eCommerce

2015 and Beyond
It is thirty years since the first online sale took place in the United Kingdom but the real acceleration in online sales has only taken place in the last few years with the advent of ever more sophisticated and faster technology. This paper looks at the changes that Small and Medium Enterprise (SME) vendors will need to make to their business models in order to continue to be successful in the crowded eCommerce markets of 2015 and beyond.

The Digital World

When did the world become Digital? The modern computing era began with the work of Alan Turing and his colleagues at Bletchley during the Second World War so one could argue that digital technology has been around for more than seventy years. Vannevar Bush, in his famous 1945 paper, “As We May Think”, predicted many elements of modern technology, including the Internet and hypertext mark-up language. As computers became more common in the 1970s and the PC arrived, the word ‘digital’ became common parlance but the use of computers still lay largely with those who were technically competent.

The Internet was born in the late 1960s, initially as the result of the US military’s work on Arpanet, but until the World Wide Web (WWW) was born in 1990 it had a low profile. In 1997 there was 100% growth in Internet penetration and we were on the way to the digital era but still not quite there. Mobile phones started life as phones (strangely enough!) but the advent of text messaging in 1992 provided the first use of data and indeed the first ‘killer’ application.

Mobile data networks increased in speed through GPRS and then 3G. Now we live in a world where 4G is rapidly being rolled out and experimentation with 5G is under way. With 3G, mobile devices began to get ‘smarter’ while PCs and Macs (as Apple entered the fray in a meaningful way) got quicker and lighter. The last two parts of the jigsaw in the early 2000s were the arrival of broadband for fixed line connectivity and with it Wireless LAN (WiFi) for mobile connectivity. Finally the three necessary elements for the creation of a digital world co-existed: Networks, Devices and Applications.

Texting was still the only really meaningful application other than email (although others were emerging) but billions of texts were being sent every year and once the US belatedly jumped on the bandwagon, driven by voting for US Idol, then the growth in data traffic accelerated.

Apple had already redefined the music industry when it gave the world iTunes but the Digital World really arrived in 2007/8 when it launched firstly the iPhone (June 2007) and then the App Store in July 2008. The touch screen interface coupled with the beautifully simple design catapulted Apple to the forefront of the Digital Revolution. Already in a dominant position they created a whole new market when they launched the iPad tablet computer in 2010. Even they could not have foreseen just how rapidly sales would take off and how much people’s lifestyles would be changed. In the UK alone 62% of people use a smartphone and 30% a tablet.

From a world where people would only look at their phones for incoming text messages and possibly emails, we have rapidly moved to a point where they are constantly using both phones and tablets (and the emerging hybrid, the ‘phablet’) to access data.

That data comprises many different things: email, texts, photos, videos, games, stock prices and just about anything you can think of: Currently there are some 1.3 million apps on both Apple’s App Store and Google’s Google Play Store.

This drawing based on Banksy’s graffiti art that he donated to a Bristol youth club neatly summarises just how dependent western civilization has become on mobile devices.

The Third Platform

From a technology point of view all of this has been neatly summarised by IDC with its definition of the Third platform.

The First Platform was the simple mainframe and a few mini computers. The Second Platform was the network based Client/Server model and somewhere between the two ‘programs’ became ‘applications’ and then ‘apps’.

The Third Platform has emerged over the last four years and comprises four key elements:

Cloud – Cloud Computing has been developing for some time and it is now reaching maturity. It seems logical, as computing power and network speeds continue to increase, that there is no need for the majority of companies to own or manage their own IT infrastructure but rather to use some sort of hosted utility service to deliver it. Cloud models are still developing but it is clear there will be public, private and hybrid (both public and private) clouds. Thomas Watson, one of the early IBM CEOs, famously said that there was a world market for five computers.

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The Third Platform is described by IDC as the next-generation compute platform that is accessed from mobile devices, utilises Big Data and is cloud based.

