Australian Digital Commerce

Now is the Time for Australian Retailers to Address the Customer Engagement Gap
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Key Findings of the Report

1. Australian retailers face a double relational gap; not only is building lasting customer relationships the weakest aspect among Australian retailers, a large gap also exists between the relational capability of Australian retailers and that of their counterpart international market leaders.

2. Given the strength of international competitors in building relationships, there is a real risk that Australian retailers will lose its customers, and will lose them permanently.

3. While excellence in digital execution has become a strategic necessity for Australian retailers, engagement in relationship building and social commerce is where the competitive game is now played.

4. Thirty-eight percent of all Australian retailers are classified as ‘Laggards’, who show poor implementation of digital commerce functionalities in both the execution and engagement dimensions.

5. Only twenty-six percent of Australian retailers share the ‘High Achievers’ category with international market leaders, displaying excellence in both execution and engagement.

6. Closing the gap will require improvements in omni-channel integration and effective utilisation of customer data, in order to foster execution and drive engagement.
Executive Summary

With international competitors eyeing Australian customers, now is the time for Australian retailers to take a critical look at their digital commerce maturity.

Building engagement is key to successful digital commerce

Digital commerce is a necessity in a globally connected market

With international competitors eyeing the business of Australian customers, now is the time for Australian retailers to take a critical look at their digital commerce presence.

International leaders were benchmarked to uncover potentials for improvement

For this study we analysed the online presence and features of digital commerce implementation, of 52 Australian retailers across 10 retail subsectors. We determined digital maturity using 63 criteria across four dimensions covering informational, transactional, relational and social functionalities.

In each of the 10 subsectors, we identified one international market leader, which we analysed using the same criteria. This allowed us to compare coverage of digital commerce between international market leaders and Australian retailers and reveal gaps, particularly between the average digital maturity of international best practice and Australian retailers in each of the 10 retail subsectors.

The Double Relational Gap

We found that among Australian retailers, the relational dimension (building of lasting relationships with customers for repeat purchases) is by far the least developed. This was also where the largest gap with international market leaders occurred.

Given the strength of international competition in building customer relationships, there is a real risk that Australian retailers might not only lose customers, but lose their customers permanently.

From Execution to Engagement

We further used our data to visualise digital commerce coverage in two dimensions: execution and engagement. Digital execution refers to provision of information and facilitation of purchase transactions online. Digital engagement comprises relational and social interaction with customers across social media, forums and a retailer’s own digital spaces.

While digital execution has almost become a strategic necessity, engagement is now where the game is being played.

Laggards and High Achievers

We found that 38% of Australian retailers in our study can be classified as digital ‘Laggards’, lacking in both digital execution and engagement.

On the other hand, 26% of Australian retailers scored in the ‘High Achievers’ category, where all the international retail market leaders sit. Among 10 retail subsectors, only the Australian Consumer Electronics Sector average fell into this category.

Strategic pathways to Digital Commerce Success

To build a value-added and meaningful digital presence, Australian retailers must take a strategic and balanced approach that builds the execution and engagement aspects of digital commerce simultaneously.

Excellence in execution is closely related to an excellence in omni-channel integration and a maturity of capabilities to integrate the online and store purchasing experience, from provision of product information to delivery/pickup.

Excellence in engagement is closely tied to the effective utilisation of customer data that can be gathered from transactions and online, for example, using customer data to create tailored offerings that engage customers beyond the transaction.

Companies from ten consumer products and retail sectors were analysed as part of the study, with a mix of Australian and international companies. Each company was evaluated against 63 criteria to measure its level of digital commerce maturity.
What is DIGITAL COMMERCE?
Companies from 10 retail subsectors were analysed as part of the study, with a mix of Australian and international companies. Each company was evaluated against 63 criteria to measure their level of digital commerce activity.

What is Digital Commerce?

“Digital Commerce is the Web 2.0 version of electronic commerce comprising the full bandwidth of engagement with customers through various digital channels, including social media and mobile, that builds lasting relationships, creates meaningful exchanges and generates repeat business.”

A new social dimension to e-commerce

Digital Commerce: Background and Characteristics

Digital commerce – the buying and selling of products and services over the Internet or other electronic networks – has grown exponentially in the last two decades. Increases in computing power and data transmission capacity, along with decreasing data storage costs and the commercialisation of HTTP have enabled the rapid rise of web-based businesses during the 1990s and 2000s.

Effective digital commerce platforms are characterised by:

(1) Ubiquity – they are available everywhere, at all times, from multiple platforms and devices;

(2) Information richness – digital commerce platforms can contain text, images, videos, and sound to provide a compelling user experience;

(3) Interactivity – digital commerce platforms support a continuous two-way transfer of information with users, and;

(4) Customisation/ personalisation - digital commerce platforms provide tailored online content to address the preferences of individual users.

Why being social is necessary to survive in the digital economy

Online retailers, marketplaces and exchange and auction platforms have marked a major shift in the way we consume goods and services. With a focus on creating a new and convenient transaction experience, digital commerce has become increasingly popular. It has been estimated that the global digital commerce market is worth over A$1 trillion and that more than 50% of Australians are ‘Digital Buyers’, preferring to buy online where possible.

However, as more companies utilise different forms of digital commerce they find it increasingly difficult to stand out from the crowd and produce a unique and compelling online experience for their customers. In order to meet this challenge, some companies have started to leverage elements of the Web 2.0 to differentiate themselves and connect with their customers in new ways.

The Web 2.0 refers to an online environment that enables fostering collaboration and interactive connectivity among users and between users and digital commerce platforms.
By utilising user-generated content, companies can encourage customer involvement, build customer relationships, and develop ways to engage with their customers at a new level of intimacy. This intimacy is thought to increase loyalty, total spend and repeat business.

**From information provision to social engagement**

In the early 2000s, digital commerce maturity was a matter of whether a company had progressed beyond having a simple web presence that provided basic product information and minimal forms of interaction to incorporating basic transaction services for executing purchases (McKay and Marshall 2004).

Today, consumers in many retail sectors take such information provision and transaction capabilities for granted. Maturity has become a matter of providing more customised and interactive forms of engagement and relationship building.

For this study we build on and extend a framework by Curty and Zhang (2013). We distinguish among four dimensions of digital commerce, reflecting increasing levels of complexity and maturity: informational, transactional, relational and social dimensions of digital commerce.

