and, ultimately, profits.

About NetSuite

As the leading provider of cloud-based business management software, NetSuite helps organizations realize breakthrough improvements by managing core business processes with a single, integrated system. NetSuite SuiteCommerce was built with the idea that ecommerce is no longer a standalone channel but a core capability for retail and B2B businesses. SuiteCommerce unifies ecommerce with your core operational systems — order and inventory management, marketing, merchandising, CRM and financials. With SuiteCommerce you can:

- **Seamlessly link an ecommerce web store** to your inventory management, order management, CRM, financials, marketing and merchandizing
- **Get a single, omnichannel view of your customer** across all touchpoints and channels, to support superior customer service and personalized marketing and merchandizing
- **Gain unprecedented visibility** across your business by bringing siloed sources of data into a single repository.