Figure 1: The Third Platform. Source: IDC

Analytics – in 2013 the world created more data than in all the previous years of the human race put together. Much of that data is unstructured and can be found in blogs and wikis, and some of it is uncertain. For example location data is not always exact. The question is how do we make use of that data? The answer is through analytics. Once again the power of modern computing is a big factor because today’s machines can process data at speeds that could only have been dreamt of even as recently as at the start of the millennium. There is little point in accumulating data if you can’t use it to improve your knowledge or business performance. Website analytics are particularly relevant to the topic of this White Paper and it is crucial for all businesses to use analytics to understand who is using their website and how they are using it. Google Analytics is but one example of software that enables people to translate web usage into hard facts and to create sales opportunities.
The commonly used buzz phrase for this topic is ‘Big Data’ but analytics is far more descriptive of what is actually needed. Most companies have, to the detriment of their business performance, underinvested in analytics to date but that is rapidly changing as businesses recognise that effective use of data can give them a competitive edge.

Typically information is defined in terms of data, knowledge and wisdom as follows:

- **Data** is raw facts or statistical results obtained from observing or recording an event or phenomenon. Examples include a customer’s name, phone number, and address.
- **Information** is data that has been processed or organized to convey meaning, usually by removing redundancy or adding context. It is useful for decision-making.
- **Knowledge** is information combined with experience, understanding, or expertise that enables someone to use or apply that information effectively.
- **Wisdom** is the ability to make good decisions or judgments based on a combination of knowledge and experience.

The world has come a long way since the first text message was sent just before Christmas 1992. The data transmission speeds of modern mobile networks ensure that even large amounts of data can be sent and received without significant delay. Those who are used to fast broadband connectivity from their desktop can now use 4G on their mobile devices and see very little difference in service levels. Even 3G – which is available to a much broader geographic base in the UK – provides sufficiently good connectivity that it enables business transactions to be handled quite comfortably.

What was a simple handset in 1992 has become a sophisticated mobile computer in 2015. The processing power of even the first iPhone is thousands of times greater than that of the computers that put Neil Armstrong on the moon in 1969. Add in the changes wrought by touchscreen technology and it is easy to see why mobile devices form such an important part of the modern world. In 2001 the celebrated telecom analyst Andy Odyzko wrote a paper entitled “Content is not King” and his arguments were persuasive and accurate. Now we have reached a point where, because of the availability of networks, devices and applications, content can be said to have come of age and now it is truly king.

Apple worked this out in 2007/8 and launched the iPhone and the App Store. Google quickly caught on and developed the Android operating system to rival Apple’s iOS. Today the two companies dominate the App market while Samsung and Apple dominate the handset market. Microsoft somehow largely missed the mobile revolution and is unlikely to recapture lost ground.

In fact the smartphone industry now dwarfs the PC industry. There is a huge difference between 4 billion people buying a new device every two years and 1.6 billion people buying one every 4 years as Figure 4 demonstrates.

Social Networks

In his room at Harvard in 2004 Mark Zuckerberg was about to change the world by launching Facebook. Social Networking is a phenomenon of the last decade but it is unlikely that Zuckerberg realised just how much change would take place because of his creation. Facebook is the market leader but there are many other Social Networking sites with Google+ growing rapidly and Twitter a significant factor. Figure 5 below shows just how prevalent Social Networking has become:

- 71% of users access social media from a mobile device.
- 60% of 50 to 60 year olds are active on social media.
- 6.5 plus bracket, 43% are using social media.
- Time spent on Facebook per hour spent online by country - top three. USA 16 minutes followed by Australia at 14 minutes and the UK at 13 minutes.
- 72% of all Internet users are now active on social media.

Advertising through Social Networking is now the norm and is a channel that cannot be ignored. While Social Networking started out as a consumer domain, companies rapidly jumped on the bandwagon and today any company serious about reaching its customers will have as a minimum a Facebook page and a Twitter account.

Peer recommendation is far more important than direct advertising in helping people to make buying decisions and therefore getting approvals through Social Networking is often crucial to the success of modern companies.

APIs

In addition to understanding the four key elements it is clear that integrating and delivering these elements is becoming an increasingly complex task and it is highly unlikely that any one company can deliver the whole platform. The need for the elements to communicate with each other is paramount and therefore effective APIs (Application Program Interface) are crucial. IDC has gone far as far as defining APIs as the currency of the future.

Software developers must ensure that their solutions can be easily integrated with solutions from other vendors. Those that attempt to maintain a stand-alone solution will in all likelihood fail.