We further argue that retail companies should distinguish and measure their execution (informational and transactional) and engagement (relational and social) interactions.

**Building engagement for a stronger relationship with the customer**

In one form or another, most retail organisations are able to provide basic information to customers and offer their products for sale digitally. These capabilities are best seen as a commodity that, while necessary, is not sufficient to gain and maintain a competitive advantage.

To compete effectively in today’s digital commerce landscape requires companies to build on elements of the Web 2.0 in order to create lasting relationships with their customers.

To demonstrate this, we have examined the level of adoption of the four dimensions of digital commerce among 52 companies in 10 subsector of Australian Retail. In each subsector, we have benchmarked the performance of each company against one international business that performs strongly in engagement.

Based on this examination the study has identified a relational gap: the relative low performance of companies in engaging and building relationships with their customers.

The report concludes by recommending a way forward for Australian retail organisations and by identifying the key steps that are required to survive in the digital commerce arena.
THE RELATIONAL GAP
The Relational Gap

What does it mean to become relational?

Becoming relational means to move beyond simply executing transactions. Converting banner hits to visitors and visitors to paying customers is costly. Effective digital commerce aims to grow and harness a loyal customer base to ensure continuing profitability.

Operationally, this means to single out customers and provide services that treat customers as individuals and not as part of an anonymous mass, even though this might be done in a mass customised way.

This is achieved by providing personalised digital experiences, by providing product recommendations, or by allowing customers to establish a history with the company as the basis for repeat purchases.

The relational gap in Australian retail

Our data shows that among Australian retailers the relational dimension is by far the least developed among the four dimensions. This result is consistent across all sectors and is present not only across the average of all Australian retailers, but also among the market leading Australian retailers.

While Australian retailers are reasonably good at the information and transaction parts of digital commerce, they forgo lucrative opportunities to engage with customers, build loyalty and grow a sustainable digital customer base.
Learning from international best practice to close the gap

To gain a deeper understanding of what is possible with digital commerce, this report has looked to international benchmark companies that set the standard in digital commerce.

Interestingly, among the international benchmark companies the relational gap does not visibly exist as the figure opposite demonstrates. While the relational dimension is still the weakest, it is much less pronounced the difference becomes most obvious when compared with the Australian results.

At 33%, the relational dimension shows the largest gap between the Australian average performance and those of the international market leaders.

As a consequence, Australian retailers are lagging far behind international market leaders that have long invested in one-to-one relationships via sophisticated digital innovations such as mass recommender systems.

The best Australian retailers are doing their homework in execution

While the Australian retail sector has some way to go to catch up with the international market leaders in the relational dimension, the figure opposite shows that, transactionally, the best of the Australian retail organisations are on par with their international counterparts.

By and large it shows that the best among the Australian retailers have done their homework in the basics of digital commerce - the execution through information provision and transaction execution.

Yet, they are lagging significantly in the engagement dimensions: relationally and socially. We will return to these aspects at the end of this report.

Engaging through building relations and social conversations

Combined, relational criteria and social criteria tell us how well an organisation is able to engage with its customers. These measures look at the level of personalisation and interaction in dealing with customers.

Our results suggest that most retailers seem to take the ‘shortcut’ of moving straight into ‘social’ engagement, while neglecting the relational dimension as the foundation for more sustained engagement in the social channel.

While harder to achieve, relational engagement also promises a more pronounced impact on the bottom line.

Building relational capabilities takes time, care and requires a sophisticated understanding of the mechanics of digital commerce. If done right, it allows tapping into the potential of big data analytics and mass personalisation.

However, although it requires investment in digital systems, becoming relational is not a technological problem per se. Rather, it needs a strategic approach, constant monitoring for progress, and effective customer communication.
Australian and International Sector Benchmark Findings
Detailed Retail Sector Results

A tale of “laggards” and “high achievers”

Execution of digital commerce is becoming a commodity and no longer a source of strategic advantage

Our data shows that there exists a significant gap in the coverage of relational digital commerce features among Australian retailers. Yet, the engagement with customers and the building of lasting relationships is more and more becoming a necessity.

Combining the information and transaction dimensions of digital commerce under a single label of ‘execution’, this dimension of digital commerce is no longer a source of advantage and but a strategic necessity. In contrast, the relational and social dimensions of digital commerce are becoming increasingly important.

In the following pages, we provide results for 10 retail subsectors on their coverage of digital execution and engagement across four dimensions.

Plotting each subsector against execution and engagement dimensions, allows us to visually benchmark Australian retailers against international best practice.

According to this classification, businesses may fall in one of the four groups: ‘High Achievers’, ‘No Frills Execution’, ‘Over Engaged’ and ‘Laggards’.

‘High Achievers’ set the global digital commerce standard

Companies in this ‘High Achiever’ category demonstrate the highest levels of digital commerce maturity. They display exceptional levels of maturity in all dimensions and a balance between execution and engagement.

Our results found that while all international market leaders fall into this category, very few Australian businesses (and only one sector average) fell into this quadrant. It is notable that the Consumer Electronics sector leads the way, both in Australia and internationally, with Best Buy as the international market leader.

Sector benchmark comparison
‘No Frills Execution’ companies struggle for competitive advantage

Companies in this quadrant show strong maturity in the execution dimension. Their digital commerce platforms are advanced, and they have the tools and techniques to provide good quality content on their merchandise as well as a clean mechanism for making purchases. Typically, this is characterised by end-to-end transaction services, often with various finance options, in-store pickup and returns.

Simultaneously, the engagement score of these organisations is typically in the 25% - 50% range. While they have employed some relational and social features, the overall engagement experience offered through digital commerce is lagging behind the best performers. Companies in this quadrant typically forgo opportunities to build lasting and profitable customer relationships with effective use of customer data and engaging customers on their digital platforms.

Companies in this quadrant need to invest in a more compelling experience for their customers to truly engage their brand in the digital channels.

‘Laggards’ are slow adopters and are at risk of missing out in the digital commerce growth

Companies in this quadrant do not show any significant coverage in either of the two dimensions; execution or engagement. Typically they are slightly more advanced in execution than they are in engagement.

The digital commerce platforms of these businesses tend to resemble those of the early stages of the digital commerce era, with only basic product information and basic purchase mechanisms in place. There is little to be excited about as customers receive little more than the most basic online service experience. Opportunities to engage are few.

