HOW CAN MULTI- CHANNEL RETAILING FURTHER EXPAND THEIR PRODUCT RANGE WHILST SUSTAINING CUSTOMER EXPERIENCE AND SATISFACTION FOR BOOTS.COM?

By

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2008

A Management Project (Dissertation) presented in part consideration for the degree and award of Masters of Business Administration

Abstract

The Nottingham MBA team were assigned to explore online product range extension of Boots.com from marketing, supply chain and financial perspectives. Firstly, from the marketing perspective we explored the market attractiveness, profitability, challenges of expanding the product lines in online industry specifically. Initially we identified the existing customer segments and the emerging customer segments, to better understand the target customers for extending the product line. We also considered market-product life cycle for applying the marketing strategies by considering the market, product and brand parameters by benchmarking with key players in the industry and industry trends. This enabled us to identify the areas of growth for extending the product line for Boots.com. Furthermore, future distribution method – New Fangled Drop ship model was also evaluated to provide efficient delivery for extended product range in the area of supply chain management. After that, key performance indicators (KPI's) for sustaining customer experience and satisfaction across different channels is also suggested. Lastly we analysed the financial implications of extending the product line, by identifying the key future revenue generators for Boots.com.

Considering this as the foundation we developed the hypotheses which were to be answered through the study.

H1: For online product expansion in e-retailing, strategic market planning process necessitates careful examination of market attractiveness, typically in shaping market attractiveness, factors such as market size, market growth, competition, segmentation, targeting and positioning, margin potential and the company's core competencies.

H2: In moving into new markets, the critical success factors include leveraging on brand/reputation and capability. The timing of products and customer segmentation are important for market attractiveness.

H3: Good inventory management, cost-effective and efficient delivery and supply for new product protect margin and profitability.

H4: In Key Performance Measurement ("KPI") for sustaining customer experience and satisfaction for Boots.com, Channel Alignment, Drop Ship and Efficient Standardised Delivery Methods for all products are used.

The hypotheses were answered through a combination of qualitative and quantitative research methods. For analysing Boots.com internally we looked into Boots.com's internal data which was provided to us from all the perspectives of Sales and Marketing, Supply Chain and Financials. For understanding from customer perspective in terms of new products from marketing view point and understanding the customer experience in terms of delivery methods from multi channel retailing and supply chain view point, we conducted various levels of surveys for collecting the data. This cemented our research and analysis of data we collected from the industry reports. The results and finding reinforced our hypotheses in extending the product line from marketing, supply chain and financial perspectives.

Finally, our research and analysis enabled us to recommend the key areas of product line extension for Boots.com and the scope of improvement for the future drop ship model. Based on the screening criteria of market attractiveness and business position, we have recommended five products which can be further maximised and taken further. These products are seen to be financially viable based on the projected future cash flow, projected profit margin, and net present value to signify increasing shareholders wealth. For Boots.com, these financial viability must be accompanied by Key Performance Indicators which are intrinsically linked to continuous improvement. To conclude, we also considered Boots.com's future road map for showcasing the future direction by incorporating these recommendations.

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Acknowledgements

The MBA Project Team would like to record our gratitude and utmost appreciation to Professor Keith Harrison for his tenacious and indefatigable supervision as well as his unrelenting guidance and support throughout the project. His ubiquitous presence during the internship was instrumental in establishing the concrete foundation and building blocks of the project. Without his unerring direction, this MBA internship project would not have achieved its objectives, let alone come to fruition successfully.

We also thank Dr. Vicky Story who has been instrumental in guiding the Project Team in the marketing analysis both in theory and practice.

Together the Project Team would like to extend our sincerest appreciation to Marc Sbardella, David Robinson, Stephen Boothroyd, Daniel Lewin and Elaine Parker of Boot.com for their unceasing co-operation and support in ensuring the viability of the project. A special debt of gratitude also goes to Kevin Gibbons of Boots.com for assisting us in data gathering and providing the platform for interviews with key personnel of Boots.com throughout the internship. It was indeed, a gratifying pleasure to have had jointly collaborated with them and we will cherish each moment of it in our lifetime.

The MBA Project Team also welcomes the ***External Examiner***, whose pivotal role in assessing and marking the project, worthy of recognition and invaluable to the project.

Finally, we would like to thank the many contributions, valuable insights and incisive thoughts which have been exceedingly instrumental in ensuring the success of the project.

During the course of the internship with Boots.com, the following personnel have been influential in assisting the project team to undertake the task. The Table in page vi list the key people whose contributions were immensely invaluable.

Division	Interviewer	Information
Boots.com	Mr. Marc Sbardella	- Business Development Manager - Obtained views on the status of product line expansion approach.
Boots.com	Mr. Kevin Gibbons	- Project Manager - Drop-ship model
Boots.com	Ms. Elaine Parker	- New Content Development Multichannel team
Boots.com	Mr. Stephen Boothroyd	- Supplier Manager - Supplier relationship
Boots.com	Mr. Daniel Lewin	- Associate - Distribution process for *i-Force* warehouse
Boots.com	Mr. David Robinson	- Financial Manager - Financial information, cost structure

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1.0 Introduction

1.1 Background to the Management Project

Alliance Boots has invited the MBA Project Team of Nottingham University Business School; to engage in a Management Project (Dissertation) on behalf of its ***subsidiary Boots.com*** in Beeston, Nottingham. The Management Project involves an internship for the MBA Project Team presented in part consideration for the award of the MBA degree.

The MBA Project Team consists a blend of experiences in Information Technology, Marketing, Supply Chain Management and Finance. Professor Keith Harrison (*the Supervisor*) had assigned the project based on Alliance Boots's proposal of online product extension encompassing marketing strategy, supply chain management and financial perspectives.

The rapport and outstanding relationship with Alliance Boots contact namely Marc Sbardella and Kevin Gibbons were established during Easter Management Consulting Project on Multi-Channel Retailing; The Route to Customer Focus. In mid-June, the internship commenced with a request by the top management of Alliance Boots to address the question: How Can Multi-Channel Retailing further expand their products range whilst sustaining customer experience and satisfaction for Boots.com, with particular focus channelled to exploiting opportunities for Boots.com by considering the following perspectives:-

- Online product range extension: market attractiveness, profitability, challenges of expanding the product lines.
- What are the critical success factors for moving into the new market and sustaining competitive advantage?
- Analyzing cost effectiveness and efficient methods for supply and delivery of new product range?
- What are the Key Performance Indicators for sustaining customer experience and satisfaction?

This dissertation uses primary research data, interviews from Boots.com to examine the proposal. In addition, industry reports are used to benchmark the performances of Boots.com products and to substantiate the arguments and recommendation put forth in the dissertation.

Boots.com also welcomes industry reports from Verdict Report (UK e-Retail 2008), e-Business Research Centre Report, Key Note Report, IBM e-Retail Reports and imrg (the voice of e-Retail Report), Mintel Report, Harvard Business Reviews, California Management Review, MIT Sloan Management Review, Journal of Business, Journal of Financial Economics and other academic literature covered in the MBA Programme.

1.1.1 The Research Area

a) Purpose

It is the aim of this research paper to address the question 'How can Multi-Channel Retailing further expand product range whilst sustaining customer experience and satisfaction Boots.com?' Like most retailers, Alliance Boots is keen on vehemently exploiting the opportunities afforded to them by Multi-Channel Retailing so as to increase above average sales, high frequency purchases and increasing customer loyalty (Kumar: 2005). The integration of various channels will reap immeasurable rewards and *prodigious* benefits such as having a seamless and consistent identity in all channels (BAGGE, D (2007)).

The significance of Multi-Channel Retailing has profound implications in retailing industry and internet technology? Quintessentially, Multi-Retail Retailing involves *multi-sales channels* or channel structures namely stores, catalogue, internet, telephone, hand phone, mobile, and delivery to home, delivery to work and collect in store. These multiplicities of sales channels constitute the main drivers in profit enhancement, product differentials and competitive advantages (IBM; 2005)

Thus, a true Multi-Channel retailer is capable of focussing on the lifetime value and delivers a consistent brand experience through each and every customer interaction, regardless of how the customer chooses the right channel for the right products at the right time based on each and every shopping mission (IBM: 5: 2007). In addition, Multi-Channel Retailing offers channel integration, customer loyalty and reduced channel cannibalisation[1].

In this research, the MBA Project Team will study the prospect of online products expansion for Boots.com via Multi-Channel Retailing whilst sustaining customer experience and satisfaction. In so doing, focus is channelled on strategic marketing, market attractiveness, customer analysis, segmentation, targeting and positioning. The study also analyses the strategic implication of leveraging brand value and brand asset of Boots.com which forms the platform for product expansion in e-retailing.

[1] Cannibalization refers to the notion to make conscious business decision that will have a negative impact on either a current product or a member of a distribution channel or entire channel via disintermediation.

The Research also analyses offensive and defensive marketing tactics as marketing strategies Portfolio analysis, Product Life Cycle, Boston Consultancy Group Matrix, Long Tail and Blue Ocean Strategy and New Product Index are key strategic marketing planning for product expansion in e-retailing. Furthermore, the Ansoff and Tauber Matrices analyses the growth strategy line and brand extension, and explore its market-attractiveness.

Supply Chain Management is used to consider the efficient workflow process from product line extension to end-user. The analysis emphasises in *punctilious* details, core areas of order management, delivery methods, e-business, performance measures and metrics and the impact of e-business on customer services.

In finance, topics of financial criteria such as Net Present Value, Return on Investment, are analysed in order to ascertain the risk-return and financial implications for online product extension good inventory management. Optimisation of stockholding and Drop ship Model are selected to discuss and to *meticulously* analyse efficiency for Boots.com.

b) Selection of Topics

The criteria used for the selection of theories, sound concepts and models are the founding basis and building blocks for Boots.com to embark on online product expansion and on-line shopping, whilst sustaining customer experience and satisfaction.

Topics encompassing marketing, supply chain and its financial implications are inextricably linked to the underlying theories of Multi-Channel Retailing and its multitudinous capabilities Multi-Channel Retailing will provide the online shopping Platform and keen insights into the *captive* market of e-retailing.

In Supply Chain Management, topics addressing efficient workflow processes from production line extension to end user are selected. Here, topics of Drop Ship Model, efficient supply chain management and Key Performance Indicator for e-retailing are critically analysed.

c) Rationale for selecting these topics

After much deliberation and thorough discussions with Professor Keith Harrison, Marc Sbardella and Kevin Gibbons of Alliance Boots, the most feasible and inviolable approach to addressing the topical questions *pivots tenaciously* to strategic marketing, segmentation, targeting, position, customer analysis, and branding that will provide the building blocks to establish market attractiveness for online product extension.

The Ansoff Matrix, Tauber Matrix and Porter Strategies are topics which addresses the Product/market mix feasibility i.e. marketing penetration, product development and differentiation. The Critical Success Factors for moving into the new markets and sustaining competitive advantage are discussed. Online customer satisfaction creates value and develops win-win partnerships with customers.

With Multi-Channel Retailing, Boots.com can further expand their product range whilst sustaining customer experience and satisfaction. E-retailers like Boots.com are able to foster a satisfactory customer experiences by providing relevant information, ease of use of the web-site and customer services as Key Performance Indicators.

1.1.2 Objectives and Interrelationship of Topics

a) Objectives

Having established the key parameters of the research area and the selection of topics in Section 1.1.1, the following are the objectives which the dissertation seeks to achieve:-

(i) To review the academic literature for each of the aforementioned eleven topics and also that which relates to how they are integrated;

(ii) To conduct research at Boots.com to see the opportunities and position of new product expansion in e-retailing whilst sustaining customer experience and satisfaction;

(iii) To construct vehement matrix and concise model within Boots.com;

(iv) To construct hypotheses and proceed to verify these statements; and

(v) To provide recommendations and Road Map for Boots.com.

b) Interrelationship of Topics

Each Chapter is intrinsically linked to each other and provides the evidence necessary to support the arguments to the research question. Chapter Two is where literature reviews are put into perspective and are intrinsically linked with Chapter Four of Research Methods. The entire ensuing Chapters provide keen insights and links to marketing, supply chain and finance. Details are in Annex 2, page 157.

1.1.3 Hypothesis

Although the research offers a plethora of questions, it uses the following hypotheses to be examined and clinically tested:

H1: For online product expansion in e-retailing, strategic market planning process necessitates careful examination of market attractiveness, typically in shaping market attractiveness, factors such as market size, market growth, competition, segmentation, targeting and positioning, margin potential and the company's core competencies.

H2: In moving into new markets, the critical success factors include leveraging on brand/reputation and capability. The screening criteria and customer segmentation are important for market attractiveness.

H3: Financial criteria such as Net Present Value, Return on Investment, are analysed in order to ascertain the risk-return and financial implications for online product extension, margin and profitability are juxtaposed.

H4: In Key Performance Measurement ("KPI") for sustaining customer experience and satisfaction for Boots.com, Channel Alignment, Drop Ship and Efficient Standardised Delivery Methods for all products are used.

1.1.4 Dissertation Structure

In addressing the central tenet of the dissertation, the following Chapters are laid-out methodologically. Critical analysis, keen insights are systematically presented. Each Chapter opens the pathway to crystal clear analysis and fusing cogent arguments and substantive evidence to the research question.

Chapter One provides a general introduction to the topic and outlines, highlighting the purpose of the research area, objective and selection of topics for the dissertation. It also establishes the hypotheses to be investigated and to address questions raised by the topic.

Chapter Two is a comprehensive review of the literature surrounding the eleven areas under investigation. The dissertation literature review is to put the empirical research into context and provides a thorough and clear review of the research topics studied. It provides both an introduction to the subject and a framework for the research and provides a synopsis of the key research that has been undertaken by other academics and a critical appraisal of these.

Chapter Three introduces the e-commerce industry structure and online market as well as background information on Boots.com. Blue Ocean and Long Tail strategies, SWOT analysis and Porter Matrices are adopted to position online product extension for Boots.com.

Chapter Four critically analyses the methods used to gather and interpret the primary data. The methodology describes the way in which the data for analysis was gathered and analysed and also outlines the limitations of the research techniques employed.

Chapter Five contains the results obtained from the research. It analyses and compares the results obtained from pilot, street and online surveys. It provides visual aids such as tables and models to enable deep understanding of the subject matter, considers each hypothesis in relation to the evidence gathered and provides cogent argument to the findings put forth.

Chapter Six: In this Chapter customer analysis the customer profile of Boots.com namely Tina, Charlotte, Bob, Teens and Betty lifestyles. Market segmentation is used as a cornerstone of market-based strategy and a powerful driver of improvements in marketing segmentation and marketing positioning.

Chapter Seven: As a strategic marketing plan, a business develops both short and long-run business performance. Here offensive and defensive strategies are used. As a strategic focus for online products and brand extension, investing for growth and positioning is an offensive strategy whilst managing profits and investing to protect position, is a defensive strategy.

Chapter Eight: In product extension and brands, positioning strategies include differentiation and products positioning, branding and brand management strategies, brand and product line strategies. The analyses of brand and line extension are intended to leverage the awareness and the flagship image of Boots, whilst, not diluting its image or brand quality.

Chapter Nine: This Chapter highlights Supply Chain Management, its challenges and Key Performance Indicators.

Chapter Ten In this chapter, the financial criteria and implications are drawn carefully having discussed cash flow and profit forecasts forecast and NPV.

Chapter Eleven: This chapter draws conclusion from all the findings set-out in the abovementioned Chapters. All the analysis, methodology and findings on Boots.com online product extension are drawn-out. Here the Road Map for Boots.com and recommendations online product extension and brand extension and its implementations are made.

As required by the Nottingham University Business School, **MBA Policy Guidelines,** the **bibliography** uses the Harvard convention and is situated at the back of this dissertation after the appendices. Although, the appendices, graphs, figures and diagrams are not included in word count limit, it nonetheless provides an ***exceedingly crucial role*** to support the arguments put forth in the dissertation and the evidence therein. Of particular importance are the annexes where detailed discussions of the subject matter are dealt with to substantiate the analysis in the body of the dissertation within the word count limit.

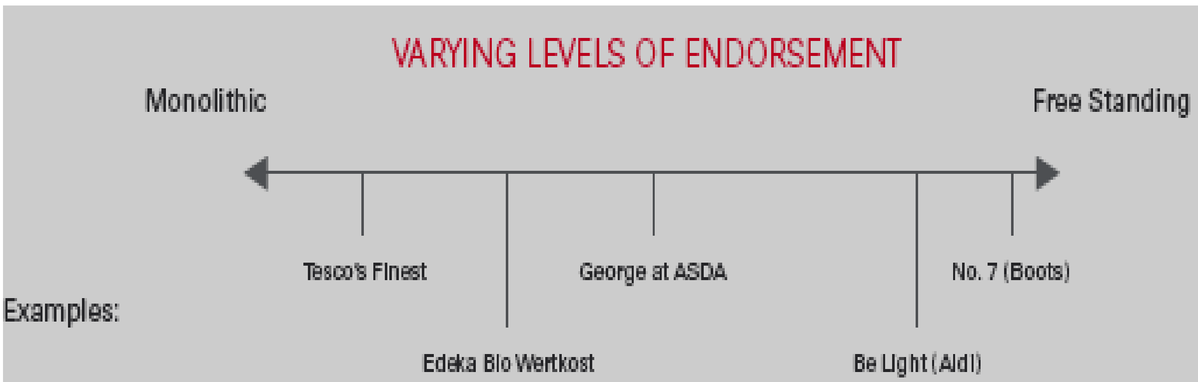
1.2 Retailing Industry

The landscape of retail market is changing rapidly and is facing growing competition and complexity both domestically and globally. The vast array of customer needs, fragmentation of values, global competition and empowered customers are threatening the survival of retailers. Market saturation, fierce price competition, increasingly concentrated market, the proliferation of customer needs and the advent of new-technology not only had catalysed the evolution in retailing but has spawn retailers to fervently pursue additional revenue drivers such as new services (diversification) or new distribution channels (e.g. online shopping).

For retailers, transformation is imperative, whilst focussing renewed efforts on sustainable growth through substantial growth operating model change. Innovation in products and services are first priority by business model innovation. Retailers respond to new demands with alacrity by managing change in operation and services in the hope of winning loyalty of future customers and in turn sustainability. Inter Brand Retail (2008)

Tesco, Carrefour and Wall Mart are retailers which have become more diverse in their operations and have moved into foreign markets to pursue above average growth. Additionally, retailers have launch private labels to enhance profit margins, brand value and brand assets. Vivid labels such as store-brands (e.g. Tesco), store sub-brands (Tesco's finest), generic brands industry have swiftly moved to the up market segment. Figure 1 below shows, other labels such as George at Asda, No. 7 at Boots, Be Light at Aldi at varying levels of endorsements from monolithic to free standing extremes. Inter Brand Retail (2008)

Figure 1 - Varying Levels of Endorsement



Source: Inter Brand Retail (2008)

Retailers invest heavily in resources in building the reputation of its products (brand equity) through product design and product quality as well as advertising. As more customers acquire and repurchase a brand, the reputation of the brand tends to increase.

Figure 2 - Example of Private Labels

Source: Inter Brand Retail (2008)

Figure 2 above shows private labels offer opportunities for retailers to create value and using brands to meet segment needs. Furthermore, it has strong potential to grow the value of the retailer's own master brand with some retailers literally owning their ranges. Extending the brand has been a huge driver of both brand value and brand assets (Aaker, 1995).