Figure 4: PCs vs Smartphones

<table>
<thead>
<tr>
<th>Monthly active users</th>
<th>Source: jeffbullas.com</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facebook</td>
<td>1.15 billion</td>
</tr>
<tr>
<td>Google</td>
<td>359 million</td>
</tr>
<tr>
<td>Twitter</td>
<td>315 million</td>
</tr>
<tr>
<td>Instagram</td>
<td>150 million</td>
</tr>
<tr>
<td>Pinterest</td>
<td>120 million</td>
</tr>
<tr>
<td>Reddit</td>
<td>2 million</td>
</tr>
</tbody>
</table>

Figure 5: Social Media Users

1. The 30-49 bracket sits at 72%.
2. 60% of 50 to 60 year olds are active on social media.
3. In the 65 plus bracket, 43% are using social media.
4. The world has come a long way since the first text message was sent just before Christmas 1992. The data transmission speeds of modern mobile networks ensure that even large amounts of data can be sent and received without significant delay. Those who are used to fast broadband connectivity from their desktop can now use 4G on their mobile devices and see very little difference in service levels. Even 3G – which is available to a much broader geographic base in the UK – provides sufficiently good connectivity that it enables business transactions to be handled quite comfortably.

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12. Software developers must ensure that their solutions can be easily integrated with solutions from other vendors. Those that attempt to maintain a stand-alone solution will in all likelihood fail.
eCommerce now

As we reached the end of 2014, the world of eCommerce had become ever more sophisticated in order to meet the demands of the general public.

In the UK 30% of all retail is conducted online and that is set to rise to 25% over the next ten years. Over Christmas 2014 Selfridges estimated that 75% of its online sales were made using mobile devices. Each UK resident spends an average of £12,000 per person online per year. Meanwhile 7% of the UK High Street stands empty and that figure will only increase over the next decade.

For modern retailers it is no longer sufficient, except in specialist cases, to have only a bricks and mortar store – an online presence is righ-on essential. For a long time the diagram below (figure6) was sufficient to describe a Retailer’s business model.

The dot.com bubble burst in 2000 and slowed things down but eCommerce now had unstoppable momentum especially in the Chinese market. As noted above, Google had by now worked out how to monetise the Internet through its advertising model it went pleasurable rather than a chore. Once Google worked out how to monetize the Internet through its advertising model it went pleasurable rather than a chore. Once Google had worked out how to monetize the Internet through its advertising model it went pleasurable rather than a chore. Once Google had worked out how to monetize the Internet through its advertising model it went pleasurable rather than a chore. Once Google had worked out how to monetize the Internet through its advertising model it went pleasurable rather than a chore.

The relatively simple business model outlined in Figure 6 above is evolving to something much more complex – as we shall see in the next section – and to meet the demands of these new SME’s requirements. SMEs are under pressure across all elements of their business as demonstrated in Figure 7 and the days of adding to simple website to augment a company’s traditional bricks and mortar store are long gone. It becomes ever more difficult to be a simple web entrepreneur when so many different business skills are required to develop and manage a successful business.

Many eCommerce solutions, such as Volusion or Shopify, are cloud-based whereby the software provider hosts the solution and the users pay a monthly fee. This method works well for entry-level businesses as the cost of entry is now very low. Issues arise when the retailer becomes established and wants to migrate to a more complex solution. The cloud-based solutions then become expensive as more elements of the eCommerce portfolio are added and the databases increase in size. The other issue with cloud-based solutions is that the retailer is at the mercy of the solution provider. If the provider gets into financial difficulties then the retailer runs the risk of his own business failing unless he can quickly move to another provider.

There is therefore still a place for the traditional on-premise Desktop/LAN based solution such as SellerDeck. Such solutions provide a much higher element of data security (as it is owned by the customer) and evolving from start-up to mid-size business and beyond is much easier to manage and less costly.

We have also reached the point where an eCommerce solution alone (however sophisticated) cannot meet all of an SME’s requirements.

Websites began to become more sophisticated and were no longer just productist replicates which is how they had started life. Broadband connectivity enabled web designers to implement complex and attractive designs. With Google dominating the search market designers had to make sure that their websites appeared on the first page of Google search results.

Tribute to Tim Berners-Lee in his home town of East Sheen

in April 1995 when a book was bought from W.H. Smith.

The race was on to produce a secure eCommerce platform and Chris Barling’s SellerDeck was first past the post in the UK with a PC/LAN based system. In the early days of online trading there were huge concerns over the security of financial transactions but SellerDeck was able to allay those fears and thus the scrapheap of time.