For these companies to develop a more up-to-date digital presence, they will need to approach the task strategically. For most businesses in this quadrant, a mere extension of their existing activities with more features will not be enough.

For laggards to develop a contemporary digital presence they will have to approach the task strategically. For most businesses in this quadrant a mere extension of their existing activities with more features will not be enough.

‘Over Engaged’ are those that utilise social media heavily without any strategies to execute effectively

This study has not found any truly ‘over engaged’ companies. Only a handful of organisations are on the borders of this quadrant. Companies in this space would be characterised by their ample coverage of relational and especially social features, however with little or no execution capability to back up the engagement.

While not present in our sample, this quadrant serves as a reminder for those companies falling in the ‘laggard’ quadrant, that merely embracing social media could be counterproductive.

Creating ‘buzz’ in social channels and utilising social platforms for mass marketing and customer engagement can only be successful if the company can follow through with execution of the customer brand experience.

Only 26% of Australian retail companies are classed as “High Achievers”.

Bookshops

Not yet digitally literate

Australian bookshops have the second highest execution score but are struggling to engage their customers.

Books have been at the forefront of digital commerce since their inception. Moreover, with the boom in eBooks, bookstores have had to step up their game in the execution of their digital commerce platforms.

Fuelled by this demand, traditional bookstores have had to adapt or face extinction. Accordingly, Australian and international bookstores score highly on informational and transactional criteria as buying books online is well established and stores are doing well in serving customer demands.

At the same time our results show a large gap between the international standard in relational and social engagement and the maturity of Australian bookstores.

Following these insights, it is paramount for Australian bookstores to learn from international best practice to develop important digital commerce elements such as user reviews, social cross-selling and proactive personalisation. Leaders in this industry have a deeply embedded social culture featuring social wish lists, user recommendations, gifting options, and automated recommender systems.

Case Studies

The University Co-op Bookshop was the first company in Australia to sell books online. The bookshop was started by a group of students in 1958 and still operates as a cooperative today. Today it is one of the largest providers of educational and professional learning resources in Australia with 42 stores on university and TAFE campuses. Recently rebranded to become just ‘Co-op’, the retailer has adopted an omnichannel strategy with the aim to engage the student and alumni population online.

While the retailer has come some way in building its digital execution, its engagement strategy is still in its infancy. Notable is Co-op’s Facebook engagement with close to 40 pages under a head page, each representing one university campus. A social media champion from Coop is on campus every day to take photos, write blogs, and ensure the availability of authentic and topical content.

Barnes & Noble was a century-old storefront on New York’s Fifth Avenue until it was bought by an entrepreneur in 1971. Today it is a retail giant with more than 600 retail and close to 700 college campus stores. In a bid to stay on top of its market, Barnes and Noble has diversified its business. Online it now sells toys, games, DVDs, and music while its Nook division offers e-readers and digital content.

While the retailer has recently faced some financial challenges, our data shows that the company has done its homework in implementing a well-balanced digital presence. Notable is the way Barnes & Noble engages customers on its website, utilising related items, product reviews, ratings and word-of-mouth features. In the transaction dimension, the retailer integrates its stores by providing in-store stock availability information and pick-up options.
Case Studies

Country Road began in 1974 as a niche women’s shirt label. Today it is one of Australia’s most iconic brands and a fashion market leader. It has 80 retail stores, 80 concession outlets and over 2,000 employees across Australia, New Zealand and South Africa.

Country Road, over the recent years, has transformed itself into an omnichannel business. The retailer has integrated its digital with its store channel providing elaborate information on its stores, in-store stock availability, as well as an in-store pickup and returns option for its customers. While company is well advanced in implementing its execution strategy, it could do more to engage customers, in particular via customer-generated content, product reviews and recommendations for individual customers.

Headquartered in Seattle, Washington, Nordstrom has been present in the clothing market for over 100 years. Catering for the upscale clothing market, they provide speciality clothes, shoes and accessories for men and women. Employing a multitude of transactional and informational tools, Nordstrom provide a good all-round digital shopping experience. The coverage of elementary digital commerce criteria is well-balanced across all dimensions, yet the retailer does not fully integrate its channels via in-store pickup options. Nordstrom however, stands out against its competitors with an engagement score of over 70%. From personalised experiences, notifications, membership benefits, reviews, ratings, related items and individual recommendations to easy sharing and full integration with most popular social media applications, it is difficult not to engage.

Dressing up for the digital consumer

Australian clothing retailers are mature in their digital execution, but have neglected relationship building.

With the decline in high street spending and the proliferation of ‘showrooming’, clothing retailers have gone back to their roots and focused on the trend value of their brands. Smart use of social media platforms have made it easier for customers to talk about their purchases.

Combining a presence across all popular social media platforms has made it easier for customers to learn about brands online. However with the strive for coverage, depth of content and relationships have been left behind.

Our data shows that informational depth is also low compared to other industries, with some basic features (e.g. store locators, quality searches, detailed product specifications) neglected for the more contemporary social media coverage.

Clothing stores must now concentrate on the balance between social and relational engagement. While social proliferation of products is great for brand awareness, without the development of relationships, customers will find it easy to switch to alternative brands and international retailers.

The Four Dimensions of Digital Commerce

Digital Execution & Engagement
Faced with increasing competitive pressure, Australian Consumer Electronics retailers have room for improvement in all four dimensions of digital commerce.

Despite an increase in consumer spending, Australian consumer electronics retailers have experienced declining revenues in the last couple of years which speaks to the competitive nature of the sector and the price sensitivity of its customers. In addition to the strong Australian dollar, this decline in revenue can further be attributed to consumers’ shift to digital shopping channels, and to the subsequent pressure on traditional retailers to match their prices to online offerings.

Faced with such competitive pressure, Australian retailers have adopted a range of digital commerce applications and have established transactional and informational capabilities. While the consumer electronics is leading the retail market in Australia overall, its social and relational capabilities are less developed.

A comparison of Australian retailers with international best practice reveals that while local businesses are, on average, ‘high achievers’, they still have room for improvement in all dimensions of digital commerce in order to make their digital offerings attractive for consumers.