According to Inter Brand Retail (2008), customers drive the success of brands, but brands are the necessary touch point that firms have to connect with their customers. Customer-based brand equity maintains that brands create value by eliciting differential customer response to marketing activities. The higher price premiums and increased loyalty engendered by brands generate incremental cash flows.

1.2.1 Supply Chain Efficiency

Retailers sought efficiency by streamlining their supply chain processes as competition force them to cut costs and become sustainable. As a result, power is shifted from suppliers to the retailers because retailers gained size, purchasing power and sophistication in their business operation (Hendry C. Lucas, 2002).

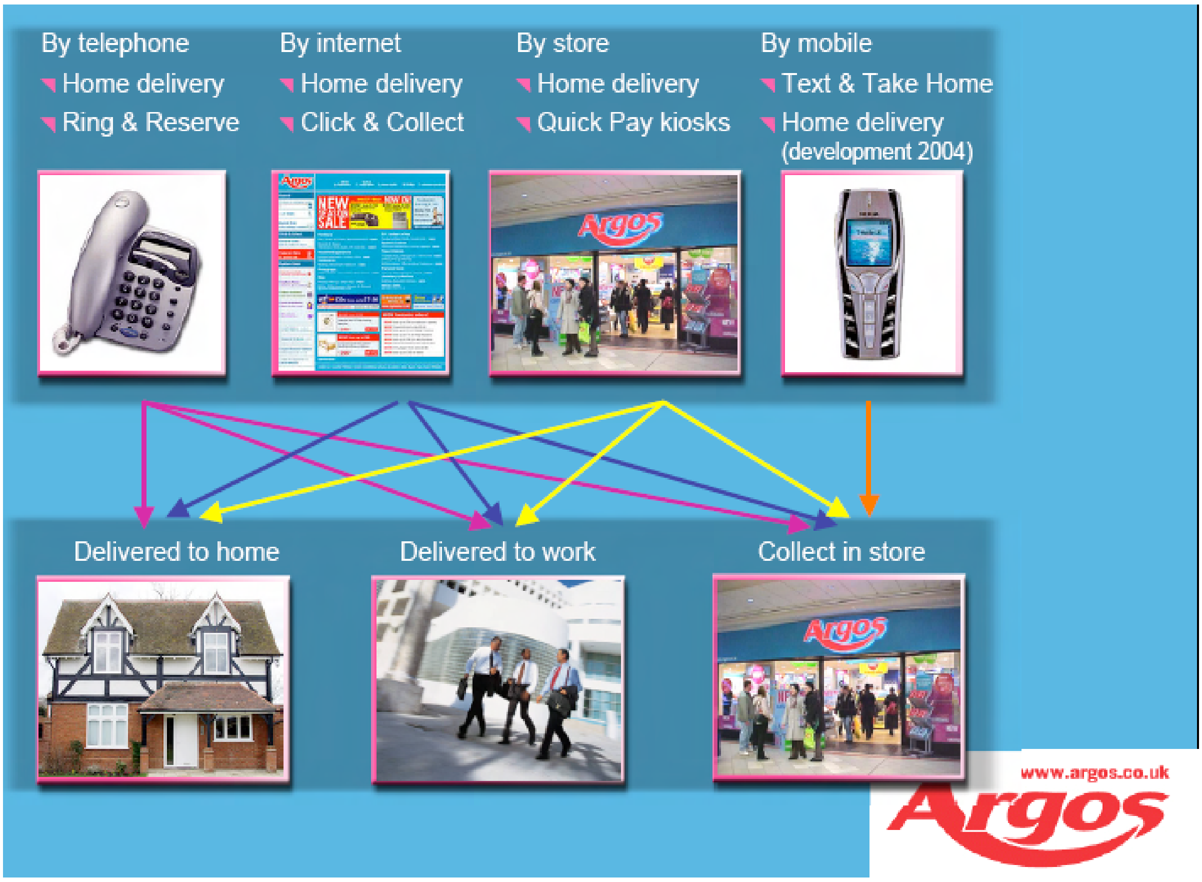
Retailers now emphasise "value for money" by product differentiation and increasing customer loyalty instead of competing merely on low prices. By positioning themselves as owners of the customer interface to gain customer knowledge, they can build customer centric strategy and achieve high customer standards. This customer centric strategy (a hybrid form of generic strategy) it focuses on efficiency as well as differentiation.

1.3 Multi-Channel Retailing

The use of multiple channels of distribution to serve a given product-market is rapidly becoming the rule rather than the exception (Frazier, 1999; Moriarty and Moran, 1990). The primary motivations for supplier firms establishing multi-channel or hybrid arrangements are the desire to increase market share and to reduce costs (Frazier and Antia, 1995).

A hybrid distribution system is a multi-channel arrangement in which distribution tasks are performed by a combination of distinct channel. As illustrated in Diagram 1, Channels are designed to satisfy the needs of diverse market segments by delivering a variety of product/service offerings. Argos has been a lead driver of this hybrid system. In hybrid systems, markets are often targeted by more than one distribution channel. Although a hybrid channel strategy provides many benefits to the firm, it present some challenges as well.

Diagram 1 - Argos Multi-Channel Retailing Flow Chart



Source: Multi-Channel Retailing

Indeed, the most vivacious attraction is that 60% of customers want to use multiple channels to make purchases (Boa: 2003) highlighting the demand for Retailers to move towards Multi-Channel Retailing. Recent studies by Shop.org (2001) attest that multichannel shoppers purchase more frequently and spend 2-4 times more than single-channel shoppers (Table 1):

Table 1 - Breakdown of Multi-Channel Shoppers

	SHOPPED IN SINGLE CHANNEL	SHOPPED IN TWO CHANNELS	SHOPPED IN THREE CHANNELS	SHOPPED IN FOUR CHANNELS
Revenues ($)	4,262[a]	5,736[b]	13,250[c]	60,076[d]
Share of Wallet	0.20[a]	0.35[b]	0.48[c]	0.72[d]
Past Customer Value ($)	6,671[a]	10,874[b]	22,472[c]	94,456[d]
Likelihood of Staying Active	0.11[a]	0.15[b]	0.38[c]	0.67[d]

[a,b,c,d] Means with the same letter are not significantly different from each other at $\alpha = 0.05$.

Source: Kumar (2005)

It can be seen that multi-channel has been increasingly attractive for e-retailers. For detail analysis of Multi-Channel Retailing, please refer to Annex 1, pp.152.

For Boots.com, Multi-Channel Retailing offer will provide our customers with the best (breadth & depth) range of Health & Beauty products, supported by relevant, personalised expertise (content), a consistently great end to end experience and all at our customers' convenience. Boots.com can offer the biggest and best range of health and beauty products in participating categories. This will be delivered through (1) Full big Boots inventory – stocked by us (2) extended products to support Alliance back catalogue (3) extended products in "relevant" categories through 3rd parties (JV's and alliances) – virtual (4) Step changed availability i.e. through improved operations – Epsom, the warehousing. (Boots.com)

Boots.com can offer a flexible and convenient service enabling customers to find and receive products or services to suit their lifestyle. This is delivered through (1) Integrated operations enabling – order on line / in store – deliver to store / home (2) owning and managing the supply chain through our logistics infrastructure (3) Integrated systems warehouse system.

Boots.com can provide *trusted*, *personalised* advice, information, tools & applications on the H&B issues that matter most to our customers. This is delivered through (1) World class independent reference material (2) Interactive Boots Experts (3) customer communities and feedback (4) engaging decision tools (health trackers etc) (5) to colleagues and customers and (6) Single view of customer. (Boots.com)

2.0 Literature Review

2.1 Strategic Marketing

As mention in Section 1.4, the online channel has become a critical part for retailer's growth strategy by offering more flexibility to its customers in terms of its product offerings. New product introduction (NPI) or new product line extension has been key success recipe for its growth strategy for the company. For retailers the key rationale is enabling consumers to provide more product options and enhance their shopping experience. According to Trevor Davis, IBM Global Strategy Consultant for New Product Development and Introduction, growth strategy has become one of the key agenda for CEO's again after many years of cost cutting approach. It is imperative for retailers to sustain competitive differentiation along with organic growth strategy by introducing new products or extending their current product line. The retail industry has not only depicted growth in terms of SKU's (Stock Keeping Units) but also increasing the volume of sales by extending their product life cycle. It is critical for the success of NPI to launch products that could leverage the customer's insight with differentiation strategy. The key challenge for the retail players is sustainability in introducing the winning products with accelerated time-to market whilst reduced development costs in a mature market.

The approach of launching brand and line extension has become a key growth strategy in the retail business ecosystem. Tauber (1981) has analyzed the growth strategy of a firm from two perspectives i.e. brand extension and product category extension. Such holistic view enables to consider all the different product lines under the single brand umbrella.

"Multi channel customers are more loyal and two to four times as profitable as single channel customers" (Wehmeyer, 2004). Thus the online channel through internet need to integrated for a successful multi-channel approach. This would increase profitability and reduce channel cannibalization. In order to achieve deeper consumer perspectives in designing and introduction products the retailers, consumer product firms and their channel partners need to work closely so that this would enable them to understand the customers' needs.

2.1.1 Customer Analysis

Target marketing consists of segmentation, followed by target selection and then positioning (Brenan, Baines, Garneau and Vos, 2008). A company discovers different need and groups in the market place, targets those needs and groups that it can satisfy, and then positions its offering so that the target market recognizes the company's distinctive offering and image (Kotler, 2006). The purpose for segmenting a market is to allow a firm's marketing program to focus on the subset of prospects that are most likely to purchase what can be offered by the company. If it is done properly this will help to insure the highest return for company's marketing expenditures.

2.1.1.1 Segmentation

Markets are not homogeneous. A company cannot connect with all customers; it needs to identify the market segments it can serve effectively for profit maximization. Customer markets can be segmented according to consumer characteristics and consumer responses. The main segmentation variables for consumer markets are geographic, demographic, psychographic, and behavioural. These variables can be used singly or combined.

Geographic Segmentation divides the market into different geographical units such as nations, states, regions, counties, cities or neighbourhoods. A firma can operated in one or multiple areas with some local variation.

Demographic Segmentation, the market is divided into groups' base on variables such as age, family size, family life cycle, gender, income, occupation, education, religion, race, generation, nationality and social class.

In *Psychographic Segmentation*, buyers are divided according to psychological / personality traits, lifestyle or values. In *Behavioural Segmentation*, buyers are divided into groups on the basis of their knowledge of, attitude toward, use of, or response to a product. (Harrison, A. and Hoek, R. V., 2005)

2.1.1.2 Targeting

Adopt mass marketing strategy[2] is costly and inefficient for a firm with limited resources. Target marketing provides a focus to all marketing activities. Once a firm has identified its market-segment opportunities, it has to decide which ones to target. Brenan (2008) proposed five typical criteria for selecting appropriate target markets.

These include the following:

1. Segment size
2. Segment growth rate
3. Segment competitiveness
4. Segment compatibility with the firm's competences
5. Segment compatibility with the firm's mission and objectives

Base on the assumption that all other things are equal; a large segment usually offers more opportunities than a small segment, and a fast-growing segment more than a slow-growing segment. However, large and fast-growing segments usually attacks more competitors therefore, a firm's competitiveness in a segment also needs to be considered. Furthermore, the abilities of the firm and its competitors are different.

Having performed market segmentation analysis, a firm's specific characteristics of demand in each market segment should have been identified. It is important to match the company's strength to the requirements of the target segment to achieve maximum result with minimum effort. Finally, target marketing selection should match the firm's intended strategic direction.

Table 2 illustrates a scorecard consisting of these criteria could be used to rank market segments by evaluating their overall attractiveness. It is a powerful measure for target customer segment selection scorecard.

[2] Mass Marketing Strategy: When differences in customer needs are small or demographics are not distinctive, a business may elect to use a mass market strategy. This strategy presents a generic value proposition built around the core customer need and the business's generic positioning strategy. (Best R., 2005)

Table 2 (A) - Target Customer Segment Selection Scorecard

Selection criteria	Segment 1	Segment 2	Segment 3	Segment 4
Size				
Growth				
Competitiveness				
Competence compatibility				
Mission compatibility				

Each segment can be ranked against each criterion. For example segment 4 might be the largest (rank 1), the slowest growing (rank 4), the second least competitive (rank 2), the most compatible with the firm's competences (rank 1) and the second most compatible with the firm's mission (rank 2). This would yield a 'sum of ranks' of 1 + 4 + 2 + 1 + 2 = 10. The sums of ranks of the segments can be used as an initial indicator of segment attractiveness. The segment with the lowest sum of ranks is the most attractive.

Brenan, Baines, Garneau and Vos (2008)

2.1.1.3 Positioning

Once the target group is identified, the next step is brand positioning. The goal is to locate the brand in the minds of consumers to maximize the potential benefit to the firm. At this point, the firm can define the appropriate points-of-difference and points-of-parity associations.

Points-of-difference (PODs) are attributes or benefits strongly associated with a brand, positively evaluated and believe that they could not find to the same extent with a competitive brand. Points-of-parity (POPs) are associations that are not necessarily unique to the brand but may in fact be shared with other brands. These types of associations come in two forms:

1. Category POPs are associations of consumer view as essential to be a legitimate and credible offering within a certain product or service category.
2. Competitive POPs are associations designed to negate competitors' POD. If in the eyes of consumers the brand association designed to be the competitors' POD is as strong for a brand as for competitors and the brand is able to establish another association as strong, favourable, and unique as part of its POD, then the brand should be in a superior competitive position. (Kotler, P. and Armstrong, G., 2008)

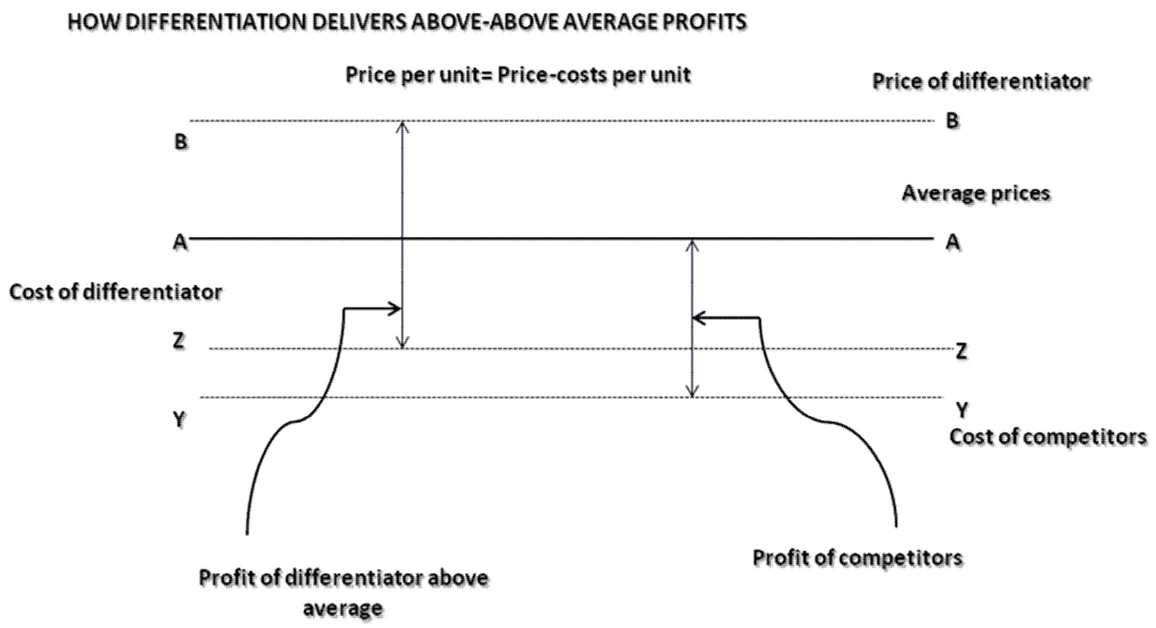
2.1.2 Pricing Consideration

Bakers et al (2001) argued that setting prices on the internet is either by offering untenably low prices to capture first mover advantage or simply charging the same prices on-line or they do off-line. However, fundamentally the value in internet lies not in lowering prices but optimising prices. Accordingly, the internet allows companies to optimise prices through (1) precision, (2) adaptability and (3) segmentation.

In *precision*- the internet lets companies set and announce prices with greater precision, compared and tested easily. Companies can set the most profitable prices and tap into previously hidden customer demand. In *adaptability*- with internet, prices can be arranged easily and adjusted rapidly in response to variations in market conditions, customer demand or competitors behaviour. In *segmentation*-companies can use the click stream data and uses the internet to segment customer quickly, thus offering segment specific prices or promotions immediately. Detailed discussions are in Annex 3, pp.158.

For Boots.com, pricing decision can be considered as a balance of two main factors namely costs and competition. Setting the market price below the marginal cost of production will erode profits but Boots brand value and brand assets provide them with multiple opportunities which can be capitalised on and enhanced its strength upon. Diagram 2 below illustrates the basic consideration in strategic price strategy for differentiated products and how differentiation delivers above average profits.

Diagram 2 - How Differentiation Delivers Above – Above Average Profits



Source: Lynch (2003)

2.1.3 Offensive Marketing Strategies

2.1.3.1 Product Life Cycle

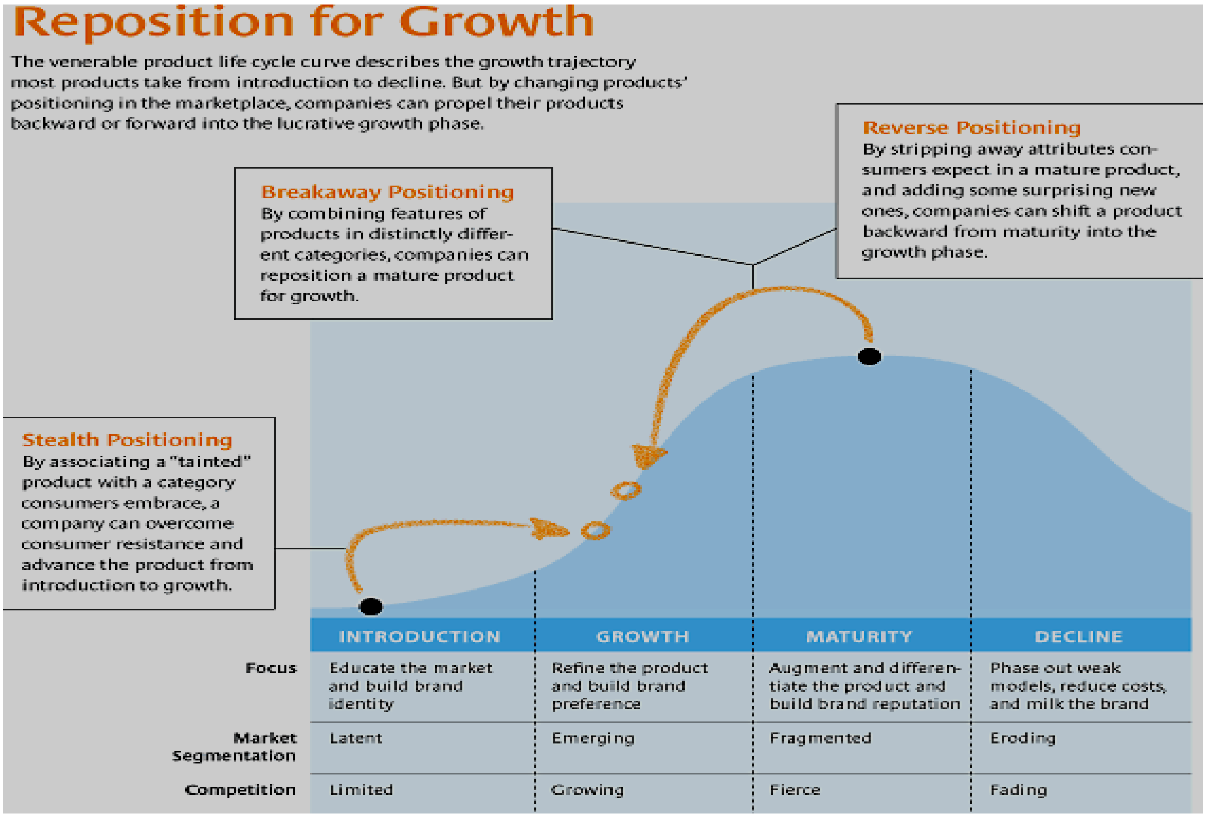
According to Moon Y (2005) in the past forty years the concept of Product life Cycle (PLC) has been influential for achieving a "competitive power". This concept enabled firms to define their product positioning strategies "along the bell-shaped curve, from introduction and growth to maturity and decline". However marketers have developed a tunnel vision using this model. They consider only the path of winning products progressing along the PLC trajectory .Most firms consider positioning their existing products and services in a similar approach since they all consider the PLC from the same perspective. As a result firms respond to competition as their products mature. This creates challenges in differentiating and restoring their existing competition.