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Figure 6: Basic eCommerce Business Model

The retailer had a relatively simple relationship with his/her customers through a bricks and mortar store and then had an online store which could also service customers’ requirements. Often the online store would be an exact replica of the bricks and mortar store, with no added features.

From a software perspective matters have evolved considerably since SellerDeck dominated the market. A plethora of eCommerce solutions has hit the market over the last five years and broadays an eCommerce solution is often only one part of the total solution. Companies are likely to need ERP, Feedback, Freight Handling, EPOS and other software packages to provide a total service to their customers.

Figure 7: eCommerce Pressures

The relatively simple business model outlined in Figure 6 above is evolving to something much more complex – as we shall see in the next section – and to meet the demands of these new business models requires sophisticated analytics, high-quality Search Engine Optimisation (SEO) and a good Marketing Strategy.

Figure 8: Online Time


Figure 9: Mobile Strategy

Source: UK Statistics Compendium 2014

This means that those companies that don’t have a mobile strategy run the risk of not surviving the next few years. However, as you might expect, businesses are only now beginning to realize that they need to fully embrace the mobile opportunity. This is evidenced by a recent survey that clearly demonstrates that there is a lot of work to be done to take businesses mobile.
While the business models for Cloud are still developing it is clear that modern businesses must have Mobile, Social Media and Analytics as fundamental elements of their business strategies. We will now look at the implications, both for eCommerce SMEs and software solution providers.

Firstly we need to understand that the business model for an eCommerce business in 2015 is much more sophisticated than the basic model described in Figure 6. That revised business model is shown in Figure 10. The model is largely self-explanatory but it is worth making the following points:

**Marketplaces:** there are now many channels/markets through which an eCommerce business can sell products and services. Perhaps the most obvious ones are eBay and Amazon but more are emerging all the time. To maximize revenues a successful company will determine which channels are likely to be profitable for him/her and market to those channels. He may also have a number of his own online stores, each one geared to different parts of his product portfolio.

**Supply Chain:** managing the supply chain, from suppliers through to customers becomes ever more critical in terms of both time and cost. With big suppliers such as Amazon trying to move to a same day fulfilment model their competitors will need efficient stock management and ERP systems and a cost effective freight handling partner. All of these systems will have to act across all the SME’s marketplaces as it will be impossible to maintain multiple systems, especially for something like stock management, across the multiple channels.

**Analytics:** as noted earlier in this paper accurate analytics are the key to a modern successful business. Capturing and then interpreting and using supplier and customer data is fundamental to the running of a modern eCommerce business. Google Analytics is a good starting point but it is by no means the whole story.

**Website Design:** the design of websites has changed significantly over the last few years and they are becoming ever more sophisticated. The garish colours of the early 2000s have given way to more elegant designs and the addition of features such as product carousels and filtering has taken eCommerce to new levels. However, the number one requirement for websites going forward is that they must be responsive, meaning that they must render accurately and attractively to whatever device the prospect/customer is using.

To reinforce that point consider Figure 11 which shows just how much access to top retail sites is through mobile devices. Any business whose website is not responsive runs the risk of not being able to sell to an ever-increasing percentage of its potential customer base and thus seeing its revenues eroded by its competitors.

**Social Media:** this key element of the Third Platform can no longer be ignored. As a marketing/sales channel it is becoming ever more important and so the use of Facebook, Twitter, Pinterest etc. needs to be a part of any business strategy. Add to this Search Engine Optimisation, Pay-Per-Click Advertising and Email Marketing and it is clear that a significant amount of time and effort needs to be assigned to this very important area in order to maximize revenue returns.

It is evident from all of this that implementing a business strategy based on this model will require considerable time and effort on behalf of eCommerce businesses. Five years ago it was relatively easy to be a one-man or two-man band, come to market with a small number of products and be successful. It will be much harder going forward to operate this model just because of the number of different skills required to be successful. Thus SMEs will need to employ solution/service providers who can add value to their business ventures through consultancy and solution management, rather than just buying software off the shelf and hope to be able to do everything themselves.

Increasingly they will need to build partnerships to be able to succeed in the complex technological world that is the Third Platform.