**Case Studies**

**Harvey Norman** was established in 1982 and has 189 stores across Australia. While the company performs well above the local sector average in the informational, transactional and social dimensions, according to our analysis, its digital capabilities reflect a double relational gap. That is, its relational capabilities lag behind its social, informational, and transactional capabilities, as well as behind the relational capabilities of international best practice. To close this gap, and to develop long-lasting relationships with its customers and increase brand loyalty, Harvey Norman should consider offering its customers a range of relational services such as individual product recommendation, website personalisation, and e-mail notifications. Relationship building will be particularly important due to the decentralised franchise structure of the retailer.

**Best Buy** is one of the largest consumer electronics multinationals. It was founded in 1966 and has wide international presence. In the last few years the company has placed increasing importance on its digital commerce capabilities and in 2012, hired its first president of online and e-commerce business to help the business overcome fierce competition from both traditional and online retailers. Working to enhance all dimensions of its digital commerce offerings, the company has rolled out a number of services to build its relationship with its customers and make it easier for them to interact with the company online. These services include website personalisation, a member reward system, and automatic recommendations. These efforts have helped the company to increase its online sales by 15% in 2013 despite a 2.6% drop in overall revenue.
Department Stores

Case Studies

David Jones was founded in Sydney 176 years ago and is one of the largest department stores in Australia today with 38 stores across the country. While it performs above the national average in utilising all four dimensions of digital commerce capabilities, it still lags behind the international best practice in the informational and social dimensions. To close this gap the company needs to provide more information to consumers about their product portfolio and about the shopping experience. In addition, the company should enhance the social component of their online channel by allowing customer groups more ways to interact with each other on its website and through integration with its external social networking websites (e.g. Instagram, Facebook, etc.).

Since its opening in 1858, Macy’s has grown into one of America’s largest department stores. In the last few years the company has made a substantial effort to expand its digital commerce offerings and integrate them with its brick-and-mortar operations. Macy’s now espouses an omni-channel strategy which seeks to consolidate customer experience across physical, desktop, and mobile channels. The company has rolled out a number of initiatives, particularly in the transactional and informational dimensions, such as the pick-up-in-store program which allows online shoppers to pick up their items from the nearest store, and extensive coverage of features in the social dimension. These efforts have led to a sizeable increase in online sales, which have crossed $3bn in 2013, up 41% from 2012.

The Four Dimensions of Digital Commerce

Digital Execution & Engagement

Strong investments to close the gap

Department stores still lag behind their international peers despite substantial investments in digital commerce.

The Australian department store sector has faced significant challenges over the past years. A weak retail environment and increasing competition from online retailers have resulted in stagnating revenues.

Increasingly, Australian department stores have developed their digital commerce capabilities to grow their sales. Indeed, their investment in digital capabilities have made up 34% of the total online retail spend in 2013.

However, despite strong online growth, Australian department stores still lag behind their international counterparts. For instance, the online revenues of the nation’s biggest chains – David Jones and Myer – only make up about 2% of total sales, while many of their peers in the US and UK have crossed the 20% mark.

Our analysis reveals gaps between local and international retailers across all four dimensions of digital commerce, the most pronounced being the social and informational dimensions.

To better compete with international actors, local stores are advised to invest in their engagement capabilities both relationally and socially.
Discount Stores

Minimal digital adoption
Australian discount stores score low on both engagement and execution.

The discount department stores sector has experienced steady growth over the last few years as the global financial crisis increased demand for discounted products. However, the weakening dollar and increasing competition from online retailers is expected to increase the pressure on discount stores.

Despite such pressures, Australian discount stores have yet to substantially capitalise on the online space and, on average, have not moved much beyond merely providing information for customers on their websites. In fact, apart from Kmart, none of the other stores enable consumers to conduct online purchases.

This stands in stark contrast to international discount stores that perform highly on the transactional, as well as other dimensions of digital commerce.

To be able to compete with domestic and international retailers, discount stores need to better utilise their digital presence to provide customers with a more purchase experience. This can be achieved by integrating such social and relational features as website personalisation, online loyalty schemes and recommender systems, and integration with social networking websites.

Kmart was founded in Australia in 1969 and operates 170 stores across the country. Against the backdrop of an industry that has been slow to utilise digital commerce, Kmart has implemented several transactional, relational and informational initiatives such as live customer support, online search, online payment, personal profiles, and a Facebook page. However, the company has yet to substantially capitalise on the social dimension of digital commerce and considerably lags behind the international best practice in that regard. To do so and thus allow its customers to interact with each other to share product information, recommendations, and product reviews, it might implement such features as customers product ratings and reviews, or a customer forum, and integrate its website with social services such as Instagram, Youtube or Pinterest.

Since its opening in 1962, Walmart has grown to be the world’s largest retailer and private employer. Over the last few years the company has invested heavily to enhance its digital commerce capabilities. In the last three years it has acquired 12 ecommerce companies and recently it announced its plans to double the size of its ecommerce unit to 1000 employees. These efforts are reflected in our analysis which shows the company’s position in the ‘high achievers’ quadrant and its advanced capabilities along all four dimensions of digital commerce. Utilising such capabilities as a mobile app, in-store returns, a membership benefit system, integration with various social networking platforms and same-day delivery of products sold online, has helped the company to grow its online sales by 30% in 2013, making it the fourth largest international online retailer.

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The Four Dimensions of Digital Commerce

Digital Execution & Engagement
Food & Coffee Stores

Case Studies

Gloria Jeans was first founded in Australia more than 15 years ago. Today Gloria Jeans has more than 400 coffee houses in Australia with a presence in every state and territory. Based on a vision to be the most loved and respected coffee company in the world, Gloria Jeans has dived into the social phenomenon to connect with its customers. As an international company, the company website has a localised link for each country. Facebook events and news are directly pasted on the homepage, from which there are also links to the Gloria Jeans’ Twitter, Pinterest and LinkedIn accounts. Many Gloria Jeans stores are also now using Facebook events, tweets and Youtube to introduce new marketing campaigns, build brand awareness and interact with its customers.

Since its opening in 1971 in Seattle, Starbucks has grown into one of the world’s most recognised, specialty food brands. Today it is leading the way in creating digitally-enhanced customer experiences both in-store and online. As part of the company’s turnaround in 2008, the company created Starbucks Digital Ventures, an internal, venture capital-style incubator for digital technology, and in 2012, named its first Chief Digital Officer. Besides engaging a substantial fan base on its Facebook, Twitter and Instagram accounts, Starbucks has also enabled mobile transactions, digital loyalty programs, Starbucks Digital Network that offers in-store customers premium digital content to enjoy alongside their coffee, and a My Starbucks Idea site, which invites customers to submit ideas to improve Starbucks products, customer experience and corporate initiatives.

