BAIN & COMPANY

B2C storm survivors

Four signs of seaworthiness

By Vijay Vishwanath

In 1999, the world believed pure e-tailing would win the war for customers; eyeballs and clickthroughs measured success; slick websites and advertising could attract profitable customers; and first movers would have a huge advantage online. Today, with much-visited, high-glitz sites of early movers like Boo.com bankrupt; gloss.com sold to incumbent Estee Lauder; and Super Bowl advertisers like Healtheon WebMD and Pets.com hemorrhaging cash, we can barely contemplate the full costs of e-tailing and shakeout that's underway.

B2C survivors get business basics right. They sell products through multiple channels; use the Web to reduce costs throughout the value chain; have a strategy to convert browsers to buyers that's built into web-site functionality; and offer unique products or services.

So is it time for the smart rats to leave a sinking ship? Is all B2C e-commerce going under? A recent Bain study suggests the smartest rats will reserve judgment until they've checked out four signs of seaworthiness in their e-commerce ventures. These include their abilities to: sell products through multiple channels; use the Internet to improve the cost and means by which products move from suppliers, in-house and on to customers; create functions on their sites that engage customers and convert browsers to buyers; and offer unique products or services relative to established mass competitors.

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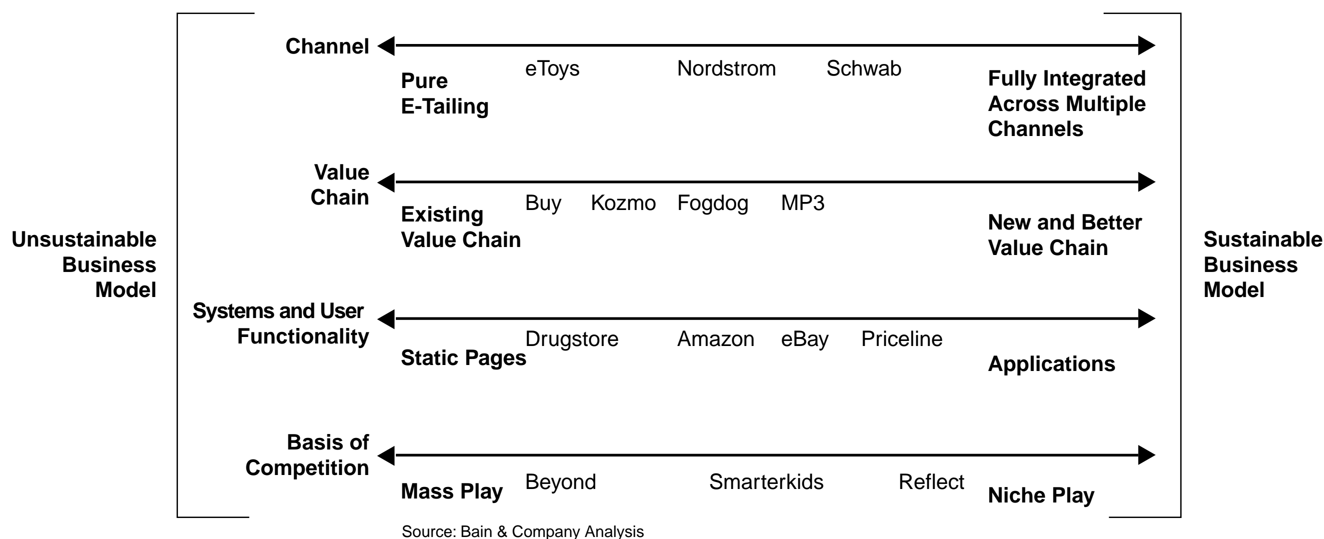
Figure 1: **The sustainability of a business depends on how well it plays along these dimensions**



The sustainability of a B2C e–business depends on how well it plays along these dimensions. If you are a pure e–tailer, using an existing value chain and competing broadly, without unique applications, against established mass–market players, you have an unsustainable business model. A number of foundering B2C companies, like Drkoop.com, are in this box. On the other hand, the companies more likely to meet success have differentiated on two, three or all dimensions.

Companies more likely to meet success have differentiated on two, three or four business fundamentals.