Also, Moon (2005) established a point of convergence for product life cycle strategies i.e. "positioning or repositioning their products in unexpected ways, companies can change how customers mentally categorize these products". This approach would enable firms to salvage their products from maturity stage to growth stage, thus propelling the new products of a firm to the growth stage by overcoming issues of 'slow consumer acceptance'.

The three strategies of positioning the products suggested by Moon Y (2005) are reverse positioning, breakaway positioning and stealth positioning (as mentioned in Diagram 3). These strategies would enable to change the competitive environment of the product. Reverse positioning is a process where firms can shift the product backwards from the maturity into the growth stage by stripping away product features and adding new attributes to the product. However, after reverse positioning the product still establishes a distinctive position in its category while retaining its category membership.

Breakaway positioning is an approach where a product is repositioned from mature product for growth by merging attributes of products from different categories. Products associate to each category with the aspects of marketing mix like pricing, promotion, distribution channels, design etc. Breakaway positioning enables products to redefine its competition by breaking away from its existing category into a new one. Stealth positioning is strategy where products are pushed to growth stage which fades away in the introduction stage.

Diagram 3 – Product Life Cycle

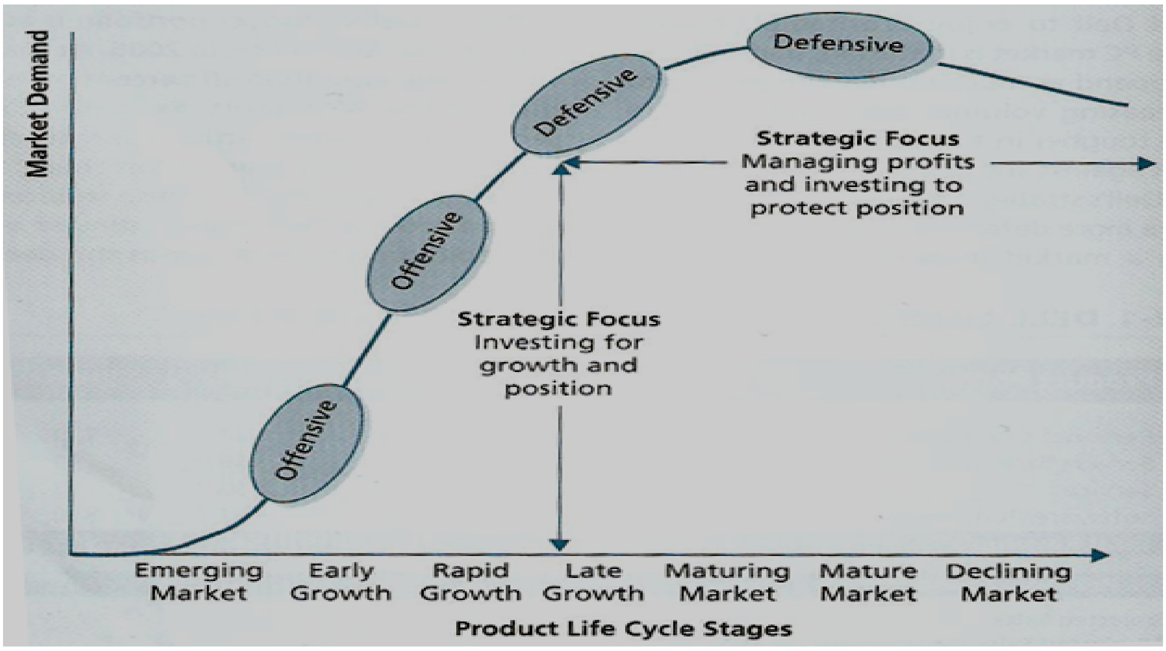


Source: Moon, Y. (2005)

2.1.3.2 Portfolio Analysis and Strategic Market Plans

According to Best (2005) "Offensive strategic market plans are usually growth-oriented and are more likely to occur in the growth stage of a product-market life cycle as mentioned in the Diagram 4 page 19". For increasing the sales, profit margin and market share position of the firm's design an offensive strategic market plans.

Diagram 4 - Parameters for Considering Offensive and Defensive Strategy



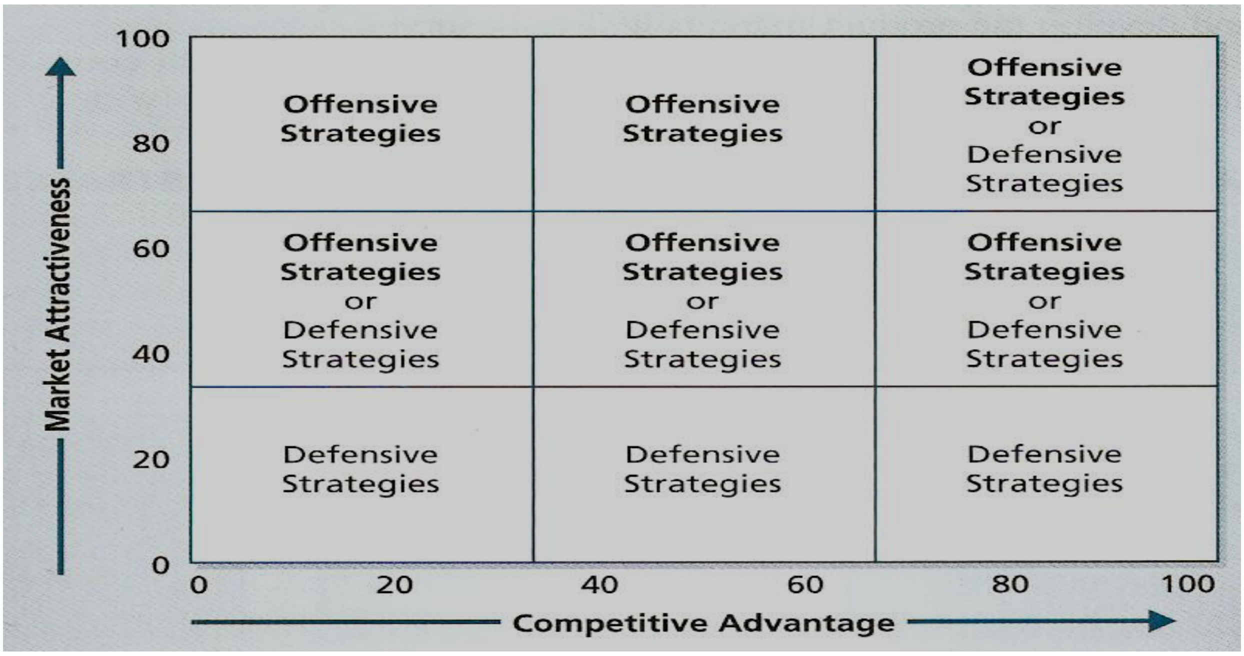
Source: Best R. (2005)

Market attractiveness and competitive advantage together constitute in developing a portfolio position for the product market segment. When the firms competitive advantage is average in an attractive market offensive strategic market plans enables to increase its competitive advantage and the firms position in the market. The competitive advantage and market share could be improved in the current category or product to new market by implementing the offensive strategies. Also, offensive strategic market plan could enable to develop a budding or immature market wherein the firm has been recognized for its competitive advantage.

As mentioned in the diagram 5, page 20, offensives strategic market plan could be used in six positions in the portfolios wherein one has the highest market attractiveness; the rest three positions have average market attractiveness and one with the highest competitive advantage. The offensive strategies focus on penetrating in the existing market or extending to new market or entering into new markets.

Since the firm has established its resources and capabilities in the existing market and also developed its knowledge competence with customers and competitions in the existing market, this provides the appropriate base for applying the offensive strategies in the existing market.

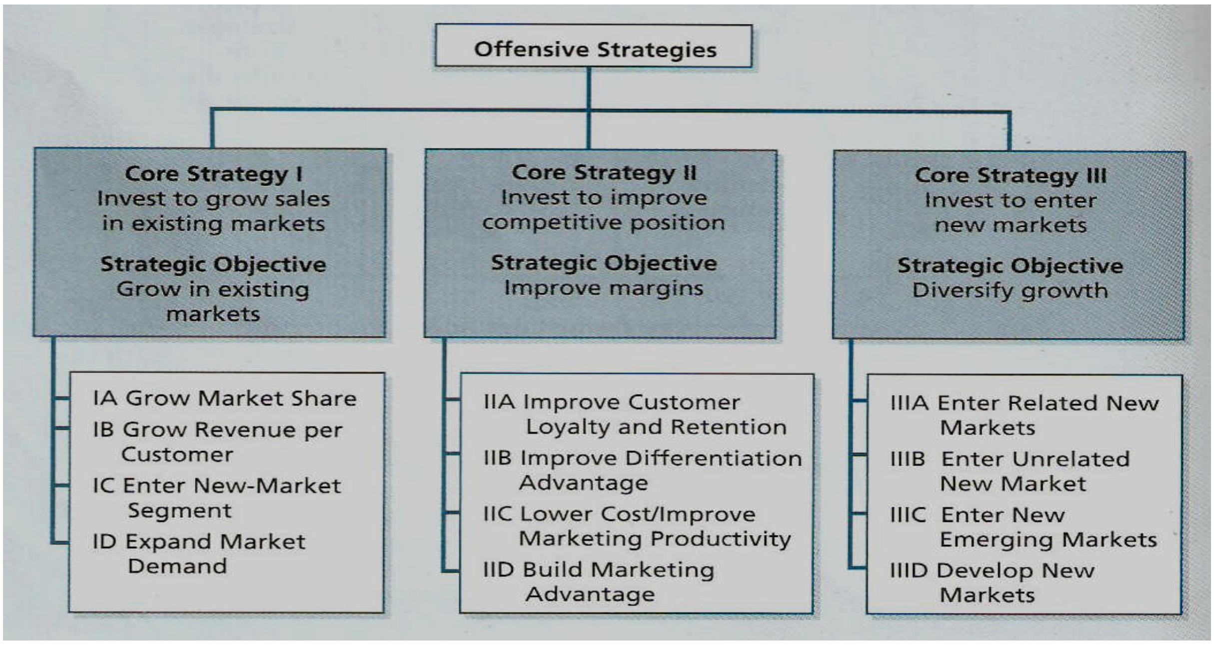
Diagram 5 – Parameters for considering Offensive and Defensive



Source: Best R. (2005)

The core offensive strategies are invested to grow, improve position and new market entry. The strategy for invest to grow suggests that resources need to invested in marketing to enable organic growth of 'market demand, market share or customer revenue'. Secondly offensive strategies enable in reinforcing the competitive position, improving the value proportion and customer loyalty. Lastly offensive strategies allow firms to increase sales and profits by extending from their current markets to new markets or expand to new product markets. The diagram 6 below illustrates the core offensive strategies.

Diagram 6 - Offensive Strategies



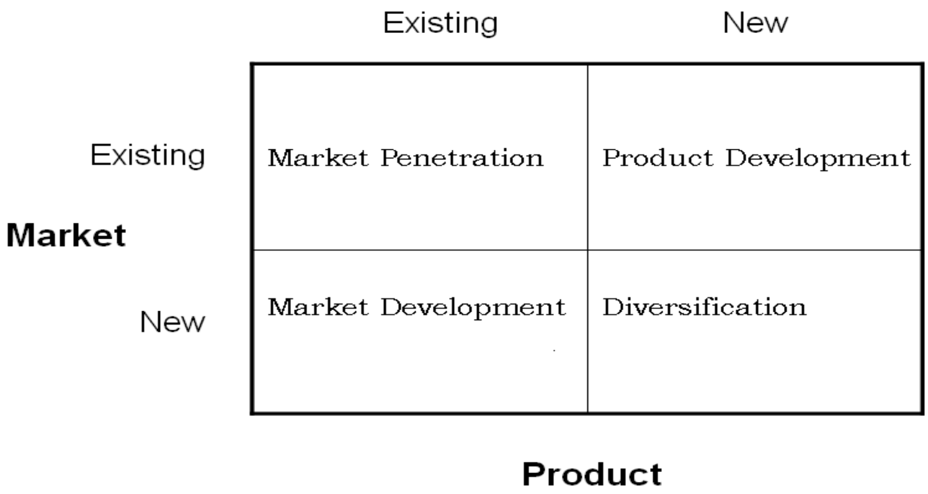
Source: Best R. (2005)

2.1.4 Extending Product Line and Brands

2.1.4.1 Ansoff Matrix Analysis

According to Muhlbacher (2007) Ansoff matrix provides strategic options for a firm in selecting the markets it needs to serve with existing products or identifying new customers for new products. In diagram 7, Ansoff Matrix below provides four choices market penetration, product development, market development and diversification. (Lynch, 2003).

Diagram 7 - Ansoff Matrix



Source: Muhlbacher (2007)

Market Penetration

Variety of plans could be engaged like 'product-line stretching, product development and product proliferation' for using Market penetration strategy. For expanding into the existing market new products need to added incrementally to the existing product line i.e. product line extension. So that the firm could stretch itself in terms of product variety in the related market. Another approach is by launching new models of the existing product line for penetrating into to the existing market i.e. product proliferation. Product improvement is another approach where incremental improved changes are done to the existing product class in terms of capabilities, technologies etc and introduced in the market i.e. product improvement. The risk associated with this strategy is the firm limits itself to single market.

Product development

The firms focus on developing new products is a fundamental strategy in the existing market. This strategy would enable firms to defend their market share by utilizing and analysing the latest trends to maintain its competitiveness (Lynch, 2003). This approach to the markets would allow firms to provide solutions to untapped customers.

Market development

In order to maintain the demand changes firms needs to expand their existing product base to new markets. This strategy is achieved by 'new uses of the existing products to new customers' Jobber (2007). This approach increases the product life cycle of the existing product lines.

Diversification

According to Jobber (2007) this strategy is not employed based on the core competence .Thus this is the riskiest strategy for firm by developing new products for new markets. By this approach firms drift away from the current product line and existing markets. According to Dobson et al (2004) there are two types to diversification i.e. related diversification and the other is unrelated diversification. Related diversification could be achieved by vertical (forward or backward integration) or horizontal integration. However this could increase the market power. Unrelated diversification could be employed if the market is saturated.

It is imperative for a firm to look at other strategic models like SWOT, Tauber matrix etc for formulating marketing strategy of line extension since Ansoff matrix could provide options from markets and product perspective only.

2.1.4.2 New Product Introduction

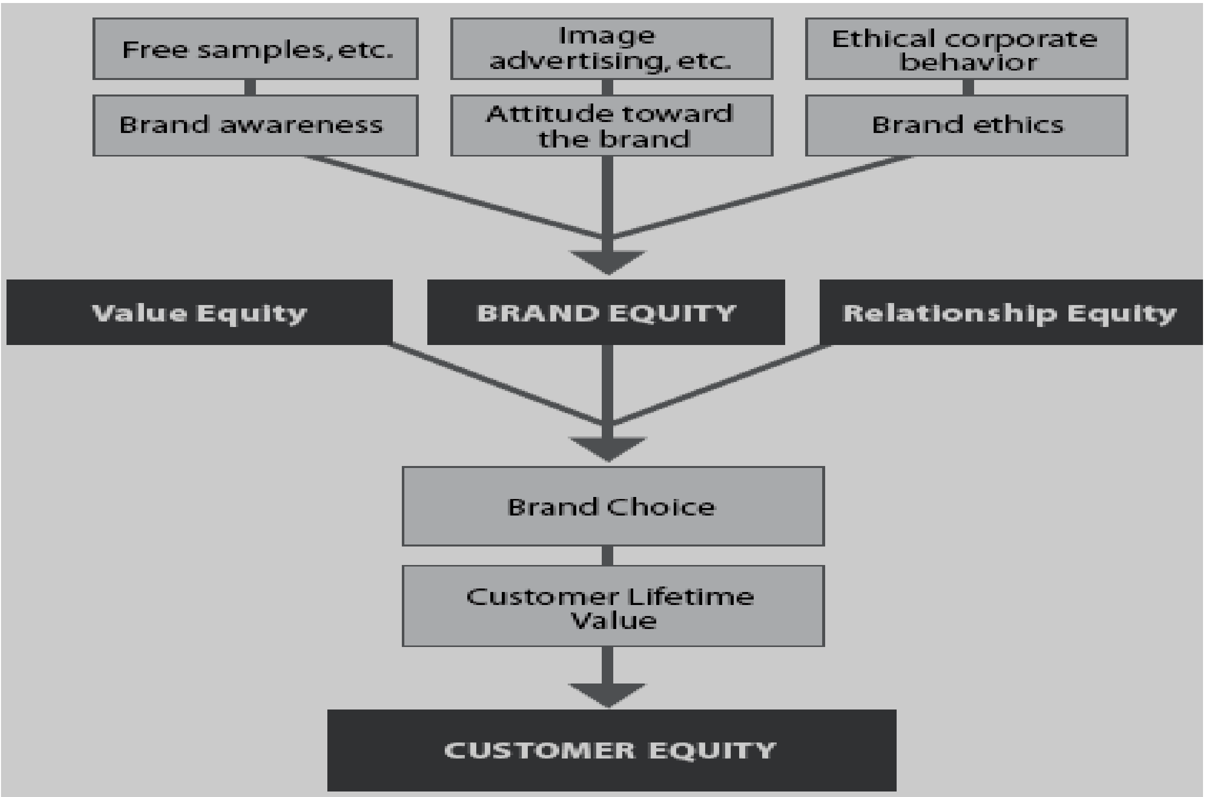
In the fast moving consumer goods market new product introductions is common which are reaches the customers through the retail channels like supermarket, retail chains, drug stores etc (Hausman and Leonard , 2002). Amber & Styles (1996) suggests that entering of new product development to the market can be classified into new brands, brand and line extensions. Deloitte & Touche (1990) suggests that 'concept for the category, brand extension, line extension and upgrade or replacement items are the four categories for classifying the new products (Desiraju R, 2001). New product development or introduction can be accomplished by extending the brand or product line extension (Amber & Styles, 1996).