The Four Dimensions of Digital Commerce

At risk of missing out

Australian food and coffee stores are still immature in their capabilities to engage their customers online.

The food and coffee store industry is increasingly competitive across Australia. A growing portion of sales now comes through digital channels, particularly through mobile orders. Food review blogs and websites such as Yelp and Eatability, are increasingly a key driver of in-store traffic. International leaders offer not just food, but end-to-end consumption experiences where the relationship with customers begins ahead of their presence in-store.

Our data shows that while Gloria Jeans stands out as the Australian leader, the average Australian food retailer lags far behind the international benchmark in capturing its audience in the digital space. It trails significantly behind in providing customers with adequate online information and transactional capabilities, and is uncompetitive in engaging with customers.

Although not all food specialties are in threat of global competition, it is crucial for Australian food retailers to recognise the power of the digital channel to sway local audiences from one brand to another. The increasing availability of food reviews together with the proliferation of smartphones is indicative of the power consumers now have to choose the best and the closest.

Digital Execution & Engagement

The Four Dimensions of Digital Commerce

Australian Average

High Achievers

Over Engaged

No Frills

Execution

Gloria Jean’s Coffees

Starbucks

Australian Average

Digital Execution & Engagement

Informational

Social

Transactional

Relational

100%

50%

0%

100%

50%

0%

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50%

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Furniture Stores

Not yet comfortable online
Furniture shopping is experience shopping, which makes developing a convincing digital presence challenging.

Furniture retailers in Australia have faced a challenging period in the past 5 years, as the demand for furniture has remained weak in the post-GFC era. Moreover, traditional brick and mortar stores face a flourishing second-hand furniture market emerging on platforms such as Ebay and Gumtree.

While it may still be important to many customers to visit a physical store before purchase, the competition with online retailing is rapidly increasing as technology allows retailers to post 360 degree views of their products, change furniture colour, design and fit out living spaces online.

Australian furniture stores are reasonably mature in their informational capability. At the same time however, they underperform in their social, transactional and relational capabilities, in particular in comparison with the international best practice.

While most Australian stores have a website and online catalogues with product information, further relationship building and social engagement has not caught on. Although somewhat protected from international competitors, comparisons with the best practice leaders open possibilities for learning and continuous improvements.

Founded in 1981, Freedom Furniture operates 50 stores nationwide. According to our data its digital presence shows well-balanced coverage across all four dimensions. Notably, the retailer is well ahead of the industry in the implementation of digital engagement; it makes use of users’ historical data and features favourite products through an elaborate user membership system. Freedom is also active across most social networking platforms.

At the same time the retailer could strengthen its user engagement by allowing for product reviews, providing individual recommendations and personalisation of its digital offerings. While it is clearly a market leader in engagement in Australia, it forgoes opportunities to further ‘socialise’ its digital offerings.

Founded in 2001 by two engineering students from Cornell University, Wayfair has become a marked-leading online-only retailer. Its digital presence is prominent and works well with user data and user profiles. It also features a membership benefit scheme.

Wayfair is not broadly integrated with social networking platforms but allows users to interact on its website, through which it reaps the benefits of this engagement. Users are able to contribute product reviews. In return they receive individual recommendations, and are provided with cross-selling opportunities. Overall Wayfair makes much better use of its user data and displays a more mature social and relational engagement beyond mere presence in social channels than any other furniture retailer in our sample.

Digital Execution & Engagement

The Four Dimensions of Digital Commerce
Hardware Stores

Case Studies

Launched in 2011, Masters Home Improvement is a newcomer to the industry. While rolling out its physical store network will take time, our analysis shows that in the digital space the retailer has moved to the front of the pack by some margin. Free of any legacy, Masters was able to design a state-of-the-art digital presence from the start. Its offering is almost on par with the international benchmark. It makes good use of its social and relational features, allowing users to review and rate products, email products to friends, create lists of favourite products and otherwise on its website. In particular it has implemented relational features that promise the highest impact, that is, working with user data to provide suggestions of related items and individual recommendations. Notably Masters offers information on in-store availability and in-store pickup.

Founded in 1978, The Home Depot is the largest home improvement retailer in the United States, operating in all states as well as across Canada. It demonstrates a state-of-the-art digital presence, both in terms of its design and functionality. According to our data, its digital commerce implementations show a good balance of mature execution and engagement-oriented features. The Home Depot’s online presence utilises user historical data and offers a user membership benefit system. Users are able to engage on the site by leaving product reviews and ratings. In turn, they receive individual product recommendations, suggestions of related items and cross-selling advice. While the retailer does not overly engage across a wider range of social platforms, it creates an interactive experience on its own digital platform.

Closing the gap requires more than a DIY job

With the exception of Masters Home Improvement, Australian hardware stores are lagging behind in the digital space.

DIY is a big part of the Australian life style. Not least due to the exorbitant prices that many Australians pay for their houses, the home is seen as more than a place to sleep and customers are seeking personalisation and self expression in almost every area of their homes.

Yet, while more and more digital technologies are available for the home automation enthusiast (e.g. smartphone controlled steam showers and lighting systems), hardware retailers have not been as enthusiastic in embracing digital commerce.

Australian hardware stores are laggards in the digital commerce space, with a large gap between the average and both the Australian and international industry leaders. Apart from the informational dimension, retailers in this industry fall far short of international best practice and average, with the largest gap in the relational capability.

The comparison with the international best practice shows that it is well possible to create engaging digital commerce offerings. Closing the gap will require Australian retailers to learn from both the Australian best practice, as well as the international leaders.
Homeware Stores

Making a living online

Australian homeware stores display reasonable levels of digital maturity, particularly in the execution dimension.

Much like the furniture and DIY hardware sectors, homeware retailers benefit from the significance that the family home holds in Australian life. In addition, the sector benefits from consumers’ changing spending habits, and their preference to decorate their rooms in bite-sizes rather than in-one-go. In doing so, online shopping for homewares has become increasingly popular.

Australian homeware stores are mature in their execution, particularly in ensuring multichannel transactional capabilities. However, the relational dimension still falls short compared to international leaders, as does the information dimension.