Modeling Success

To prove this point broadly, we ran a model taking all the public B2C companies and assigning them scores ranging from 1 to 10 along all four dimensions. ***(Figure 1)*** Schwab, for example, would score highly on the first dimension—its ability to integrate its offer across all channels. While 80 percent of Schwab clients' trades have moved online; 70 percent of Schwab's new assets come under management through its branch locations. E–Toys, on the other hand, would score low as a pure e–tailer selling standard toys via a single channel.

On the second dimension, called "value chain," a company like Buy.com, would score below average, as it essentially serves as an online "front" for an existing supply chain. But CD MP3 would score well above average because it replaces a physical product with an electronic download. So would FogDog, which has created a new and improved value chain in sporting goods that provides unparalleled product breadth and depth by seamlessly integrating across manufacturers and distributors of all tiers.

There is a way to start thinking about successful and sustainable B2C e-commerce models. Evaluate your vessel before you prematurely jump ship—or unwittingly drown.

On the third dimension, we assessed whether a web site is purely a collection of static web pages, or has unique applications that create stickiness and conversions to sales. A high-scorer on this dimension would be Amazon.com, with its well-known—yet unique—application that creates book recommendations for customers based on their purchase histories. Travelocity would score highly: its rapid-response applications keep customers online and loyal. Airline ticket shoppers at Travelocity wait only 35 seconds for a reply, versus a full minute on competitor Expedia. Priceline's applications, too, would garner high ratings. The discount retailer's search engines create a reverse auction that allows shoppers to set their own, individual prices for purchasing travel tickets or reserving lodgings. Then the web site entertains bidders with virtual slot machines as they wait for a match.

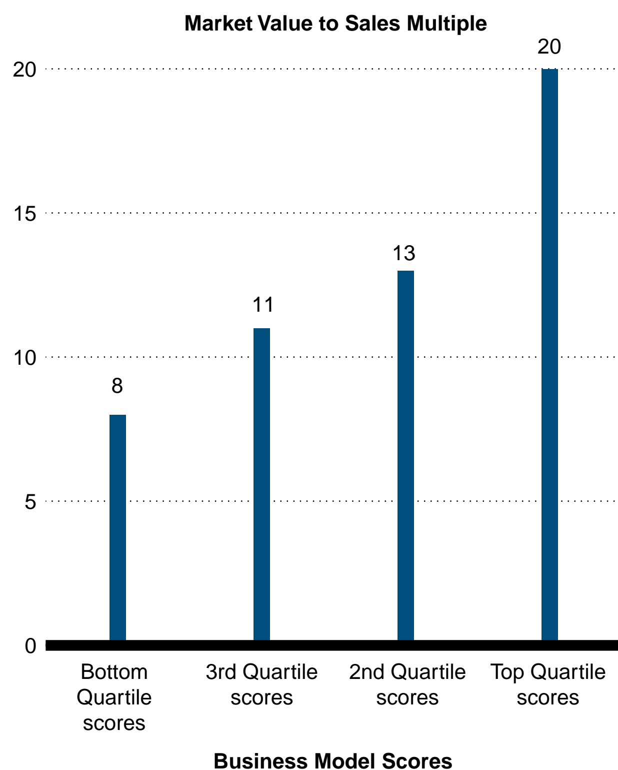
High scores lead to high multiples

Finally, we scored companies on their basis of competition. Is the e-business merely replicating an existing mass play or has it established a defensible niche that could constitute a new product or service? Here, high scorers would include reflect.com, with its personalized and customized beauty products, or Smarterkids, which aggregates educational toys, not easily available to anyone, anywhere.

The upshot: B2C e-businesses that scored highly on these four dimensions tended to have higher market multiples. ***(Figure 2)*** Indeed, the top quartile's average market value to sales multiple ratio (20) was more than double the bottom quartile's (8). Ultimately, these businesses stand the best chance of scoring on the new metric of success: profitability.

The bottom line: a rising tide may lift all boats, but not all boats have the same ability to weather turbulence and navigate shoals. There is a way to start thinking about successful and sustainable B2C e-commerce models. Evaluate your vessel before you prematurely jump ship—or unwittingly drown.

Figure 2: **Top scoring e-business have higher market multiples**



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