2.1.4.3 Extending Products and Brands

a) Branding

According to Rust et al (2004) extending the brand could be winning if the customer segment are alike, yet the products could be different. For the same the model below in diagram 8 depicts the approach of measuring brand equity and customer equity to evaluate the customer life time value. The convenience of the offering, price and quality of the product represents the value equity. The brand awareness, attitude towards the brand and its image represents the brand equity. The switching cost for the customer and association with user-community relates to the relation equity. All three considerations drive the customer for the brand choice and customer life time value which enables in achieving the customer equity (Diagram 8).

Diagram 8 - Brand Equity



Source: Rust et al (2004)

b) Tauber Growth Matrix:

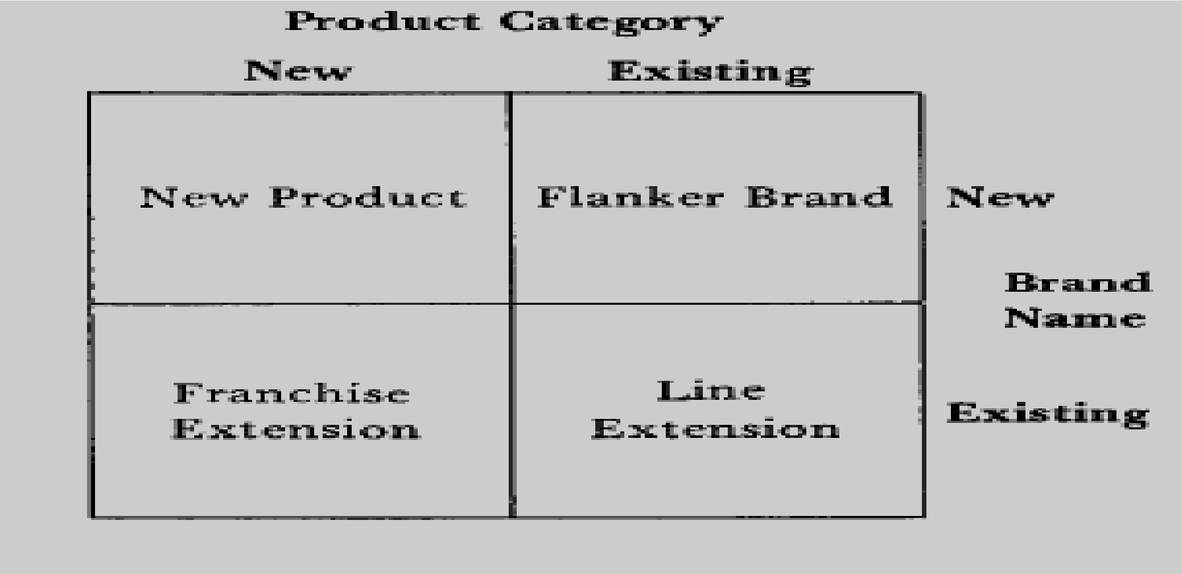
Tauber (1981) classified four types of opportunities for the firm with a combination of product category/brand name i.e. new product, flanker brand, franchise extension and line extension. The new product is conventional method where the products or service is new to the company and also a new brand name is employed. The flanker brand is where a new brand is employed but being introduced in the category where the company has already established its market position. When a firm extends its existing line of products by representing in 'new sizes, flavours etc' and engaging the existing brand name in the firms existing category is called line extension.

The firms engaging the existing brands and employing it to the product line that are new category and are new to the firm are termed as ***franchise extension***. This approach could leverage firms existing brand strength and band image which the firm has already established in the market.

Tauber (1981) foresees four key opportunities for the company which are under continuous supply and demand pressures. These are mentioned below

- The firm could expand its boundaries of market 'through new distribution channels or untapped areas' mainly in the international market.
- Another approach is by merger and acquisition.
- By extending the product line and flanker brands
- Leveraging the existing brand value using the franchise extension strategy into new categories.

Diagram 9 - Tauber Matrix



Source: Tauber (1981)

c) Benefits of Franchise Extensions

Tauber (1981) suggests that franchise extension presents more gains than the conventional new product development strategy. The brand name is exploited and leveraged using the franchise extension which is one of the key intangible assets of a firm. Hence such approach enables companies to extend into new categories using the brand competitive advantage for the new product awareness. The key risk associated with the franchise extension is that there are possibilities of diluting the existing brand in the long term scenario.

According to Tauber (1981) the key decisive factors for the franchise extension from the customer perception perspective are

- The customers' perception for the new entry would be stable by capitalizing under the parent brand umbrella.
- Leveraging the existing brand strength which its competitors do not have in the new category
- The expectation of benefits offered from the new franchise extension is the same associated with the parent brand.

d) Brand Extension Vs Line Extension

The brand equity plays a pivotal role in line extension and also brand's equity has a key impact through line extension (; Keller and Aaker, 1992)). According to Amber & Styles (1996) brand and line extensions is an accepted growth strategy for a firms especially in the retail industry. Doyle's (1994) defines "A brand extension means using a brand name successfully established for one segment or channel to enter another on in the same broad market. Brand stretching means transferring the successful brand name to quite different markets". The recognized brands could use their established brand name in extending in new product categories (Aaker and Keller, 1990).

On the other end line extensions are leveraging their existing brand name for extending their offerings in their same product category line (Reddy et al, 1994). Amber & Styles (1996) has analysed the risks and benefits of brand and line extension as mention in Table 2B page 26.

Table 2 (B) - Risk/Benefit Analysis of Extensions

Risk/benefit analysis of extensions

Factors affected by benefit/risk	Benefits/risks
Efficiency benefits	Lower cost to build-up awareness Lower cost to achieve target trial levels Communication efficiencies as profile of whole brand lifted
Effectiveness benefits	Higher acceptance of extension from established brand associations e.g. quality Brand positioning can be strengthened Creation of "mega-brand" (increased bargaining power with retailers) Effective defence against rivals
Risks to the extension	Lack of funds allocated to launch (benefits overestimated) Over-estimation of benefits Poor "fit" with existing brand
Risks to the brand	Brand dilution Cannibalization of existing lines Intertwined reputations of various lines Logistics/manufacturing inefficiencies

Source: Amber & Styles (1996)

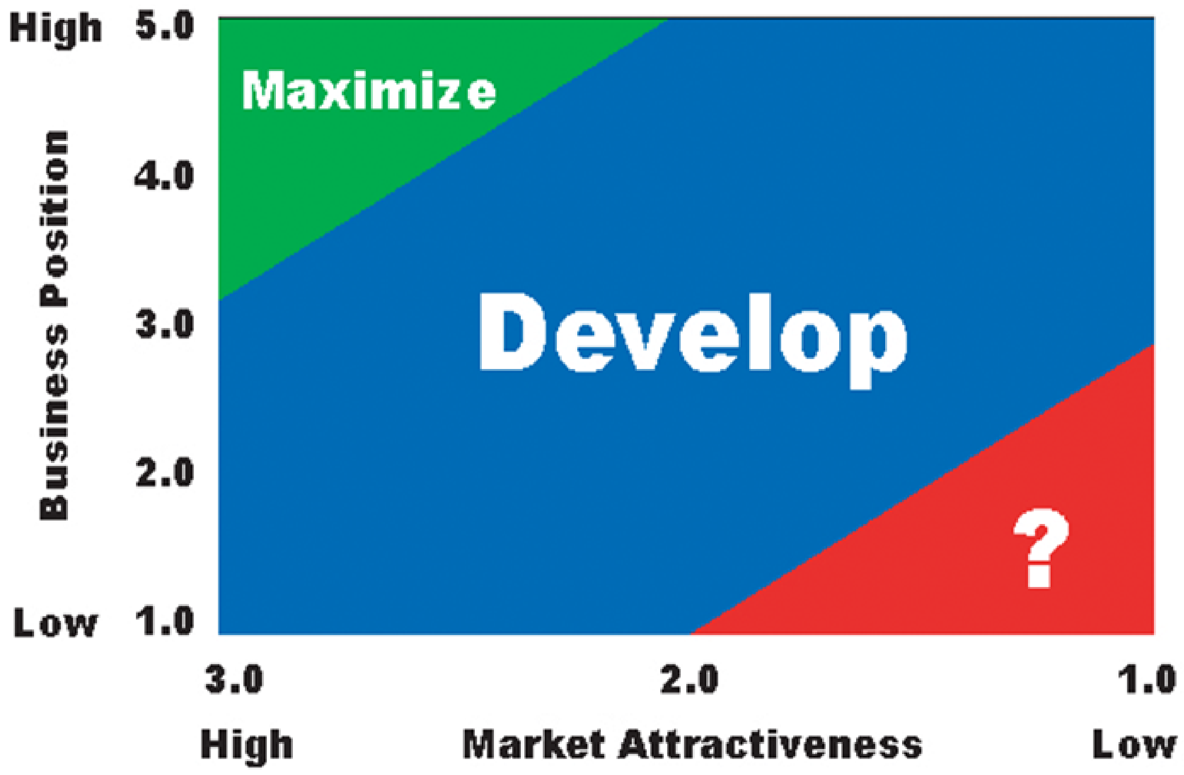
The recognition of brand extension could be maximised if the established parent brand is perceived as high quality, ‘customer perception of fit’ with the new extended product category and “difficult to make” which implies that the firm has the resource, capabilities and expertise in the new category (Aaker and Keller, 1990).

The line extension can be successful based on the power of the parent brand, product likeness with the established parent brand and the marketing communication like advertising and promotion (Hardie, 1994; Reddy et al, 1994).

Wong V. (1993) suggested screening criteria for identifying and exploiting New Market Opportunities are mentioned below:

1. Determining the market attractiveness for the new product by considering factors like market size, market concentration, potential profit of the market, technological stability, Business cyclicality and Environmental sensitivity.
2. Determining the business position for the new product by considering key parameters like market share, relative competitive position, product and technology, manufacturing capabilities, finance, relative profitability and marketing capabilities.

Diagram 10 - Market Attractiveness Business Position Matrix



Source: Wong, V. (1993)

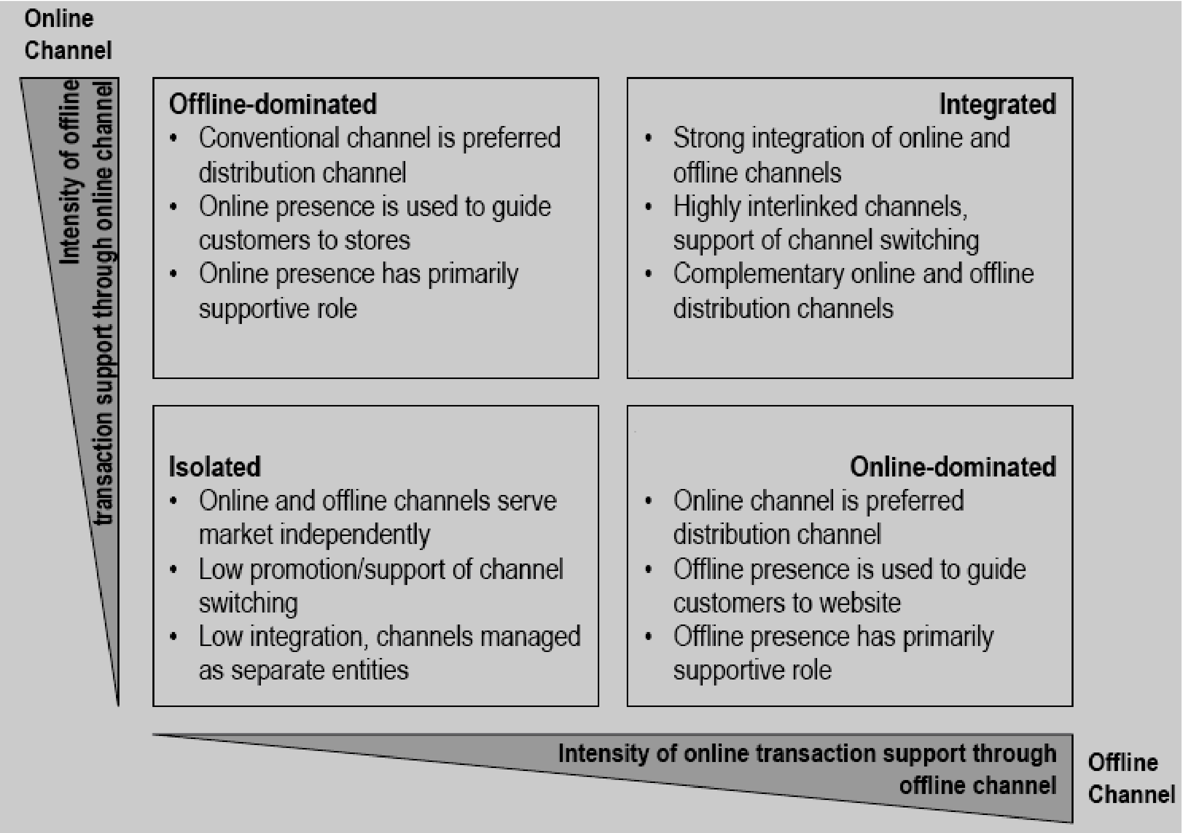
Thus by combining the market attractiveness and business position and market attractiveness analysis a matrix could be developed as mentioned in Diagram 10 above. This matrix has three levels of bands **Maximize, Develop** and **Question Mark '?'.**

If the product falls in Band **Maximise** then the product could be introduced with the existing product line. The product idea need to be on hold if it falls in **Develop** band since the timing to the market with its resources and capabilities would be critical with the time scale. The new product idea which falls in **Question Mark** band need to be dropped as the firm's market position is weak along with poor market attractiveness.

2.1.5 Channel Alignment

The Internet has been considered as another channel of distribution for manufacturers, suppliers and retailers. Hence there are prospects that there could channel conflicts in the distribution channels (Weiss, 2000).

Diagram 11 - Multi-Channel Alignment



Source : Muller-Lankenau’s (2004)

Muller-Lankenau’s (2004) framework for Multi Channel Strategies suggest that offline channel and online channel need to aligned and integrated for better customer engagement as mentioned in Diagram 11. Thus retailers need to shift their strategy form isolated or online dominated to integrate using the multi-channel strategies for better engagement of customers.

2.2 Supply Chain Management

New product introduction has always been a popular strategy for business seeking further growth. Acceleration in the rate of technological development, improved mass communication, more intense competition due to the maturing of markets and globalization, fragmentation of the marketplace due to changing demographics, shorter product life cycles, and the escalation cost of research and development are forcing firms to bring out new products to the market in record time (Ali et al., 1995). E-retailing has allowed company to exploit more possibilities in new product development (NPD) by reducing the capital cost of having a physical store. While online sales provide rich opportunities, the design of the underlying distribution processes also confronts companies with novel complexities for maintaining customer experience across multi-channels.

The reason that any company exists is to be of service to its customers. The most profitable companies and supply chains are those that deliver the performance called for by their markets." Service relates to the ability to anticipate, capture and fulfil customer demand with personalized products and on-time delivery" (Hausman, Warren H., 2000).

Despite the increasing interest for online shopping among consumers, most customers still prefer street shopping because it allows physical interaction with products (UK e-Retail 2008, 2008). This section of paper is to determine performance of a supply chain (SC) system using minimum number of measures (Key Performance Indicators) that provides reasonable accuracy for sustaining consumers' shopping experience across multiple retail channels. The main drivers of SC performance are facilities, inventory, transportation, information, sourcing and pricing. This chapter will discuss the areas directly related to the elements for sustaining customer experience among multi retail channels.

2.2.1 Order Management

Order management is the process of passing order information from customers back through the SC. With aid of advanced technology this process can be easily controlled by IT system. In the last twenty years or so, the complexity of SC has increased notably. In order to provide a wide range of service and product to consumers, companies in particularly e-retailers now deal with multiple tiers of suppliers, outsourced service providers, and distribution channel partners. Because of SC complexity and changing market demands order management is a process that is evolving rapidly.

Basic principles can be used to guide this operation are:

1. Enter the Order Data One and Only Once: Capture the order electronically as close to the original source as possible. Do not manually re-enter the order.

2. Automate the Order Handling: Automatically send order to appropriate fulfilment locations. Only exceptional cases are handled by people.

3. Make Order Status Visible to Customers and Service Agents: Let customers and service agents see order status information automatically whenever they want.

4. Integrate Order Management Systems with Other Related Systems to Maintain Data Integrity: Electronically connect order management systems with other related systems to maintain data integrity. (Hugo, 2006)

2.2.2 Distribution Management

Distribution is the only physical contact between an e-retailer and its customers; it is a critical factor which determines customer shopping experience and satisfaction. There are two basic types of delivery methods: direct deliveries and milk run deliveries:

2.2.2.1 Delivery Methods

1. Direct deliveries

Direct deliveries are deliveries made from one originating location to one receiving location. For this method is about choosing the shortest path between the two locations to minimize the cost and time for delivery. (Hugos, 2006)

2. Milk run deliveries

Milk run deliveries are deliveries that are routed to either bring products from a single originating location to multiple receiving locations or deliveries that bring products from multiple originating locations to a single receiving location. (Hugos, 2006)

2.2.2.2 Delivery Sources

Deliveries can be made to customers from two sources:

1. Single product locations

Single product locations are facilities where a single product or a narrow range of related items are available for shipment. These facilities are appropriate when there is a predictable high level of demand for the products they offer and where shipments will be made only to customer locations that can receive large number of products. This delivery resource offer great economies of scale when used effectively.

2. Distribution centres

Distribution centres are facilities where bulk shipments of products arrive from single product locations. When suppliers are far away from customers, the use of a distribution centre provides for economies of scale in long-distance transportation which brings large amounts of products to a location close to the customers. Cross-docking is a strategy can be applied to distribution centre with a fast transportation cost and large product flow for minimize inventory cost. Using this strategy, goods spend very little time in the warehouse. Warehouse is act as delivery coordination point rather than storage facility. Cross-docking strategy is only efficient for large distribution system with rapid transportation system due to the huge set up investment cost involved.

2.2.2.3 Return Processing

All supply chains have to deal with returns which is also known as “reverse logistics”. The most common situations are: wrong product was delivered; product is damaged when received; more products were delivered then were ordered by the customer. All of these situations are due to supply chain inefficiencies that created the need for return.

Return process should be efficient and hassle free for retaining customer satisfaction level Companies should keep track of types of returns happened, their frequency, and if the return rates are rising or falling for improving SC efficiency.

Product recycling is a value added return activity. As environmental awareness spreads, more companies and governments adopt green policies there will be a growing volume of recycling activity. This will be another way for acquire raw materials.

2.2.3 e-Business Performance Measures and Metrics

"No measures, no improvement" (Kaplan, 1990), it is essential to measure the right thing at the right time in a SC so that action can be taken promptly. Traditionally business performance measures have been mostly financial – measuring rate of return on investment, cash flow and profit margins. However, conventional measures have the drawbacks of tending toward inward looking; fail to include intangibles and lagging indicators.

In order to standardize the delivery process to make the online shopping experience as close to the physical shopping experience as possible, the factors that affects customer service elements such as response time, product variety, availability, customer experience, time to market, visibility and returnability need to be considered.

2.2.3.1 Impact of e-business on Customer Service

1. Response Time

It takes longer for e-business to fulfil a customer request then a retail store because of shipping time involved. Thus, customers who require a shorter response time may not use the Internet to order a product.

2. Product Variety

It is easier for e-business to offer a large selection of products than physical store. Offering the same selection at a retail store would require a huge shop floor with a correspondingly large amount of inventory.

