

FORUM

Web Lesson: Plan for ITV Orders Early

By PETER SHAPIRO

How will we handle the orders? When you are giving birth to interactive TV commerce, this question may not top your list, though, given the recent holiday troubles of Web e-tailers, it must be considered.

First, you need to design a positive shopping experience, a platform, attract programming network and merchant partners, get the service on cable or satellite systems, and define a viable business model. However, as Web e-tailers have discovered, getting order fulfillment right is just as important for your ultimate business success as generating the orders in the first place.

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Once demand has been generated, how well the ITV orders are handled will depend on the ITV commerce model that has been adopted by the cable or satellite operator.

ITV COMMERCE MODELS
an ITV service model, a



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ITV service providers is that most ITV service providers currently do not plan to take on merchant responsibilities. Instead, they have designed infrastructures to bring consumers into contact with the affiliated merchants via cable or satellite networks. Initially, the ITV service providers will not operate virtual fulfillment systems in the sense that Web e-tailers do.

As ITV grows, the partners will need access to non-refutable data concerning order status and confirming receipt of BPIs. These data can be generated as a by-product of a properly functioning order management system.

EVALUATING ITV PLATFORMS
Cable and satellite operators are evaluating a wide range of options and building a platform that can handle the volume of orders and provide a positive shopping experience.

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First you need to design a positive shopping experience, build a platform, attract programming network and merchant partners, get the service on cable or satellite systems, and define a viable business model. However, as Web e-tailers have discovered, getting order fulfillment right is just as important for your ultimate business success as generating the orders in the first place.

Some high profile e-tailers in the 1999 holiday season failed to deliver a small proportion of their orders as promised. Loud consumer complaints, bad press, analyst warnings, and even Federal government fines for misrepresentations to consumers, delivered a clear message: clean up your act! Web merchants invested to upgrade their order fulfillment systems knowing that if they stumbled again during the 2000 holiday season, they would probably not get any more chances.

The lesson for iTV commerce

A robust iTV commerce solution must include a credible plan for reliable order management and fulfillment.

Compared to Web commerce, managing the back-end of iTV commerce will be much more complex. First, there are highly diverse partners to coordinate including cable or satellite operators, providers of iTV service infrastructures, programming networks, and merchants.

Also, it will be harder to communicate with iTV users about fulfillment problems. Unlike Web users, many iTV consumers may not have a personal computer or check email frequently. Some will lack printer attachments to make hardcopies of order information displayed on their TV screen and some may forget which number to call and where to look for order status updates.

Finally, unlike Web commerce where blame attaches to poorly-performing e-tailers, with iTV commerce some of the blame also will stick to the cable or satellite operators whose subscribers have been disappointed and frustrated.

iTV commerce will come in multiple formats. Branded iTV shopping environments, also known as walled gardens, will provide consumers with choices among selected merchants.

Alternatively, iTV offers will be presented in the context of ongoing TV programming, for example, sports gear or pizzas during sports shows, or cooking utensils during cooking shows. Both formats can work well to generate orders.

Once demand has been generated, how well the iTV orders are handled will depend on the iTV commerce model that has been adopted by the cable or satellite operator.

iTV Commerce Models

With an *iTV service* model, a common shopping cart infrastructure is employed to collect and complete iTV orders which then are routed to merchants for fulfillment. This model provides a consistent iTV commerce experience across a wide range of iTV merchants. It could enable iTV consumers to submit an order that includes products from multiple merchants. Most important, it can provide the iTV service provider with direct access to information about specific transactions.

By contrast, with a *merchant-centric* model, iTV consumers will interact directly with the merchants which employ their own shopping carts and process and fulfill their own orders. This model places all responsibility with the merchants for merchandising, order handling, and customer service. The intent – or hope – is that cable and satellite operators can avoid additional customer service burdens. However, even if most consumers call the merchants directly or can find their way to a designated iTV commerce order-status channel, some inevitably will turn to their cable or satellite operator for help. Operators adopting a pure merchant-centric model for iTV commerce risk suffering the consequences of lack of control over order fulfillment and of ill-equipped CSRs when consumers call in.

Virtual Fulfillment

Like printed catalog merchants and TV home shopping networks before them, many Web merchants have now built in-house fulfillment systems. They operate warehouses in which their employees pick, pack and ship products from inventory. These facilities provide control over order management but at high cost in terms of capital investment and ongoing expenses. This cost can become particularly burdensome if order volumes fall short of projections that were relied upon to justify the investment.

There is a way to maintain control while avoiding spending for inventory and warehouse facilities: virtual fulfillment.

With virtual fulfillment, or drop shipping of products directly from manufacturers or distributors, the online merchant can focus resources on merchandising products rather than on operating warehouses. A virtual fulfillment system must be effectively managed to ensure consistent, reliable order handling. This requires a fulfillment network to route the orders, monitor trading partner performance in terms of service level agreements, and report order status, in accordance with agreed business rules.

Web e-tailers that have built internal fulfillment systems may choose to continue using them, but they can employ fulfillment networks to expand their catalogs without parking more capital in inventory. Fulfillment networks also would enable them to test demand for new products and product categories, again without having to add inventory.

One of the significant differences between Web e-tailers and iTV service providers is that more iTV service providers currently do not plan to take on merchant responsibilities. Instead they have designed infrastructures to bring consumers into contact with the affiliated merchants via cable or satellite networks. Initially, the iTV service providers will not operate virtual fulfillment systems in the sense that they will connect directly with product suppliers such as manufacturers and distributors. Typically, it will be up to the merchants to manage connections with their suppliers.

However, just as fulfillment networks enable reliable virtual fulfillment for Web merchants, these networks can readily be adapted to provide similar benefits for iTV service providers. Adapted, such networks can interconnect the iTV service providers with their merchant partners – whether in walled gardens or enhanced TV advertisements - to ensure effective iTV order routing, management, and status reporting.

Revenue Settlements

When an iTV commerce consumer buys something or submits a request for information (RFI) in response to an enhanced advertisement, transaction fees become payable between the iTV commerce partners.

Revenue settlements will become very complex with growth in volumes of iTV orders and RFIs and in numbers of affiliated merchants and product offers. As iTV grows, the partners will need access to non-refutable data concerning order status and confirming receipt of RFIs. These data will be generated as a by-product of a properly functioning order management system.

Evaluating iTV platforms

Cable and satellite operators are now evaluating a wide array of iTV options. They are considering many factors associated with different formats and business models. How quickly they proceed will depend upon their resolution of many factors. Those include priorities for investments in digital plant and services, performance of competitive systems, overall strategic positioning amidst a swirl of industry restructuring, caution based on a history of iTV setbacks and expectations of investors for revenues from advanced services.

This may not seem the best time to add yet another factor to worry about. However, recent experience on the Web tells us that now would be a good time also to take into account the iTV service providers' plans for order routing and management, integration of merchants and suppliers and collection of data on iTV transactions to support revenue settlements as iTV commerce grows to surpass everyone's wildest dreams.

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