Australian homeware retailers are ahead of the international benchmark in the transactional dimension, mainly because the international leader, Williams-Sonoma, does not offer in-store availability information and in-store pickup.

Yet, in the relational dimension the sector has a lot to learn from the international leader, especially when it comes to effectively harnessing user data to provide recommendations and cross-selling opportunities.

ICON Homeware is an Australian online retailer based in Sydney, which offers a wide range of designer brands and small items for the home. As a pure-play digital commerce shop it is not surprising that the retailer leads the market in its digital execution. While it does very well in the transactional dimension, including the offer of a lowest price guarantee, it could further strengthen its offering in the information dimension, for example through features such as product comparison capabilities.

In the engagement dimension the picture is mixed: While the social dimension is very strong with both a presence in social media channels and user-generated content on its own website, the relational dimension lags behind. Here the retailer forgoes opportunities to build relationships by effectively using user data and individual recommendations.

Founded in 1956, Williams Sonoma operates a large number of stores across North America. The retailer represents a success story of a high-end retailer effectively transitioning to become a multi-channel retail conglomerate. Its digital commerce presence is industry best practice. It displays well-balanced implementation across both the execution and engagement dimensions.

Most notably, its informational dimension is outstanding, as it provides extensive customer support and company information, including a blog, product tutorials and a live chat feature to connect with a retail consultant. Similarly, its coverage of the relational dimension provides many opportunities for best practice learning, as the retailer demonstrates how to work effectively with user data to offer recommendations and a user benefit membership scheme.
Supermarkets

The sector is dominated by two key players with significantly higher digital commerce maturity than the average.

The touch and smell of food were once crucial to the grocery shopping experience. However, as retailers began to prove they could deliver quality produce within competitive timeframes and rates, online grocery shopping has gained popularity and the tactile component of the shopping process has become less a concern.

Leaders in the industry have recognised the critical changes and opportunities technology has brought to grocery retailing, not only in the explosion of ‘big data’ from transactions and customer loyalty programs, but also in supply chain processes.

A clear duopoly has emerged in the digital space with the two key players, Coles and Woolworths, leading the way. While both have mastered execution, Woolworths has an advantage in the engagement dimension. Both have implemented many convenient features such as extensive product information, lists and flexible delivery schemes.

While the two are almost on par with international best practice, barring a small gap in the social and relational dimensions, other Australian players are yet to build noteworthy and competitive digital capabilities.

Case Studies

Building on a 90 year history, Woolworths Australia has made a successful transition into the digital space. Its coverage is well-balanced, although each dimension can be further expanded. Much like its closest competitor, Coles, Woolworths offers flexible home delivery as well as in-store pickup options. In the informational dimension it offers comprehensive customer information, including a live support feature. Socially, the retailer is active in a range of social media channels. Relationally, it provides basic features and a customer membership scheme. Further engagement opportunities however exist for the retailer in better utilisation of customer data to provide tailored recommendations and related items, product reviews, and other opportunities for customers to engage.

Founded in 1919, Tesco is not only the leading UK-based grocery retailer, but an internationally diversified retail company. The company leads the market with its digital grocery presence and is well-known for its rigorous usage of customer data across all aspects of its business. Its digital presence is strong across all four dimensions. Its engagement features are outstanding. Using customers’ historical data, it offers a sophisticated membership scheme and individual product recommendations throughout the shopping process. Moreover, it is broadly active across a number of social media channels and provides options for user-generated content on its website. To further strengthen its offerings, it could provide a more detailed product review option that goes beyond product ratings.

The Four Dimensions of Digital Commerce

Digital Execution & Engagement

The emerging digital grocery duopoly

The sector is dominated by two key players with significantly higher digital commerce maturity than the average.

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While the two are almost on par with international best practice, barring a small gap in the social and relational dimensions, other Australian players are yet to build noteworthy and competitive digital capabilities.
STRATEGIC IMPLICATIONS
Engagement is where the game is played globally

Retail companies cannot compete on execution any longer

Close to two decades into the Web era, most Australian retailers today have an online presence that provides customers with informative product webpages and a basic online buying experience.

The best among the Australian retailers have caught up to the international leaders in the execution dimension of digital commerce presence, achieving good results in the information and transaction dimensions.

Retailers, however, can no longer achieve significant advantage through their digital execution systems. Execution has become the ‘bread-and-butter’ aspect of digital commerce, and a strategic necessity in markets that sees more and more international competitors eyeing the business of Australian customers.

More concerning is the poor average Australian retailer result in digital capability and maturity.

Engagement is where the money is

Execution alone cannot harness a loyal customer base, and in a fast progressing globalised market, disengaged customers can easily be lost. It is therefore important for companies to reconsider effective digital commerce and understand more organically what it means to embrace the opportunities of a digital phenomenon that has shifted the way our world works.

While most retailers have followed the social media allure and are present across multiple social channels to help promote their brand, our data tells a poor story of personalised relationship-building, as well as of the ways in which social channels are harnessed.

What can digital engagement achieve for your company?

Engagement is about building an effective customer base, using customer data effectively and achieving profitability through repeat purchases, cross-selling and up-selling.

Effective digital commerce engages customers in communities where they can provide and receive information from each other and collaborate. Relational engagement particularly helps to tap into customers’ enthusiasm and energise them to become viral marketers through word of mouth.

Effective digital commerce further uncovers opportunities to involve customers in innovation, to help businesses innovate faster and better.

This vision of effective digital commerce is already demonstrated by some of the leading international companies in each industry such as Starbucks, Macy’s, and Walmart.

Australian retailers may be fast losing their market to international retailers who can engage better

Our data shows that Australian retailers are lagging behind international market leaders in the implementation of digital engagement features.

In light of increasing competition from overseas retailers, Australian retailers face a high risk of losing their customers if they do not begin to build stronger relationships and harness loyalty soon.

Given the strength of international digital leaders in the engagement dimensions, there is a real risk that those customers might be lost permanently.

The longer the relational gap remains, the more consumers may switch to international retailers and the greater the cost to persuade them back.

The Power of Engagement

1. Build a sustainable customer base
2. Increase profitability through up selling
3. Socially activate customers as brand advocates
4. Innovate through active learning from customers

“Execution has become a strategic necessity. It no longer provides an edge, but alienates customer if it is not there. Engagement is where the money is!”
Where To From Here?