3. Product Availability

An e-business can greatly increase the speed with which information on customer demand is disseminated throughout the SC, giving rise to more accurate forecasts. These improved forecasts and more accurate view of customer demand leads to a better match between supply and demand.

4. Customer Experience

An e-retailer affects customer experience in terms of access, customization, and convenience. Unlike most retail stores that are open only during business hours, customers are able to access online stores at any time. The Internet also offers an opportunity to create a personalized buying experience for individual customer. For both consumers and company, e-business can increase the ease with which one does business.

For example, customers have the convenience of able to shop at any time and location. E-business also helps to automate the purchasing process which increasing the speed of conducting business as well as decreasing the costs of placing orders.

5. Time to Market

A firm can use e-business to introduce new products much more quickly than a firm that uses physical channels. A new product can be made available as soon as the first unit is ready to be produced.

6. Order Visibility

The Internet makes it possible to provide visibility of order status with the appropriate utilization of technology. From a customer's perspective, it is crucial to provide this visibility because an online order has no physical equivalent to a customer shopping for an item at a retail store.

7. Returnability

Returnability is harder with online orders, which typically arrive from a centralized location. It is much easier to return a product purchased at a retail store. Furthermore, the proportion of returns is also likely to be much higher for online orders because customers are unable to touch and feel the product before their purchase. However, this weakness can be overcome by using the advanced technology to achieve a more detailed online product demonstration.

8. Flexible Pricing, Product Portfolio and Promotions

An e-business can easily alter the price according to latest cost by changing the database linked to the website. Promotions can be advertised at an instant in the same way.

9. Efficient Funds Transfer

An e-business can enhance revenues by speeding up collection. However, the company must evaluate the consequences for billing the customer early. For example, customer satisfaction might decrease if the bill is received before their order arrives. (Chopra & Meindl, 2007)

2.2.3.2 Impact of e-Business on Finance

1. Inventory

An e-business can lower inventory levels and inventory cost by improving SC coordination and creating a better match between supply and demand. Additionally, e-business enables a firm to aggregate inventories far from customers if most customers are willing to wait for delivery of online orders. As a result of geographic aggregation, an e-business requires fewer inventories. Inventories can be reducing significantly if an e-business can postpone the introduction of variety until after the order is received.

2. Facilities

Two types of facilities costs must be included in the analysis: costs related to the number and location of facilities in a network, and costs associated with the operations take place in the facilities. By centralizing operations, an e-business can reduce network facility costs and also decrease the number of facilities required.

Operational cost is reduces because order process is done through the website and order fulfilment can be postponed. Furthermore, operating cost can be reduced for manufacturers using e-business to sell directly to the customers. On the other hand, an e-business needs to perform additional tasks for the customer such as picking orders and therefore, extra operational cost is generated.

3. Transportation

An e-business can save delivery cost, if their product can be downloaded from the website. However, in most scenario delivery cost is higher for e-business as customer cannot collect the product from store.

4. Information

An e-business can share demand information throughout its supply chain to improve visibility. With the instant availability of planning and forecasting information, coordination is thus improved. This also helps to reduce overall supply chain costs and better match supply and demand. (Chopra & Meindl, 2007)

A sample business-to-customer e-business score card is shown in Table 3 below which can be used by a firm to summarize the impact of e-business on each of the areas mentioned earlier.

Table 3 - The e-Business Scorecard

The e-Business Scorecard	
Area	*Impact*
Response Time	
Product variety	
Product availability	
Customer experience	
Time to market	
Order visibility	
Returnability	
Direct sales	
Flexible pricing, portfolio, promotions	
Efficient funds transfer	
Inventory	
Facilities	
Transportation	
Information	

Key: +2 = very positive; +1= positive; 0 = neutral; -1 = negative; -2 = very negative

Source: Chopra & Meindl (2007)

2.3 Inventory and Optimal Spacing of Retail Stores

For retailers embarking on product expansion or brand extension into new market(s) or to grow in existing markets, the challenge in inventory management control would be to save on stock costs, holding stocks optimally and not risk of product stock-out. One critical concern is not to run out of stock, such that customers are lost, or that a production line is shut and to keep inventory related costs to a minimum and not to have so much inventory that carrying costs are excessive or inventory is wasted like perishable foods. Diagram 12 in page 37 emphasises the rationale behind holding stock for major retailers.

The quantity ordered in each cycle can impact the average inventory level and their investment in this inventory. Inventory models have been developed to determine the optimal amount of material to order that has the least overall inventory-related costs taking costs taking into account carrying costs, ordering costs, ordering costs and stock-out costs. E-retailers, can save huge amount in inventory costs like inventory counts, administrative errors and reductions in inventory stock-outs by using optimal stock Model.

Retailers now are establishing virtual stores, in cyberspace and offer merchandise and services through an electronic channel to their customers with a fraction of the overhead required in a brick-and mortar store (Yesil, 1997). Presently many Dot.com businesses (e-retailers) operate “Click and Brick” (Melissa Campanelli 2005).

2.3.1 Inventory Defined

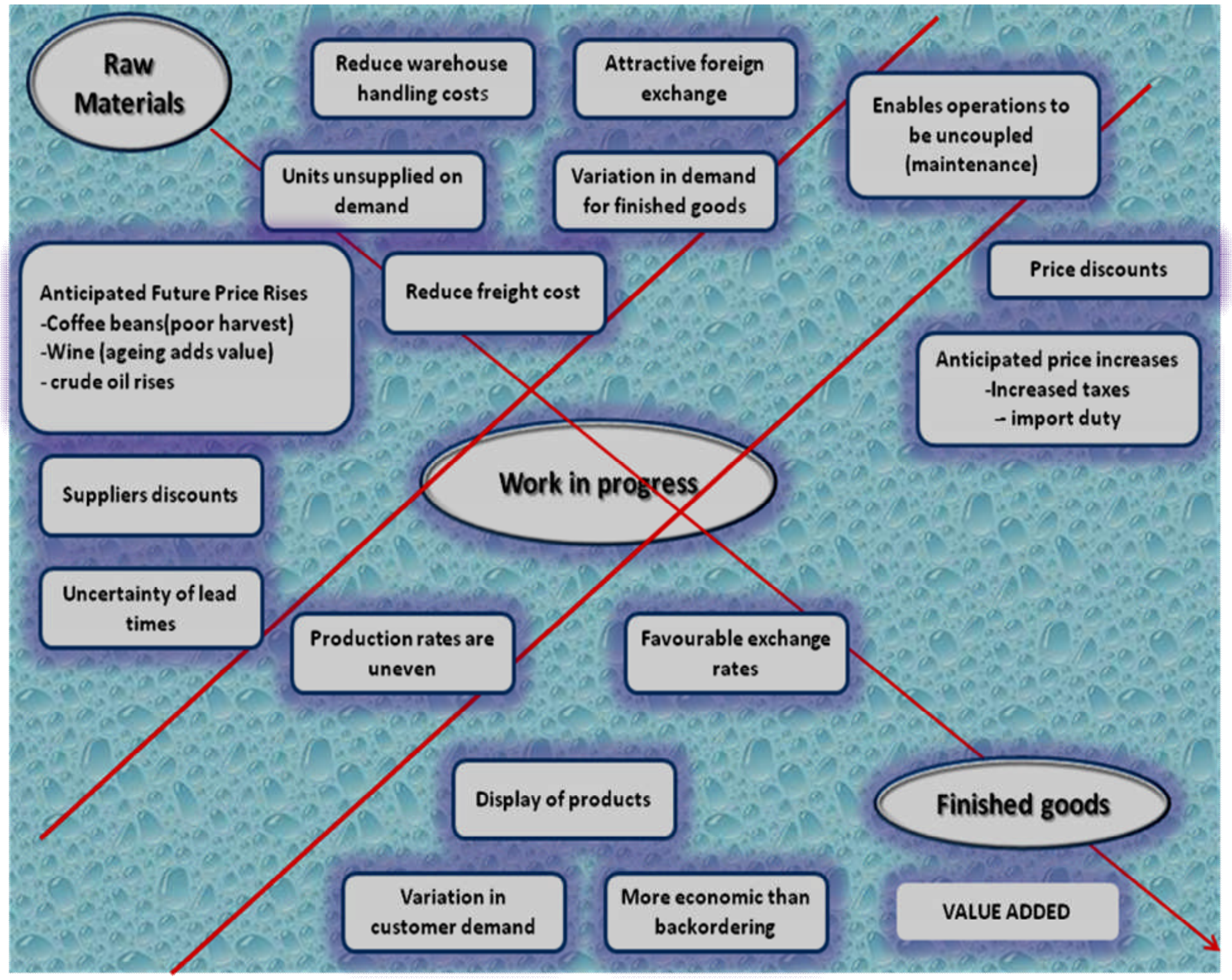
Like most retailers who are embarking on product expansion, efficient inventory management are quintessentially its lifeblood and its future survival and the engine for revenue generation (Journal of Management Accountant). In finance, inventory includes a vast spectrum of material that is being transferred, stored, consumed, produced, packaged or sold in business. Inventory is a catalogue of goods and materials, held in stock by a business. Detail discussions of inventory management are in Annex 4, pp.160.

2.3.2 The Existence of Inventory

E-retailers keep supply of inventory primarily and functionally to (1) maintain independence of operations (2) meet variation in products demanded (3) allow flexibility in production scheduling (4) essentially provide a safeguard for any variation in raw material delivery time (5) take advantage of economic purchase order size and maintain, replenish and reorder stocks. Details are discussed in Annex 4, pp.160.

In Diagram 12 according to Thompson surveys, retailers like Marks and Spencer's UK, Safeway UK, Asda UK, Sainsbury UK have maintained inventory for the following reasons:-

Diagram 12 – Holding Stock Criteria



Source: Sunil Chopra, 2004

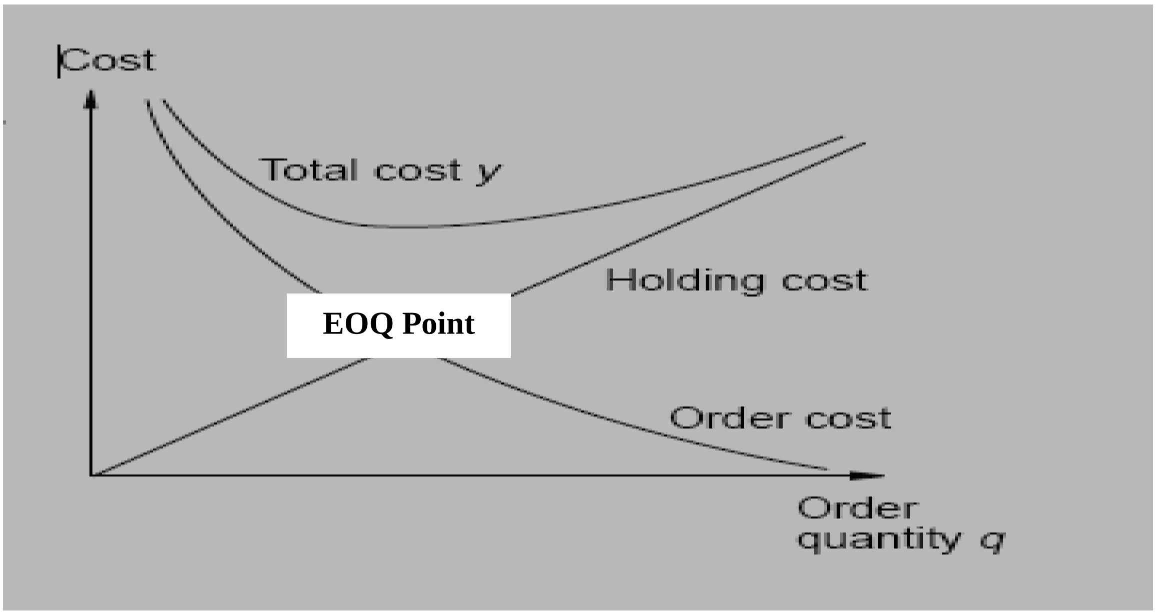
2.3.3 Optimal Stock Level

As seen in 2.3.2, the cost of inventory holding is significant and for many retailers, the search for cost minimisation will free-up cash or working capital, needed for production activities. Studies reveal that the Economic Order Quantity Model ("EOQ") optimises stockholding.

2.3.4 Economic Order Quantity Model

Baumol's formula for Economic Order Quantity Model, leads to cost minimisation as shown in diagram 13. It illustrates the relationship between inventory carrying costs, inventory ordering costs and total costs. The inventory carrying costs increase linearly with Q, ordering costs decline with Q, and the total cost exhibits a minimum. Details are in Annex 4, pp.160.

Diagram 13 – Economic Order Quantity



Source: Horngren, Brihami, Datar, Foster (2007)

2.3.5 Returns on line extension

Financial criteria such as profit forecast, cash flow forecast, Returns on Investment (ROI), or Net Present Value ("NPV") are often used when assessing new product development or line extension. These financial criteria would generally suggest successful extensions of brand equity, financial returns and product development.

Like in most technology industries, the internet industries attributing strategic importance to product development produce commercially successful products. It is investment in new-products development that ensures a good prediction of a company's future value. However, most companies evaluate new product development investments using accounting based metrics that rarely reveal inherent risks. Financial models like NPV are desirous to address numerous product development risks that underlie the assumptions in a business for example not properly accounting for uncertainty or project flexibility. (R. Merton, 1967)

Net Present Value

NPV is the total present value (PV) of a time series of cash flows. It is a standard method for using the time value of money to appraise long-term projects. Used for capital budgeting, and widely throughout economics, it measures the excess or shortfall of cash flows, in present value terms, once financing charges are met. Mathematically expressed, each cash inflow/outflow is discounted back to its present value (PV). Then they are summed.

Intuitively, therefore NPV is the sum of all terms, where

t - the time of the cash flow

r - the discount rate (the rate of return that could be earned on an investment in the financial markets with similar risk.)

C_t - the net cash flow (the amount of cash, inflow minus outflow) at time t (for educational purposes, C_0 is commonly placed to the left of the sum to emphasize its role as the initial investment.).

Implication of NPV Analysis

NPV is an indicator of how much value an investment or project adds to the value of the firm. With a particular project, if C_t is a positive value, the project is in the status of discounted cash inflow in the time of t. If C_t is a negative value, the project is in the status of discounted cash outflow in the time of t.

Appropriately risked projects with a positive NPV could be accepted. This does not necessarily mean that they should be undertaken since NPV at the cost of capital may not account for opportunity cost, i.e. comparison with other available investments. In financial theory, if there is a choice between two mutually exclusive alternatives, the one yielding the higher NPV should be selected as shown in Table 4 below.

Table 4 - Interpretation of NPV

If...	It means...	Then...
NPV > 0	the investment would add value to the firm	the project may be accepted
NPV < 0	the investment would subtract value from the firm	the project should be rejected
NPV = 0	the investment would neither gain nor lose value for the firm	We should be indifferent in the decision whether to accept or reject the project. This project adds no monetary value. Decision should be based on other criteria, e.g. strategic positioning or other factors not explicitly included in the calculation.

Source: Lumby S. (2000)

However, NPV = 0 does not mean that a project is only expected to break even, i.e. undiscounted profit or loss (earnings). It will show net total positive cash flow and earnings over its life. For example, Boots.com must decide whether to introduce a new product line. The new product will have startup costs, operational costs, and incoming cash flows over six years. Mathematically expressed, this project will have an immediate (t=0) cash outflow of say, £1,000,000 (which might include machinery, and employee training costs). Other cash outflows for years 1-6 are expected to be £400,000 per year.

Cash inflows are expected to be £800,000 per year for years 1-6. All cash flows are after-tax, and there are no cash flows expected after year 6. The required rate of return is 10%. The present value (PV) can be calculated for each year

T=0: -£1,000,000/ $(1.10)^0$ = -£1,000,000 PV.
T=1: (£800,000 - £400,000) / $(1.10)^1$ = £363,636 PV.
T=2: (£800,000 - £400,000) / $(1.10)^2$ = £330,579 PV.
T=3: (£800,000 - £400,000) / $(1.10)^3$ = £300,526 PV.
T=4: (£800,000 - £400,000) / $(1.10)^4$ = £273,205PV.
T=5: (£800,000 - £400,000) / $(1.10)^5$ = £248,369 PV.
T=6: (£800,000 - £400,000) / $(1.10)^6$ = £225,790 PV.

The sum of all these present values is the net present value, which equals £742,105. Since the NPV is greater than zero, Boots.com should invest in the project. However, more realistic problems would need to consider other factors like calculation of taxes, uneven cash flows, and salvage values as well as the availability of alternate investment opportunities.

2.3.7 Return on Investment – ROI

ROI is a financial model used by decision makers to evaluate the investment by comparing the magnitude and timing of expected gains to the investment costs. It is a performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. To calculate ROI, the benefit (return) of an investment is divided by the cost of the investment; the result is expressed as a percentage or a ratio.

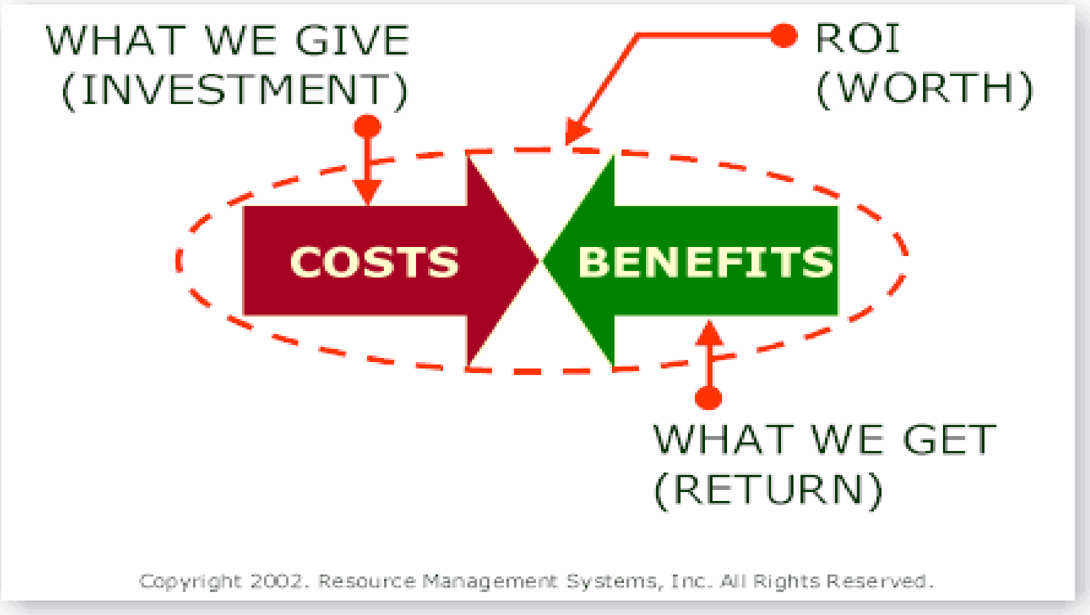
$$\text{ROI} = \frac{(\text{Gain from Investment} - \text{Cost of Investment})}{\text{Cost of Investment}}$$

Source: Lumby S. (2000)

Return on investment metric is versatile and straightforward. That is, if an investment does not have a positive ROI, or if there are other opportunities with a higher ROI, then the investment should be rejected. In practice, decision makers and investors will also look for ways to improve ROI for example by reducing costs, increasing gains, or accelerating gains.