What are the implications for eCommerce software solution providers?

In the past, and still true of some providers today, they only deliver the capabilities in blue in Figure 12. To be a successful eCommerce solution provider in 2015 and beyond they will require the capabilities in green in Figure 12 to be added to their portfolio. Only by being able to produce a unified view of the business and by providing solutions across the whole spectrum of eCommerce will vendors remain successful.

That is not to say that vendors can or should provide everything themselves. As we saw when looking at the Third Platform the currency of the future will be APIs so increasingly software will be written that enables it to interface with third-party solutions for specific elements of functionality.

If we look once more at Figure 10 a typical eCommerce solution provider of today may well provide the elements of the architecture that are in purple. To provide a full solution to customers it will need to add the elements in green. To do that by writing new software is impracticable so delivering that functionality through APIs, plug-ins and third party software is clearly the way forward.

### Top UK retail online sites: Share of PC and mobile access

<table>
<thead>
<tr>
<th>Website</th>
<th>PC only</th>
<th>PC and mobile</th>
<th>Mobile only</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boots</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>John Lewis</td>
<td>80%</td>
<td>20%</td>
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<tr>
<td>Asda</td>
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<td>Tesco</td>
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<td>eBay</td>
<td>20%</td>
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</tr>
<tr>
<td>Amazon</td>
<td>10%</td>
<td>90%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: UK Statistics Compendium 2014

**Figure 10: 2015 Business Model**

**MOTO:** mail orders and telephone orders will continue to be key elements for many businesses.

**Supply Chain:** managing the supply chain, from suppliers through to customers becomes ever more critical in terms of both time and cost. With big suppliers such as Amazon trying to move to a same day fulfilment model their competitors will need efficient stock management and ERP systems and a cost effective freight handling partner. All of these systems will have to act across all the SME’s marketplaces as it will be impossible to maintain multiple systems, especially for something like stock management, across the multiple channels.

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**Software technology**

- Hosting
- Custom designs
- Data analysis
- Online marketing

**Consulting Expertise**

- Support
- Shipping
- Payments
- Feedback
- Addressing

**Unified view of business**

**Figure 12: eCommerce Capabilities**

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Summary

Rapid developments in technology are driving significant changes within the world of eCommerce business. That is true for both companies selling on the Web and for eCommerce software/solution providers who are providing the technical infrastructure that is enabling the whole industry.

The Third Platform is far more complex than its predecessors and running a successful eCommerce SME now requires many more skills than was the case even a few years ago.

The key to future success in eCommerce is partnerships, for both businesses and software vendors. Small companies will not have all the necessary business skills in-house to make full use of all the opportunities that the Third Platform has created and so they will need to acquire those skills through third parties. Similarly the software providers won’t have the time or the finances to develop every element of a total eCommerce solution and will necessarily deliver some solution elements though APIs, plug-ins and third parties.

Small business owners are sometimes loath to cede control of any part of their business but doing precisely that will be the road to future success. Software vendors are rapidly coming to terms with the fact that they cannot be all things to all men and are learning to utilise third parties to deliver parts of their solution portfolios. Those that do so will be the ones that succeed during the remainder of the decade.

About the author

Chris Bray has held the position of Products and Services Director of SellerDeck for the last year. Prior to that Chris spent fifteen years with IBM in a variety of roles within the telecommunications sector of the business. He ran the Telecoms Wireless business for EMEA. In IBM Software Group he worked in a pre-Sales role on large deals and also managed the integration of new acquisitions into IBM. Prior to IBM Chris was the Director of Billing for AT&T (UK).

About SellerDeck

SellerDeck supplies ecommerce software, design services, SEO optimisation, web hosting, secure payment processing and marketing assistance to small and mid-sized companies that want to be in full control of their online business. The company’s desktop application gives merchants control over key components such as hosting, payments, fraud detection and customer feedback without having to rely on third-party, cloud-based solutions.

Twitter @SellerDeck
Facebook https://www.facebook.com/SellerDeck
Google+ https://plus.google.com/102442605679015134459
SellerDeck Limited
UK and International
Globe House
Lavender Park Road
West Byfleet
Surrey
KT14 6ND
United Kingdom

UK: 0845 129 4888
Int: +44 1932 358350
e: sales@sellerdeck.co.uk
w: www.sellerdeck.co.uk