**Australian retailers have work to do**

While some Australian retailers are catching up with their international competitors, the majority have work to do in all aspects of digital commerce.

Our data shows that a large number of Australian retails are classified as Laggards in digital commerce.

The main concern for these companies is not so much to catch up with international best practice, but to devise a strategic approach to enhance their offerings in all four digital commerce dimensions.

**The key to excellence in execution is effective omni-channel integration**

Developing a state-of-the-art digital execution strategy requires more than providing company and product information and enabling online shopping transactions.

The best practice retailers feature well-integrated omni-channel systems that provide online information on in-store offerings as well as logistical support for product pick-ups and returns.

**The key to excellence in engagement is the utilisation of customer data to derive individualised offerings**

While many retailers use social media to engage with customers, best practice retailers have created avenues for customers to proactively engage with the company and with each other via customer reviews, ratings, and other forms of user-generated content.

Moreover, the key to driving engagement and relationship building lies in the utilisation of customer data in (semi-) automatic ways to generate tailored product recommendations, thereby increasing opportunities for cross- and up-selling.

**A well-balanced approach is crucial**

It is important that Australian retailers devise a strategic approach to digital commerce that balances its four dimensions.

To do so, they need to develop integrative capabilities to incorporate and coordinate various channels (website, in-store, social media) as well as collect, store and analyse customer data (capturing user browsing, buying and communication activities).

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**The Pathway to Digital Commerce Success**

1. Achieving transactional excellence is a strategic necessity, but cannot, on its own, form the basis for sustained competitiveness.

2. Pursuing the “low hanging fruit” of social media engagement might create false customer expectations, if the execution dimensions of digital commerce are sub-standard.

3. Retailers are advised to strive for a well-balanced digital commerce strategy that combines omni-channel execution with the use of customer data for individualisation and relationship building.

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"The key to digital commerce Success is to balance omni-channel execution with customer-centric engagement."
### Evaluation Criteria

#### Overview of the 63 evaluation criteria in 4 dimensions

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Informational</strong></td>
<td>best sellers (Website provides a list of best selling product.)</td>
</tr>
<tr>
<td></td>
<td>blog (A blog is used to provide frequent updates for customers.)</td>
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<tr>
<td></td>
<td>company information (Detailed corporate information, such as ‘about us’, or ‘corporate history’, is provided.)</td>
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<tr>
<td></td>
<td>detailed product information (Website provided in-depth description of products, their properties and functionality.)</td>
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<tr>
<td></td>
<td>FAQ section (A section of the website that lists frequently asked questions and their answers.)</td>
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<tr>
<td></td>
<td>guides/tutorials (Guide that help users with product use or selection (e.g. how-to, DIY or size guides).)</td>
</tr>
<tr>
<td></td>
<td>internal search function (Website provide search feature (e.g. search products by keywords).)</td>
</tr>
<tr>
<td></td>
<td>live support (Customers can get real-time support by means of a chat or online hotline (e.g. Skype).)</td>
</tr>
<tr>
<td></td>
<td>mobile app (Retailer provides separate mobile App for smartphones or tablets.)</td>
</tr>
<tr>
<td></td>
<td>mobile version (Website exists in mobile optimised version.)</td>
</tr>
<tr>
<td></td>
<td>news page (A page that lists news information about the company or company related events.)</td>
</tr>
<tr>
<td></td>
<td>newsletter (Users can sign up for email newsletter for special offers or other information.)</td>
</tr>
<tr>
<td></td>
<td>popular products (Website provides a list of most viewed items.)</td>
</tr>
<tr>
<td></td>
<td>popular searches (Website provides a list of most popular searches.)</td>
</tr>
<tr>
<td></td>
<td>product catalogue (Access to a complete product catalogue in digital or embedded form.)</td>
</tr>
<tr>
<td></td>
<td>product comparison (Possibility to compare products’ characteristics on the website.)</td>
</tr>
<tr>
<td></td>
<td>product promotions (Selected products are featured/promoted on the start page.)</td>
</tr>
<tr>
<td></td>
<td>returns (Website provides information about product returns and the respective policy.)</td>
</tr>
<tr>
<td></td>
<td>store information (Detailed information about retail stores, such as opening hours and contact details.)</td>
</tr>
<tr>
<td></td>
<td>store location (Information about store locations of the retailer; often implemented as store locator.)</td>
</tr>
<tr>
<td><strong>Transactional</strong></td>
<td>financing options (Retailer offers financing of a purchase by means other than direct payment.)</td>
</tr>
<tr>
<td></td>
<td>home delivery (Basic feature of delivery of an ordered product to a specified address.)</td>
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<tr>
<td></td>
<td>in-store availability (Possibility to check whether a specific product is available in a physical store.)</td>
</tr>
<tr>
<td></td>
<td>in-store pickup (Delivery and pickup of an ordered product in a specified physical store.)</td>
</tr>
<tr>
<td></td>
<td>lowest price guarantee (Retailer provides best price guarantee or will match better price.)</td>
</tr>
<tr>
<td></td>
<td>online payment (Possibility to pay products or services online by credit card, PayPal or similar.)</td>
</tr>
<tr>
<td></td>
<td>shopping cart (Website offers basic shopping card functionality.)</td>
</tr>
<tr>
<td></td>
<td>shopping portal (Retailer allows buying of products from the website (= retailer engages in ecommerce).)</td>
</tr>
<tr>
<td>Engagement</td>
<td>Social</td>
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<tr>
<td>------------</td>
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</tr>
<tr>
<td>contact form</td>
<td>A page including a form for the purpose of contacting the company.</td>
</tr>
<tr>
<td>customer competitions</td>
<td>Retailer provides competitions that include prizes, giveaways or similar.</td>
</tr>
<tr>
<td>customer notices</td>
<td>Personalised messages for the customer (an example are product recalls).</td>
</tr>
<tr>
<td>delivery status information</td>
<td>User can get information about the status of his/her product delivery.</td>
</tr>
<tr>
<td>E-Mail notification</td>
<td>Notification of the user of a status change or urgent information by E-Mail.</td>
</tr>
<tr>
<td>events</td>
<td>Online or offline events hosted by the retailer to promote or advertise.</td>
</tr>
<tr>
<td>individual product recommendations</td>
<td>User is provided with individualised product recommendations.</td>
</tr>
<tr>
<td>membership benefit system</td>
<td>Scheme that brings benefits (e.g. discounts or special offers), to participating members.</td>
</tr>
<tr>
<td>mobile text alert</td>
<td>Notification of the user of a status change or urgent information by text message.</td>
</tr>
<tr>
<td>related items</td>
<td>Website offers products similar or related to currently viewed product.</td>
</tr>
<tr>
<td>suggestion box</td>
<td>Possibility to give dedicated feedback other than by simple contact form.</td>
</tr>
<tr>
<td>user browsing history</td>
<td>User is provided with list of products or pages s/he previously visited.</td>
</tr>
<tr>
<td>user search history</td>
<td>User is provided with list of searches s/he previously executed.</td>
</tr>
<tr>
<td>user transaction history</td>
<td>User is provided with list of his/her past transaction.</td>
</tr>
<tr>
<td>website personalisation</td>
<td>Presentation or function of the website can be adjusted to personal preferences.</td>
</tr>
<tr>
<td>cross selling</td>
<td>Products that other customers bought who also bought the currently viewed product.</td>
</tr>
<tr>
<td>E-Mail to a friend</td>
<td>Possibility to E-Mail a product or page to a friend for recommendation purposes.</td>
</tr>
<tr>
<td>evaluation of reviews</td>
<td>Evaluation of a product review. For example whether it was helpful or not.</td>
</tr>
<tr>
<td>Facebook integration</td>
<td>Basic integration with Facebook; includes like and share buttons.</td>
</tr>
<tr>
<td>Facebook page</td>
<td>Retailer operates Facebook page that is also listed on the website.</td>
</tr>
<tr>
<td>favourite products</td>
<td>Collection of favourite products into a list for later reference and social sharing.</td>
</tr>
<tr>
<td>forum</td>
<td>Discussion platform where people can have conversations in form of posted messages.</td>
</tr>
<tr>
<td>gift card</td>
<td>Possibility to purchase and/or pay by gift card or voucher for the shop.</td>
</tr>
<tr>
<td>Google+ integration</td>
<td>Basic integration with Google+; includes plus-one and share buttons.</td>
</tr>
<tr>
<td>Google+ page</td>
<td>Retailer operates Google+ page that is also listed on the website.</td>
</tr>
<tr>
<td>individual portal</td>
<td>A ‘myRetailer’ page that gives access to restricted individual member functions.</td>
</tr>
<tr>
<td>Instagram integration</td>
<td>Use of Instagram that is also listed on the website; retailer promotes to interact with it.</td>
</tr>
<tr>
<td>personal profile</td>
<td>Retailer allows user to present themselves with a profile (e.g. ‘my products’).</td>
</tr>
<tr>
<td>Pinterest integration</td>
<td>Use of Pinterest that is also listed on the website; retailer promotes to interact with it.</td>
</tr>
<tr>
<td>product Q&amp;A</td>
<td>Possibility to ask questions regarding a specific product and/or answer questions.</td>
</tr>
<tr>
<td>ratings</td>
<td>User evaluation of a product or service by a point or star system.</td>
</tr>
<tr>
<td>reviews</td>
<td>User valuation of a product or service by a written text.</td>
</tr>
<tr>
<td>Twitter account</td>
<td>Use of Twitter that is also listed on the website; retailer promotes to interact with it.</td>
</tr>
<tr>
<td>Twitter integration</td>
<td>Basic integration with Twitter; includes twitter feed and tweet button.</td>
</tr>
<tr>
<td>YouTube/Vimeo integration</td>
<td>Use of Youtube and/or Vimeo listed on the website; retailer promotes to interact with it.</td>
</tr>
</tbody>
</table>
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Australian Digital Transformation Lab.