Recently, this approach was common to asset purchase decisions (computer systems or a fleet of vehicles, for example), "go/no-go" decisions for programs of all kinds (including marketing programs, recruiting programs, and training programs), and to more traditional investment decisions (such as the management of stock portfolios or the use of venture capital and even launch of a new product line).

Diagram 14 - Return on Investment

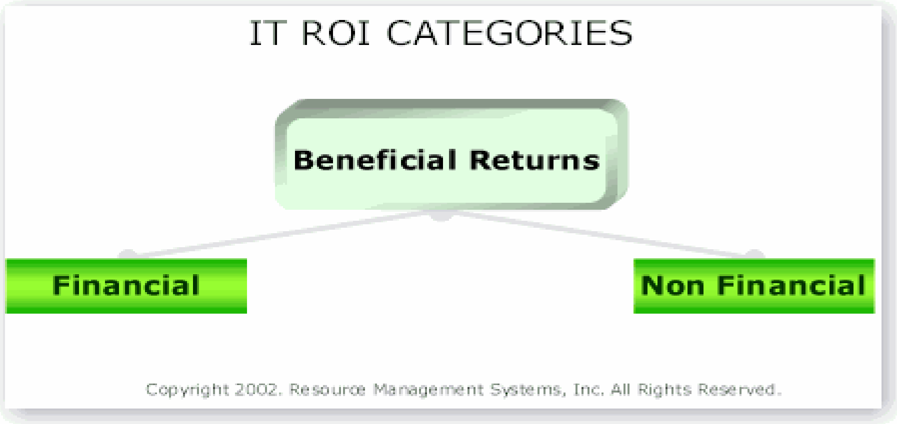


Source: Steve Lumby (2000)

Business Benefits - The "Returns" Decision-Makers Need To Know:

Traditionally, when information technology professionals and top-management discuss the ROI of an Information Technology investment, they were mostly thinking of “financial” benefits. However, business leaders and technologists today also consider the “non financial” benefits of information technology investments.

Diagram 15 – IT ROI Categories



Source: Steve Lumby (2000)

Financial Benefits include impacts on the organization's budget and finances, e.g., cost reductions or revenue increases. Non Financial Benefits include impacts on operations or mission performance and results, e.g., improved customer satisfaction, better information, shorter cycle-time, brand value and intangibility.

Summary

While considering a product line extension for a successful multi channel Retailer it is imperative to consider from all the key areas of strategic marketing, supply chain and financial implication for addressing the challenges. From the marketing perspective it is critical for multi channel retailers to understand the competitive advantage, industry growth, target customer segments, product and brand for addressing the challenges in expanding the product lines. Supply chain is an important part of online shopping experience which includes direct interaction with the customers. Adoption of appropriate supply chain management strategy for new products is essential for sustaining customer experience and satisfaction across different channel. Stock optimisation also plays a crucial role in attaining efficient inventory management. For product line and brand extension, it is important to considers the returns in terms is a steady stream of future cash flow, adequate profit margin, acceptable Return on Investment and a positive Net Present Value in order to ensure that shareholders wealth is increased.

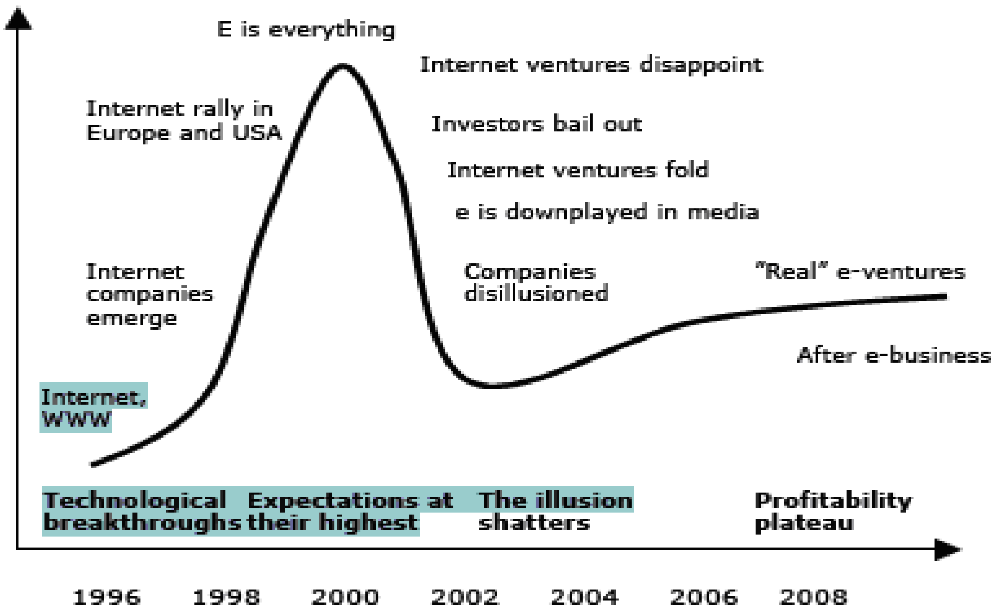
3.0 Boots.com

3.1 e-Retailing Industry

e-commerce has changed the economy and the way business are conducted, forcing companies to find new ways to expand the markets in which they compete, and to attract and retain customers by tailoring products and services to their needs, to restructure their business processes to deliver products and services more efficiently and effectively (Zwass 1998).

As shown in Diagram 16, the e-commerce went through a vicious circle, emerging in technological breakthrough in 1996 and peaking in 2000 where the internet was everything and expectations of the revolution highest. From 2006, "real" e-ventures and e-business began peaking

Diagram 16 - The Development of E-commerce



Source: The Gartner Group (1999)

As elucidated in Section 1.4 and 2.1, retailers now cannot afford to ignore the dynamics of e-commerce that led to the phenomenal rise of *e-retailing*[1] and multi-channel retailing. To be successful, retailers quintessentially need to gain competitive advantage against other e-retailers by offering new product or focus on gaining customers from multiple channels.[3]

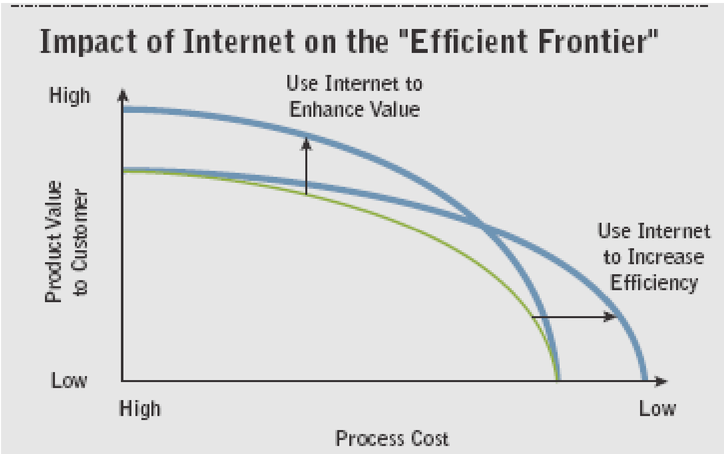
The trend for increasing online sales in the UK looks to continue and it is vital that e-retailers like, Boots.com to leverage on brand, offering unique advantage that is protected and embedded into its products which would enhance its durability and defy imitation, transfer and replication.

[3] E-retailing is a sub genre of Business 2 Customer where the core offer is a physical product, not a service.

However, different perspectives on competitive advantage focus on different means of influencing sustainability of advantages gained. For Boots.com, its forte in Health and Beauty is its formidable brand value and brand assets.[4]

It can be seen that, e-retailing is an innovation in retailing that is built around technological innovation namely the Internet and can dramatically lower entry barriers for new competitors and ease of entry. New entrants do not need sales forces and huge capital investments as they do in offline markets. According to Porter, the Internet also brings many more companies into competition with one another by expanding geographic markets and horizons.

Diagram 17 – Impact of Internet on the "Efficient Frontier"



Source: Chopra, S. and Meindl, P. (2007)

As shown in the diagram 17 above, the advent of the Internet brings new associated technologies and managerial policies that shift the frontier outward. An outward shift represents either a decrease in cost for a given level of performance along a customer need or a higher level of performance at a given cost. The shift caused by adding the Internet will vary by industry. In e-retailers, the Internet may shift the frontier by significantly decreasing the cost for existing levels of performance. (S. Chopra, 2004)

The main advantage of e-business would be to increase efficiency by automating previous activities (i.e., substituting capital for labour). In other instances, such as the case of the online grocer Peapod, the Internet primarily enhances convenience without reducing costs significantly. (S. Chopra, 2004)

[4] Brand asset is the strength of image a particular product holds in association with benefits, values and culture.

Bakos (1997) found that Internet has dramatically reduced search costs. Through the Internet, information has become much more widely available. For example, searching may be easier on the Internet as Bakos (1997) points out because of the search engines. Bakos (1997) also extends the work of Diamond (1985) to describe how consumers alter their search when physical markets become electronic markets. Bakos (1997) suggests that with zero search cost, through using an infrastructure such as the Internet, consumers will be able to explore the entire search space of possibilities.

Consumers today embrace cyberspace as a viable medium of exchange to compare prices, learn about products and read consumer reviews. The internet is seen as fast and easy, by any standards of today's frenetic pace of life. In today's digital age of consumer control, where information is shared across the globe at the speed of light, consumers have come to expect instant gratification. The click and mouse is a monumental platform for knowledge sharing, opinions and relationship building. The challenge today is to balance between the desire for speed and convenience with the practical need to grow sales and profitability.

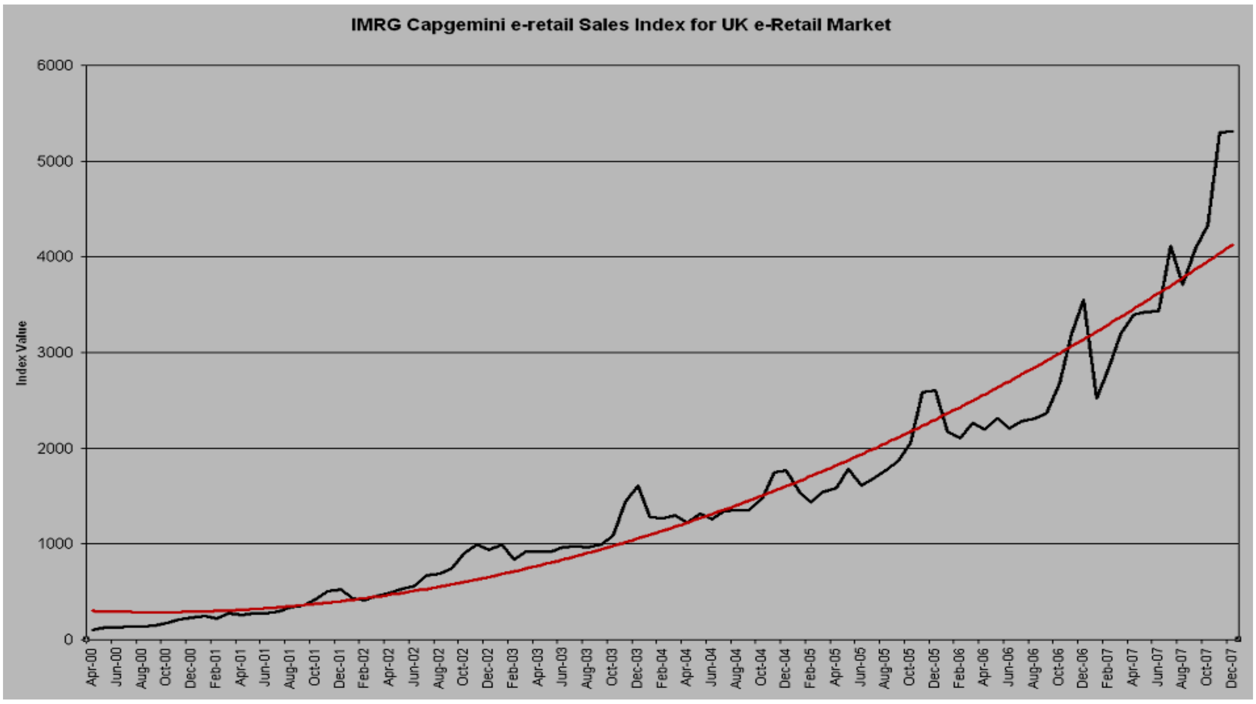
3.1.1 Internet Technology

The advent of technological advances, wider accessibility and larger bandwidths has helped legitimize this retail channel as it becomes an increasingly important role for retailer's core business. Online shopping has steadily grown in popularity in the United Kingdom and by 2012 "online sales will increase by 32%, to £60 billion per annum and would account for approximately 20% of all retail sales in the United Kingdom" (Data monitor: 2007). Diagram 18 in page 46 shows the UK Internet users from 1995 to 2006, rising more than fivefold.

Diagram 18 in page 46 illustrates the logarithmic rise in e-retail sales in the United Kingdom from April 2000 to December 2007. The monthly value of UK online shopping value rose from £87 million to £5,400 million in the period respectively owing to the phenomenal growth of the internet and technological revolution. The Index grew by 5,213% in the UK, a meteoric rise that attests the internet shopping revolution, due to the substantial leap in technology. Multi-channel shopping has also contributed to the big spending.

Studies conducted by AG Neilson reveal that consumer who both shop online and offline are the most valuable. Looking across a mix of brick and mortar retail channels, multi-channel shoppers spend 57% spend more online than stores.

Diagram 18 - IMRG Capgemini e-Retail Sales Index for UK e-Retail Market

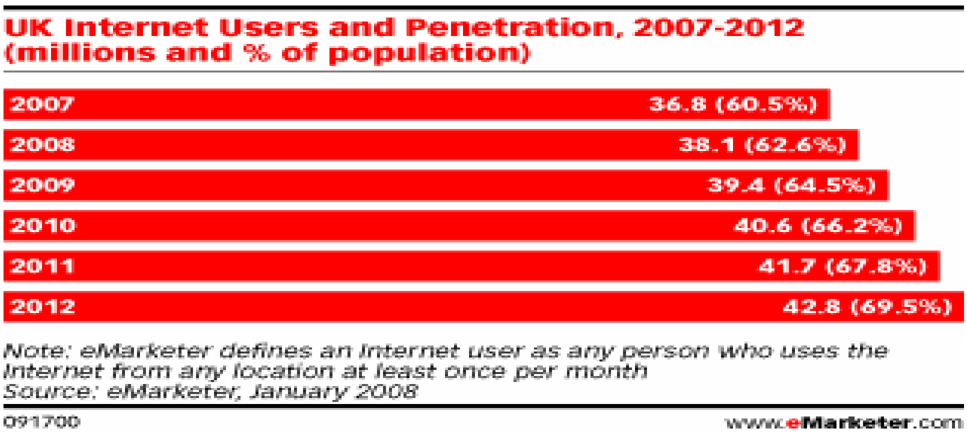


Source: news.zdnet.co.uk (2008)

The rise in online shopping is premised on the fact that 29.1 million adults age 15 and over have access to internet. This constitutes 60% of the United Kingdom population. In 2007, 1.5 million new internet users did online shopping. Further, about 50% of all adults in the United Kingdom have easy access to broadband at home (AOL e-commerce study)

Web sales increased 75 percent year-on-year, amounting to the equivalent of £75 for every person in the UK, according to the IMRG Cap-Gemini e-Retail Sales Index. Diagram 19 shows below shows that, the “pick-up in store” option is the fastest growing segment with internet shoppers.

Diagram 19 - UK Internet Users and Penetration, 2007-2012



Source: www.eMarketer.com (2008)

This has resulted in many retailers fervently setting up online sites in an attempt to harness its potential for increased sales, profitability and growth. Online retailing offers traditional retailers an attractive sales channel that provides high levels of audio and visual content as well as virtually infinite space for products (Stone *et al*:2002).

The Internet changes the basis of competition by radically altering product/service offerings and the cost structure of firms (e.g., cost reductions in production, distribution, and transaction). The Internet also changes the balance of power in relationships with buyers and suppliers by increasing or decreasing the switching costs of these buyers and suppliers. By reducing customers' search costs, the Internet makes price comparison easy for customers, and thus increases price competition (Bakos 1998). Detail discussions are in Annex 5, pp.164.

3.2 Boots.com Online Channel

Boots.com is a ***subsidiary*** of Alliance Boots. It is the online retailing channel of Alliance Boots. Its principally activity is the online transaction through the web-front end (website) and delivering products to stores and home for customers. Boots.com is a wholly internet company operating virtually, only existing in cyberspace without physical stores or business structure (lean business model, cut-off between intermediaries and end consumer). Its online sales channels are rapidly growing and integral to Alliance Boots success in e-retailing. Incorporated in 2000, it operates a “Click and Collect” services involving technological, managerial, operational and financial frontiers. It is a first step in the right direction in market attractiveness of online shopping. The strong programme in place has the potential to increase the volume of customers in Boots’ store, thus increasing its sales. The manpower of Alliance Boots means that employees are capable of engaging from the organisation and to harness the resource capabilities and competences.

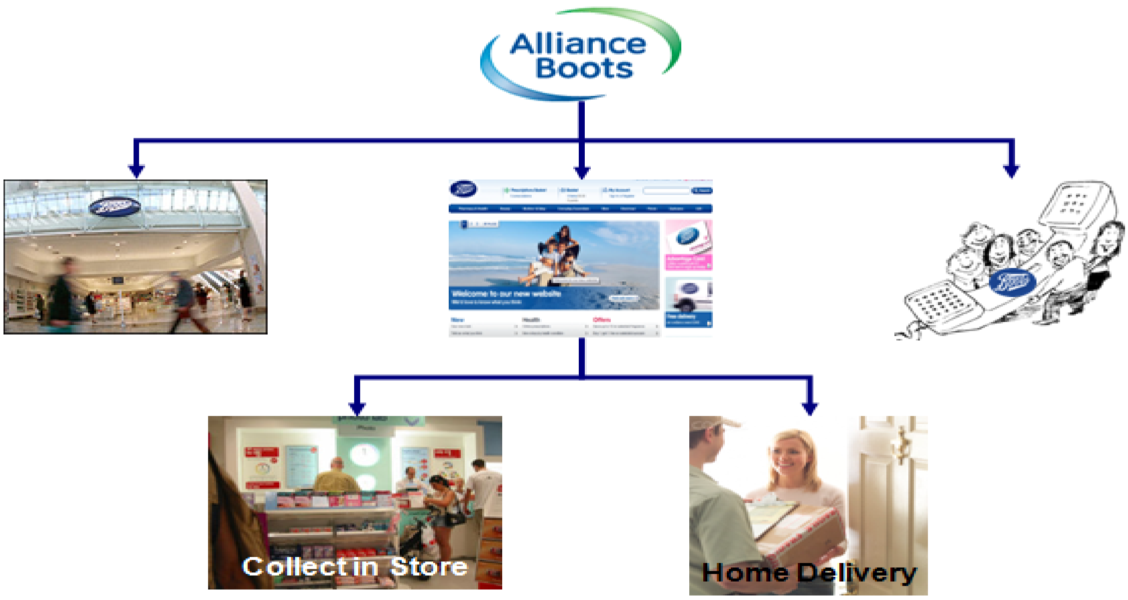
Currently, through its parent company, Alliance Boots, multiple opportunities are rolled out fervently in its brand value and brand assets such as No.7, Soltan, Botanic and Almus. Capitalising on this will immeasurably enhance its strengths as a leading international pharmacy led health and beauty group delivering a range of products and services to all its customers. Amongst the categories of products in which Alliance Boots Group have substantial prowess include baby products, beauty and toiletries, electrical, fragrance, gifts men’s offers, pharmacy and health, toys, premium beauty and health (Datamonitor:2007).

While currently Boots.com only accounts for 1% of total company sales, this number is steadily rising. In 2007 sales at Boots.com increased by 26.4% and during Christmas by 43.6%. Furthermore, about 8%-12% of Boots customers have been on its website before going into its stores, meaning that the website is beginning to see success in improving store flow. "High customer interest in Boots online offers and rising average transaction values are strong indications of the potential for further sales growth through this channel"

The enormous potential of £14.7 billion online shopping in the United Kingdom provides great opportunities for Boots.com to tap into new markets and expand products in health and beauty, food and furniture, clothing, children ware, etc. In fact, the average transaction on Boots.com is £45, compared to £12 at the stores (Boots:2008), and the average number of items in online purchases is six; however, this can be largely attributed to the tactical promotion giving online customers free delivery if they purchase over £45 worth of products.(Boots.com)

As shown in diagram 20, currently, Alliance Boots operate on three (3) channels namely stores, online and catalogue whilst Boots.com operates on delivery to stores (Click and Collect) and Home Delivery.

Diagram 20 – Boots.com Current Scenario



Sources: Boots.com (2008)

Further, in order to be successful, Boots.com is able to integrate its online channels with other sales channels, such as catalogue and stores, because Multi Channel Retailing can result in channel conflict which can make employee engagement extremely difficult.

3.3 Opportunity, Threat, Strength, Weakness Analysis

Organisational analyse their strength and weakness as essentially an internal focus which can be brought together with the analysis of the market (an external focus) to create a SWOT (G. Hooley, J. Sauders and N. Piercy, 2004).

For Boots.com, the SWOT Analysis is premised upon the fact that by looking at where strength and weakness, it can align with opportunities and threats and thus help in formulating its strategy. As shown in Figure 3 below, Boots.com can determine where its strength might be best deployed, both offensive and defensively such as invest to grow, improve positioning and protect position or optimising positioning, as well as where its weakness leave it vulnerable to market change or competitor action.

Figure 3 - SWOT Strategy Implications

Source: Corporate Strategy (2007)

As illustrated in Figure 3 and Table 5, strengths of Boots.com are the trusted brand image and have the ability to exploit existing resources in areas of opportunities. For example, brand equity across e-retailing business support value propositions embracing the trust element. Boots.com has the ability to recognise the need and importance to deal with major market changes affecting the future of the multi-channel business. (Boots.com)

Table 5 below illustrates E-Business Strategies for Competitive Advantage: Product, Price, Promotion, and Place Strategies Responding to Porters Five forces Competitive Strategy.

Table 5 - Boots.com OTSW Analysis

Opportunities	**Threats**
▪ Internet penetration ▪ Convenience ▪ Fraud concern reduced ▪ Large items sold online ▪ Potential for expansion ▪ Strategic Alliances ▪ New Product Introduction	▪ Market concentration ▪ Internet Security(Fraud) ▪ Low entry Barriers ▪ Cannibalization of channels ▪ Increasing competition
Strengths ■ Brand Value ■ Health and Beauty Specialist ■ Differentiation ■ Strong Research & Development ■ Value for Money ■ Multi-channel retailing	**Weaknesses** ■ Awareness of the website ■ Technological challenges ■ No physical experience ■ Limited website interaction ■ Delivery tracking system

Source: Boots.com (2008)

Detail discussions of OTSW Analysis are in Annex 6, pp.166.

3.4 Sustaining Competitive Advantage

3.4.1 Mc Carthy's Four Marketing Mix matrixes

Mc McCarthy (1960), Perrault advocates that a firm develops its marketing strategies by identifying the target market for its products and then develops a marketing mix; product, price, promotion and place (i.e. distribution and delivery functions in the supply chain.

As shown in Table 6, pp51-52, this enables the firm to enhance sales to the targeted market and compete more effectively, thus ensuring profitability and sustainability. The internet has a significant impact on the make-up of this marketing mix, for example by offering various products offerings and associated price discriminations with sales promotion and effective logistics.

Table 6 - e-Business Strategies for Competitive Advantage

	Product	**Price**	**Promotion**	**Place**
Threats of New Entry	Product Differentiation (e.g. bundling) Niche products or Innovation Customer Centric Strategy Expansion into a related product line	Price Discrimination (e.g. Price Lining and Smart Pricing) Cost Leadership Value Added Product or Services	Customer centric-promotion strategy (One-to-one marketing or relationship marketing) Brand Apparel Based on experiences and beliefs) Revenue sharing marketing (many to many marketing or performance based marketing)	Outsourcing or strategic Alliances Clicks and Mortar Strategy (Integration of Online and Offline Business)
Rivalries among existing firms	Product Differentiation (e.g. bundling) Niche products or Innovation	Price discrimination (e.g. Price Lining and Smart Pricing) Cost Leadership	Customer centric promotion strategy Brand Apparel based on experiences and belief	Outsourcing or Strategic Alliances Click and Mortar Strategy
	Customer Centric Strategy Expansion into a related product line	Value Added Product or Services	Revenue Sharing Marketing	
Threats of substitutes	Product Differentiation (e.g. bundling) Niche products or Innovation Customer Centric Strategy	Price discrimination (e.g. Price Lining and Smart Pricing) Cost Leadership Value Added Product or Services		Click and Mortar Strategy

Bargaining Powers of suppliers		Value Added Product or Services	Revenue sharing marketing	Outsourcing or strategic Alliances
Bargaining Powers of buyers		Value Added Product or Services Brand Apparel based on experiences and belief Revenue Sharing Marketing		

Sources: Kotler, P. (2003)

3.4.2 Porters 5 forces

Porter (1980, 1985) and Porter and Millar (1985), a firm develops its business strategies in order to obtain competitive advantage (i.e., increase profits) over its competitors. It does this by responding to five primary forces: (1) the threat of new entrants, (2) rivalry among existing firms within an industry, (3) the threat of substitute products/services, (4) the bargaining power of suppliers, and (5) the bargaining power of buyers.

A company like Boots.com can also achieve competitive advantage by altering the competitive forces for example, establishing barriers to deter new entrants from coming into the Health and Beauty industry by cultivating unique or capital-intensive resources that new firm cannot easily duplicate. Boots.com also increases bargaining power over their customers and suppliers by increasing their customers' switching costs and decreasing their own costs for switching suppliers. Boots.com should adopt the five competitive forces model for developing business strategies that generate strategic opportunities.

Buyer power of multi-retailing channel players are over brick and mortar retailing approach is to minimise the running cost of renting and opening stores to sell products, and hence can be priced lower than other non-website competitors to balance out the postal fee expenses. Another important dimension is to provide a 24-hour, with no physical location limitation and customisable Health and Beauty -search service to customers. The effectiveness of this selling model yields savings on auxiliary costs (such as transportation time and costs) and hassles, where buyers may become less price sensitive to postal fees of different delivery options and even minor price gaps of the Health and Beauty products with all these advantages are taken into account.

The rival intensity of the conventional retail markets is high because there are usually a large number of retailers competing to each other for the same source of customers, but it may not be the same for e-Retail markets. In the Boots.com case, its competitors include Superdrug, Wal-Mart, Body Shop, e-bay, Sainsbury, Asda, Tesco, and many other smaller retailers, which are establishing and automated online system like Amazon.com. Detail discussion are in Annex 7, pp.167.

3.5 Long Tail and Blue Ocean Strategy

Table 6 – Long Tail Decision Process

Scarcity	Abundance
ROI	*We will figure it out*
Command and control	*Out of control*
Top down	*Bottom up*
Everything is forbidden unless it is permitted	*Everything is permitted unless it is forbidden*
Paternalism	*Egalitarianism*
We know want is best	*You know best*
Cost money	*Don't cost money*

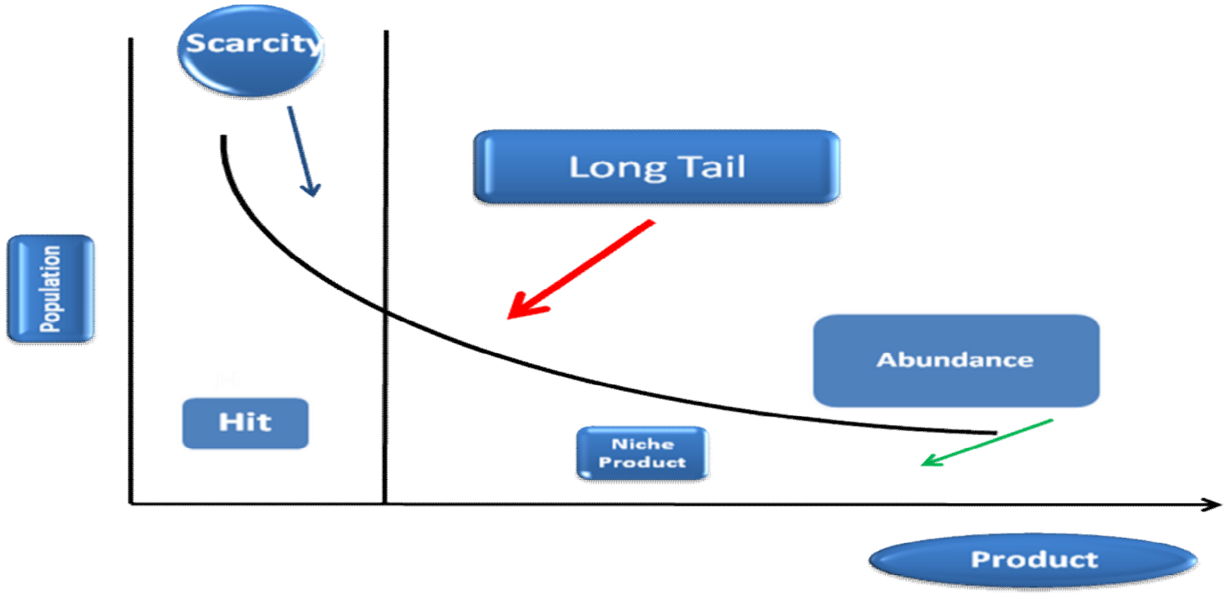
Source: Chris Anderson video presentation, Haas University (2006)

3.5.1 Long Tail

The Long Tail coined by Chris Anderson describes the niche strategy of businesses, such as Amazon.com or Netflix, that sell a large number of unique items in relatively small quantities. Essentially, it is a concept of a statistical frequency distribution with a long tail. The distribution and inventory costs of these businesses allow them to realize significant profit out of selling small volumes of hard-to-find items to many customers, instead of only selling large volumes of a reduced number of popular items. The group of persons that buy the hard-to-find/"non-hit" items is the customer demographic called the Long Tail (Table 6).

Given a large enough availability of choice, a large population of customers, and negligible stocking and distribution costs, the selection and buying pattern of the population results in a power law distribution curve, or Pareto distribution. This suggests that a market with a high freedom of choice will create a certain degree of inequality by favoring the upper 20% of the items ("hits" or "head") against the other 80% ("non-hits" or "long tail").

Diagram 21 – Long Tail



Source: Anderson, C. (2006)

As shown above, in "long-tailed" distributions a high-frequency or high-amplitude population is followed by a low-frequency or low-amplitude population which gradually "tails off" asymptotically. The events at the far end of the tail have a very low probability of occurrence.

3.5.2 Decision Process

Anderson argued that products that are in low demand or have low sales volume can collectively make up a market share that rivals or exceeds the relatively few current No.7, Health and Beauty or best selling toiletries, if the store or distribution channel is large enough. A significant portion of Boots.com's sales come from Health and Beauty that are not available in Click-and-mortar stores. The Long Tail is a potential market and, as the examples illustrate, the distribution and sales channel opportunities created by the Internet often enable businesses to tap that market successfully. (Anderson Erik Brynjolfsson, Yu (Jeffrey) Hu, and Michael D. Smith, 2001)

Anderson has explained the term as a reference to the tail of a demand curve. The term has since been retrieved from an XY graph that is created when charting popularity to inventory. In Diagram 21 shown above, Boots.com's Health and Beauty sales would be represented along the vertical axis, while the other Health and Beauty goods rank are along the horizontal axis. The total volume of low popularity items exceeds the volume of high popularity items.

3.5.3 Demand-Side and Supply-side drivers

The key supply-side factor that determines whether a sales distribution has a Long Tail is the cost of inventory storage and distribution. Where inventory storage and distribution costs are insignificant, it becomes economically viable to sell relatively unpopular products; however, when storage and distribution costs are high, only the most popular products can be sold.

Take Boots.com Health and Beauty products as an example: A traditional Boots store has limited shelf space, which it pays for in the form of building overhead; to maximize its profits, it must stock only the most popular Health and Beauty products to ensure that no shelf space is wasted. Because Boots.com stocks products in *i-force* (centralized warehouse in Birmingham), its storage costs are lower and its distribution costs for the same Health and Beauty products.

Boots.com can therefore able to build a viable business stocking a far wider range of Health and Beauty products. Those economics of storage and distribution then enable the advantageous use of the Long Tail. (Chris Anderson, 2006)

According to Chris Anderson, on the supply side, it can be seen that how e-retailers' expanded, centralized warehousing allows for more offerings, thus making it possible for them to cater to more varied tastes. On the demand side, tools such as search engines, recommender software and sampling tools are allowing customers to find products outside their geographic area and the amplified effects of Long Tail, including the growth of markets serving smaller niches.

3.5.4 Blue Ocean Strategy

3.5.4.1 The Two Business Economic System

According to W.C Kim and Renee M, 2004, the business economic system consists of two distinct spaces, known as Red Ocean and Blue Ocean. Red Ocean represents all industries present today-known market space. In Red Ocean, industry boundaries are defined and accepted, and competition keen. Industry players compete with each other in order to attain greater market share. As more compete for market share, eventually saturation seeps-in and prospects for profit and growth are reduced. Products turn into commodities and increasing competition turns into bloody water.

3.5.4.2 Blue Ocean

Traditionally, companies competed on existing market space and attempted to beat competition. Exploiting existing demand in an already saturated market only reinforces manager’s failure to realise the difficulties encountered in trying to break from competition. Blue ocean strategy is to exploit a new market rather than competition in existing markets where competition is fierce and presents which limited. Competing in overcrowded industries is no way to sustain high performance. The real oppurtunities are to create blue oceans of uncontested market space. By doing so, competition is made irrelevant, the blue ocean seeks to create and capture potentially new demand. (W.C Kim and Renee M, 2004)

4.0 Research and Methodology

4.1 Questionnaire

Having discussed online customer experience and satisfaction as a product expansion growth strategy, the decision to launch brand or line extension rest upon sound risk and benefit analysis. Factors affected by benefits or risks include efficiency benefits, effectiveness benefits, risks to the extension and risk to brand. Tauber (1981) argued that extending an existing brand is more cost efficient and lowers risk of launching new products. Arguably research found that because an extension has a well established brand positioning to draw on, its chance of success is increased.

The purpose of this study is to establish: How can Multi-retail Channelling further expands their product range whilst sustaining customer experience and satisfaction? The questionnaire was primarily intended to explore the possibilities of online product expansion for Boots.com (Sample Questionnaire in Appendix 1 &2, pg 126 – 130)

- In so doing, efforts were channelled to establishing the type of product most frequency purchase and to gain insights into new product line extension.
- The questionnaire will provide the establishment for growth opportunities either on the dimension of brand extension or line extension?
- The group also tried to establish the most preferred delivery method (Next day delivery, standard delivery) or that is NOT offered by Boots.com?

The survey research also seeks to establish customer shopping experience at Boots.com website and to rate the after sales experience at Boots website in terms of refund, exchange, repair service and payment service. A column for recommendation for the website was drawn for improving customer shopping experience.

4.1.1 Hypothesis

In further consideration of the above, the group developed four (4) hypotheses which required explanation through the study.

H1: For online product expansion in e-retailing, strategic market planning process necessitates careful examination of market attractiveness, typically in shaping market attractiveness, factors such as market size, market growth, competition, segmentation, targeting and positioning, margin potential and the company's core competencies.

H2: In moving into new markets, the critical success factors include leveraging on brand/reputation and capability. The screening criteria and customer segmentation are important for market attractiveness.

H3: Financial criteria such as Net Present Value, Return on Investment, are analysed in order to ascertain the risk-return and financial implications for online product extension, margin and profitability are juxtaposed.

H4: In Key Performance Measurement ("KPI") for sustaining customer experience and satisfaction for Boots.com, Channel Alignment, Drop Ship and Efficient Standardised Delivery Methods for all products are used.

4.2 Pilot Survey

A pilot study was conducted within the MBA cohort, Lecturers and Professors at the Nottingham University Business School. The pilot survey was intended to gage the suitability of the questions put forth in the questionnaire. The survey was set-up with the MBA Project team via monkey survey link and emailed to all MBA Cohorts [77 number] explaining the rationale of the survey and what it intends to achieve.

4.3 The Street Survey

The group embarked on a street survey in Nottingham City Centre in late July 2008 for one week, after due discussion and deliberation with Professor Keith Harrison and Dr. Vicky Story. The survey was aimed at establishing customers preferred products and additional products onto Boots.com website. It also seeks to ascertain the level of customer experience and satisfaction for purchasing products on Boots.com. The general responses were rather lukewarm initially but later on the level of fervour rose during the survey.

On average the survey took about 10-15 minutes to answer the questions. Most respondents did not answer the questionnaire instantaneously but rather held it for half a day to put their thoughts on the questions. The survey had a mixture of qualitative and quantitative and the respondents were asked to rank their level of customer satisfaction experience. The mode of preferred delivery was also asked, the results of which was tabulated in Microsoft Excel format and further interpretation were carried out. A sample size of 88 for street survey was taken and deemed to be representative of the population size.

4.4 Online Survey

The online survey of 150 samples was primarily intended to reach the customer audience who are virtual and seeking to gain shopping convenience owing to their busy work schedule and personnel life commitments. The online survey was conducted on http://www.surveymonkey.com/s.aspx?sm=j3GMkjGikFITjeK2CUOfcA_3d_3d. Similar questions were addressed and also aimed at targeting qualitative and quantitative data. The survey was also posted on retail forum at http://www.retail.forum.co.uk

For example, the type of products most frequently purchased and what products should Boots.com sell? The respondents were asked on their preferred delivery method (next day delivery, standard delivery [5 days], delivery on named date) and what they envision would be better means of delivery. The survey also aimed at evaluation the level of customer shopping experience and rate the after sales experience at Boots website in terms of refund, exchange, repair service and payment security. An open ended column for suggestions on improving the shopping experience was also provided for.

4.5 Interviews with Boots

The principal research method was a series of semi-structured interviews with representatives from Marketing, Supply Chain Management, and Finance of Alliance Boots regarding its *online website Boots.com*. The interviewees were all Group Manager Level and were conducted in late July 2008 to mid-August 2008. The durations of the interviews varied between half an hour to one hour each. A total of 10 interviews were conducted at Boots, and explored the inter-relation of the three business areas; Marketing, Supply Chain and Finance.

The team used a semi-structured interview method since this method is suitable for exploratory studies. The semi-structured interview also gave the respondents freedom in their responses and avoided influencing them into focusing on some specific aspects.