The Australian Digital Transformation Lab is a joint venture between The University of Sydney Business School and Capgemini Australia. It combines the established academic research skills and knowledge of the Business School’s Discipline of Business Information Systems with Capgemini’s expertise and leadership in business transformation and organisational change.

The Lab will engage in a range of research activities and produce studies in the following two key areas:

1. **Digital transformation of business models:** Digital technologies are disrupting established business models, but at the same time open new opportunities for digital innovation and new business ideas. The Lab will investigate issues related to the digital transformation of Australian businesses and industries.

2. **Digital transformation of work and organisation:** Digital technologies enable new forms of work, work place communication and work organisation. The Lab will focus on the impact of new technologies with a focus on the successful management of digital transformation utilising technologies such as Enterprise Social Networking.
THE APPROACH

This market commentary is based on a research project which has explored the digital commerce utilisation of 52 Australian and 10 International Retailers. The Consumer Products and Retail market is diverse and broad. To ensure a balanced view, 10 subsectors of the retail market have been researched. Each sector includes research of one leading practice international retailer:

- Bookshops
- Clothing
- Consumer Electronics
- Department Stores
- Discount Stores
- Food
- Furniture
- Hardware Stores
- Homeware Stores
- Supermarkets

The online utilisation of all companies in the sample was evaluated in detail by examining the extent to which certain digital commerce features were available for the consumer. No quality judgements were made.

Each type of digital utilisation was assessed from the consumer point-of-view using a list of 63 criteria to record whether certain tools, techniques or features have been implemented.

Collectively these criteria form a good indication of the extent to which each company makes use of digital commerce.

CRITERIA IDENTIFICATION

The evaluation of each online utilisation is based on a list of 63 criteria, each of which falls into one of the four dimensions.

The criteria catalogue was developed by extending an initial list based on a literature analysis (Curty and Zhang 2013; Madlberger 2004; Turban et al. 2009).

New criteria not previously mentioned in the literature were added during the evaluation whenever a new feature was discovered. All retailers were evaluated using the full list.

33.3% of all criteria were newly discovered and a number of criteria from the literature could not be found in the sample and were thus discarded. This is evidence that digital commerce is a fast-moving, constantly changing phenomenon.

REFERENCES:


Driving Digital Transformation

Capgemini Australia’s Digital Transformation practice helps organisations find digital opportunities within their business. Our team specialises in identifying, designing, and developing new ventures, innovative delivery models, and digital transformations to get real value from the digital economy.

We offer a fresh approach based on collaborative and iterative design with a focus on targeted outcomes. You bring your customer and business experience. We bring perspectives from our understanding of the Australian and global digital economy, and our leadership in business and technology transformation.

Learn more about us at
www.capgemini.com.au