A free-form discussion method using open-ended questions was used, in order to capture pure facts as well as the interviewees' thought on the subjects. The questions were used to initiate and build the foundation for the discussion as well as guiding the discussion to ensure that no important aspects were missed. The semi-structured interviews explored the functional role of Boots.com and the possibilities of online product expansion. The interviews centred on questions addressing each area of marketing, supply chain management and finance thoroughly; the results of which were correlated.

The interactivity of the interview would draw out some of the subtle observations that provide keen insights into the relationships between business areas and the often intangible concepts of strategy, leadership and knowledge management. The project team opined that interviews can provide a unique perspective of the organisation creates an understand of the perspectives of the individuals involved in the research situation.

4.6 Selection Process

The sessions of interviews held with key personnel, Boots were primarily intended to support the questionnaires. The MBA project team met with the supply manager; Steve and Melanie Higgins to gain an understanding of BTC Warehouse mechanism (i-Force) in Birmingham.

The team also met with Daniel, Logistic Assistant Project Manager who briefed on supply chain management of Boots.com and David Robinson, Finance Manager on the financial implication of online Boots.com product extension and inventory management. The team undertook monkey survey channel and survey forum channel to establish the sample population of Boots.com customers.

All ten [10] interviews conducted in late July to mid August 2008 were from Boots.com business area and each lasted for 30 minutes, addressing the issues surrounding marketing, supply chain and finance.

4.7 Data collation from Boots.com

The project team was able to source data from share drive in the intranet of Alliance Boots. Company reports, internal documents, company magazines and company websites were also obtained. Quantitative data is central to the analysis; particularly aspects of the topic that may lend themselves to future quantitative or statistical research.

As Gheradi and Turman (In Glaser and Strauss, 1967, pp. 82) state in their essay ‘Real men don’t collect soft data’, there is a perception that: “*Collecting hard data means making hard decisions...using hard words to press on to hard won results*” whereas “The softies…reveal the soft underbelly of the social sciences, are likely to soft soap those who talk to them”.

The team is mindful that, collecting qualitative data requires painstaking field work, accuracy, transparency and credibility both in the collection and interpretation of data. These interpretations and analysis are dealt with in *punctilious* detail in Chapter 5 to Chapter 10.

5.0 Results and Findings

5.1 Pilot Survey Results

The results contained qualitative and quantitative analysis of information obtained from all the 77 MBA Cohorts. The *quantitative* analysis was carried out using Microsoft Excel template, whilst the *qualitative* analysis was carried out to supplement observations, customer responses from surveys and internal interviews conducted by the MBA Project team

The Pilot Survey consists of a link to the survey which was emailed to the 77 MBA Cohorts at Nottingham University Business School, who are full-time, part-time or Executive MBAs. For the Pilot survey, 77 students were targeted and all 77 responded within 28 days.

The MBA Project team received the survey results via email directly sent to them. The results were coded with numeric to allow collection of data. *62%* immediately responded to *Question 1*, where did you hear Boots.com website from? came from Boots store and advertisement. Many MBA Cohorts found Boots.com website slow (pre-Phoenix launch) and preferred to shop in stores. Accordingly, the shopping convenience and experience was a major factor for their preference to shop in Boots stores, rather than online.

In *Question 2*, 73% noted that the three [3] types of frequently purchased products online on Boots.com are health, cosmetics and toiletries. This is attributable to Boots.com' strong brand value and brand assets which have gain public trust and image for decades. Alliance Boots long brand forte with Health and Beauty is a force to be reckon with.

In *Question 3,* 56% respondents would like new innovative products which Alliance Boots could sell such as organic clothing, medicinal products and healthy cooking products. Alliance Boots premium pricing and branding would fit neatly into these new product developments.

Table 7 – Questionnaire Result

Questionnaires	Response (%)	Questionnaire answers
Q1	62%	Heard Alliance Boots website from Boots store and advertisement.
Q2	73%	3 most frequently purchased products on Boots.com are health, cosmetics and toiletries
Q3	56%	New innovative products which Boots.com could sell include organic clothing, medicinal products and healthy cooking products
Q4	68%	Preferred Next Day delivery and suggested instantaneous delivery for food and drink
Q5	70%	Rated online shopping experiences as satisfactory
Q6	63%	Rated after sales services as satisfactory

Source: Street Survey August (2008)

In *Question 4*, 68% of respondents who shopped online preferred Next Day delivery and suggested instantaneous delivery for food and drink. They were acceptable with delivery charges as these were kept minimal. As far as supply chain management is concerned, Alliance Boots have excellent distribution channel through *i-force* in Birmingham and have been able minimise delivery costs. Nevertheless, about sixty [60] respondents suggested that delivery be *FREE* for purchases exceeding £25.

In *Question 5*, 70% respondents who shopped online, rated their experiences as *satisfactory* and 63% after sales services as *satisfactory* in terms of refund, exchange, repay service and payment services. Some respondents noted problems returning faulty electrical and beauty goods, whilst others felt that the refund system of Boots.com inefficient and slow. Most respondents opined that the questionnaire/survey addressed the question of market attractiveness for new products and supply chain management as intended for the internship.

5.2 Results Street Survey

The MBA Project team conducted the survey for 5 days in Nottingham City Centre in late July to early August 2008. A total number of **eighty eight [88]** customers/general public was targeted. The survey had a good blend of age group of population namely 16-20 years, 25-35 years, 36-55 years and 55 years and above respectively. 76 of the respondents who took time to answer the survey were females, while 12 were males. The sample size was 88 and the break-down of the survey are illustrated in Table 8 below:

Table 8 – Street Questionnaire Age Profile

Ranges of age	No	Boots Category (Age Profile)
16-20	37	Teens (youngest female group)
25-35	24	Charlotte (younger single female with no children)
36-55	12	Bob (Men)
36-55	8	Tina(Mum with children living at home)
55 and above	7	Betty(Oldest female Group-retired)
Total	88	

Source: Street Survey August (2008)

The school holiday period accounted for the high percentages of 16-20 years old group. The analyses are as follows: In *Question 1* of the survey, 78% of the respondents came to hear of Boots.com website from Boots store and advertisement, whilst, 14% via search engine and the remaining 6% through friends. (Refer Table 9, page 66)

In *Question 2*, the three [3] type of frequently purchased products online are health, cosmetics and fragrance for ladies, whilst for men nutrition, electrical and toiletries. This is attributed to the long established brand value and formidable brand assets of Alliance Boots. Boots.com's strong association with health and beauty command a very high position in public health care.

In *Question 3*, the survey noted new products as; 8% suggested garden products, 4% cleaning products, 17% pet products, 14% massage equipments and tools, 12% furniture products, 22% organic clothing products, 15% kids safety and 8% elderly moving chairs respectively. These suggestions were premised on the existing brand value of Alliance Boots which could be further nurtured and capitalised.

Table 9 – Street Questionnaire Result

Questionnaires	Response (%)	Questionnaire answers
Q1	78%	Heard Alliance Boots website from Boots store and advertisement.
	14%	Via search engine
	6%	Through friends
Q2	73%	3 most frequently purchased products on Boots.com are health, cosmetics and toiletries
Q3	8%	Garden products
	4%	Cleaning products
	17%	Pet Products
	14%	Massage Equipments and tools
	12%	Furniture products
	22%	Organic Clothing products
	15%	Kids Safety
	8%	Elderly Moving Chairs- Mobility Scooter
Q4	88%	Preferred Next Day delivery and suggested instantaneous delivery for food and drink
	7%	Preferred Standard Delivery (5 Days)
	5%	Delivery On Named Date
Q5	77%	Rated online shopping experiences as satisfactory
	18%	Rated online shopping as partially satisfactory
	5%	Rated online shopping as unsatisfactory

Source: Street Survey August (2008)

In *Question 4*, 88% preferred next day delivery particularly food and drink and were not too concerned with delivery charges. 7% preferred standard delivery (5 days) and 5% delivery on named date. However, only a handful suggested instantaneous delivery for food and drink, within reasonable range of delivery charges.

In *Question 5*, 77% rated their shopping experience at Boots.com as satisfactory, 18% as partially satisfactory whilst 5% unsatisfactory. This is explained by Boots.com's strong commitment to deliver the best for its customer and sharing its customers shopping experience. The ease and convenience of online shopping were strong attributing factors.

In *Question* 6, 68% rated after sales experience at Boots.com as satisfactory in terms of *refund* whilst 27% rated it as partially satisfactory and the remaining 5% unsatisfactory.

Boots.com has always placed their customers as first priority and goes very far to ensure high standards of performance, delivery and excellent customer shopping satisfaction.

Evidently, 71% rated after sales experience at Boots.com as satisfactory in terms of *exchange* whilst 27% rated partially satisfactory and the remaining 5% unsatisfactory at Boots.com. Boots.com's commitment in ensuring expeditious refund in after sales services is a strong corollary of its formidable brand assets and brand value in upholding customer satisfaction.

As regards after sales experience at Boots.com in terms of *repair service,* 63% rated after sales experience at Boots.com as satisfactory whilst 29% rated partially satisfactory and the remaining 8% unsatisfactory at Boots.com. Boots.com's commitment in ensuring reliable repair service is an endeavour by the management to deliver the best services and preserving its brand assets and brand value.

Finally, in respect of after sales experience at Boots.com in terms of *payment security*, 69% rated Boots.com as satisfactory whilst 21% rated partially satisfactory and the remaining 10% unsatisfactory at Boots.com. Boots.com's places high priority in ensuring internet payment security in order to prevent fraud, errors or systems failure.

In *Question* 7, many respondents suggested that there be online personnel or hot desk who could specifically dedicate time and resources in handling any problems, grievance and difficulties. In improving shopping experience, more regular updates of product description and prices would assist customer is making more valued decision expeditiously.

In *Questions 8, 9 and 10,* the profile of the respondents are analysed in gender category, age category and parenting status. The Boots age category profile include Teens (youngest female group), Charlotte (younger single female with no children), Bob (Men) and Tina (Mum with children living at home), and Betty (Oldest female Group-retired).

5.3 Results from Online Survey

The MBA Project team conducted the online survey through monkey survey, e-finance and e-retail forum in late July to early August 2008. A total number of **one hundred and fifty [150]** customers/general public was targeted. The survey had a good blend of age group of population namely 16-20 years, 25-35 years, 36-55 years and 55 years and above respectively. 119 of the respondents who took time to answer the survey were females, while 31 were males. The sample size was 150 and the break-down are in Table 10 below;

Table 10 – Online Survey Customer Profile

Ranges of age	No	Boots Category (Age Profile)
16-20	41	Teens (youngest female group)
25-35	30	Charlotte (younger single female with no children)
36-55	31	Bob (Men)
36-55	30	Tina(Mum with children living at home)
55 and above	18	Betty(Oldest female Group-retired)
Total	150	

Source: Online Survey August (2008)

The school holiday period accounted for the high percentages of 16-24 years old group. Detail analyses are in Table 11. The analyses are as follows: In *Question 1* of the survey, 52% of the respondents came to hear of Boots.com website from Boots store and advertisement, whilst, 45% via search engine and the remaining 3% through friends. The shopping experience and convenience at Boots stores may explain the level of satisfaction gained and preferences for stores.

In *Question 2,* the three [3] type of frequently purchased products online are health, cosmetics and perfumes for ladies, whilst for men nutrition, electrical and toiletries. This is explained by the long standing trust and quality and formidable brand assets of Alliance Boots. Boots market leadership in Health and Beauty rank high echelon on public domain of health care.

In *Question 3,* the survey asked for new products and 12% suggested optical products, 7% electrical gadgets, 19% pet products, 13% organic baby foods, 7% furniture products, 25% organic clothing products, 12% organic nappies and 5% elderly moving chairs.

These suggestions garnered in the survey attest to the formidable brand value of Alliance Boots and its high standing as a Health and Beauty specialist.

Table 11 – Online Survey Result

Questionnaires	(%) response	Questionnaire answers
Q1	52%	Heard Alliance Boots website from Boots store and advertisement.
	45%	Via search engine
	3%	Through friends
Q2	81%	3 most frequently purchased products on Boots.com are health, electrical beauty aids, cosmetics & perfumes for ladies, whilst for men nutrition, electrical and toiletries
Q3	12%	Optical products
	7%	Electrical gadgets
	19%	Pet products
	13%	Organic baby foods
	7%	Furniture Products
	25%	Organic Clothing Products
	12%	Organic Nappies
	5%	Mobility Scooters
Q4	92%	Preferred Next Day delivery and suggested instantaneous delivery for food and drink
	5%	Preferred Standard Delivery (5 Days)
	3%	Delivery On Named Date
Q5	71%	Rated online shopping experiences as satisfactory
	22%	Rated online shopping as partially satisfactory
	7%	Rated online shopping as unsatisfactory

Source: Online Survey August (2008)

In *Question 4*, 92% preferred next day delivery particularly food and drink and were not too concerned with delivery charges. 5% preferred standard delivery (5 days) and 3% delivery on named date. However, only a handful suggested instantaneous delivery for food and drink, within reasonable range of delivery charges.

In *Question 5*, 71% rated their shopping experience at Boots.com as satisfactory, 22% as partially satisfactory whilst 7% unsatisfactory. This testifies Boots.com's unrelenting drive and tenacity to deliver the best for its customer and sharing its customers shopping experience. The online shopping conveniences were strong attributing factors.

In *Question* 6, 63% rated after sales experience at Boots.com as satisfactory in terms of *refund* whilst 29% rated it as partially satisfactory and the remaining 8% unsatisfactory.

Boots.com has always placed their customers as first priority and goes very far to ensure high standards of performance, delivery and excellent customer shopping satisfaction.

Evidently, 59% rated after sales experience at Boots.com as satisfactory in terms of *exchange* whilst 36% rated partially satisfactory and the remaining 5% unsatisfactory at Boots.com. Boots.com's awareness of the criticality to sustain online shopping experience and convenience thus ensuring instantaneous refund in after sales exemplifies its brand equity and brand assets in honing customer experience.

As regards after sales experience at Boots.com in terms of *repair service*, 61% rated after sales experience at Boots.com as satisfactory whilst 33% rated partially satisfactory and the remaining 6% unsatisfactory at Boots.com. Boots.com's pledge in providing reliable repair service is unrelenting by the management to deliver the best services and preserving its long standing reputation and brand esteem.

Finally, in respect of after sales experience at Boots.com in terms of *payment security*, 69% rated Boots.com as satisfactory whilst 21% rated partially satisfactory and the remaining 10% unsatisfactory at Boots.com. Boots.com's has invested heavily in technological resources to ensuring smooth internet payment security in order to prevent fraud, errors or systems failure.

In *Question* 7, many respondents suggested that there be a feedback forum to garner levels of suggestions from the customers' perspective in dealing with online transaction. To improve shopping experience, continuous product developments are being envisaged and an interactive model of web-serving should be made.

In Questions 8, 9 and 10, the profile of the respondents are analysed in gender category, age category and parenting status. The Boots age category profile include Teens (youngest female group), Charlotte (younger single female with no children), Bob (Men) and Tina (Mum with children living at home), and Betty (Oldest female Group-retired).

6.0 Customer Analysis

Customer analysis is an essential step before the decision of market strategy is made. Marketing plan would only be more successful when implemented with consideration of the corresponding targeted customers.

6.1 Customer Segmentation

Boots has primarily focus on health and beauty sector which has a larger female customer base. When Boots decide to move into multi-channel retailing, it naturally transferred majority of the products offered in store onto Boots.com website. Boots currently has segmented their customer into the following categories; they are Betty, Tina, Charlotte, Bob and Teens. These groups are determined according to variables such as age, gender, family size, lifestyle and responds to a product. These are a combination of Demographic, Psychographic and Behavioural segmentation variables. Table 12 shows the classification of Boots.com customer segmentation.

Table 12 - Boots.com Current Customer Segmentation

	Betty	Tina	Charlotte	Bob	Teens
Gender	Female	Female	Female	Male	Female
Age	55+	20-55	20-55	N/A	20-
Children	Yes (left home)	Yes (at home)	No	Unknown	No
Online custom	8%	39%	41%	8%	4%
Online spending	9%	47%	35%	8%	2%
Product Category of interest	Health, beauty	Family health, beauty	Beauty	Branded product, latest gadgets	Branded cosmetics, skincare, trendy gadgets

Source: Boots.com (2008)

Being a specialist in health and beauty industry the above segmentation can be generally agreed. However, base on a sociological shift by recent report a new segment needs to be added to achieve the goal of increase Boots online sales, the new segment is married couple with no children. This segment will be referred as George and Mary from here on.

According to data from Keynote Report – Men & Women's Buying Habits of 2008, number of households of two with no children has outnumbered all other types of households since 1991 with an increasing gap.

George and Mary is the perfect match to online shopper profile. They are either cohabiting or married. They are usually higher educated, they are the 'cash rich and time poor' consumer who need convenience offered by online shopping. They are capable and willing to spend on premium goods if the product matches with their needs. This segment can help to shift Boots.com from a volume driven into a value driven business.

Bob is the male segment who represents 8 percent for both the online customer and spending. Unlike women prefer physical shopping, men enjoy the hassle free online shopping. They spend more online and their conversion rate is the highest among all the segments. Because of different interest from different age group within the male sector, it is needed to divide Bob into more specified segments for marketing purpose. Male falls into the age group 15 to 24 will be referring as younger Bob with increasing interest in toiletries and fragrances products. Male over 25 years old will be referring as older Bob. According to Key Note Report (2007) the typical online customer is male between ages 25 to 34. With combination of shopping behaviour and spending power, older Bob should be one the target segment for Boos.com.

Therefore, the suggested new customer segmentation for Boots.com is summarized in Table 13 shown below:

Table 13 - Boots.com New Customer Segmentation

Betty	Over 55 with no children living at home, typically retired
Tina	Between age 20 and 55 with dependent children
George and Mary	Married / cohabiting couple between age 20 and 55 with no children
Charlotte	Single women between age 20 and 55
Older Bob	Male above age 25
Younger Bob	Male between age 15 to 24
Teens	Single female under age 20

Source: Boots.com (2008)

6.2 Customer Targeting

After segmentation, Boots.com needs to decide wish segment they should target by using the scorecard formulated by the criteria Best R. proposed. The selection criteria are size and growth of the segment, competitiveness Boots can offer to the particular segment, the compatibility of a segment with Boots' competences and lastly does the segment compatibility matches with Boots' current goal for increase the sales value.

The population growth rate for Betty is likely to increase by more than 6 percent in the next three years because of aging population. Even more growth (11.6 percent) is expected for women between the ages of 60 to 74 years old (see Appendix 4). Being a pharmaceutical led specialist in health and beauty industry, Boots has every capability to fulfil Betty's need and expand it further.

However, development of pharmaceutical product takes a much longer time and this could not match with Boots.com strategic goal to increase the sales in a shorter term. Furthermore, Boots currently already offers an extensive range of health and nutrition pharmaceutical product to the customers, the urgency for further product development is reduced due to its current comprehensive product range in this category. As a result of mismatched segment compatibility with Boots 'current mission, Betty is not the priority target segment at this stage.

Tina is the mother with dependent children living at home. She controls the majority spending of the household, and she needs to shop for the whole family. She also has a wider product range of interest for the same reason. Tina is likely to be working, taking care of her children or even taking care of the elderly in the family. She is likely to take the advantage of online shopping for reasons such as convenience and time saving.

Although number of households with dependent children is likely to decrease due to recent statistic but this does not change the fact that Tina is in control of most household spending. She looks after the husband, Betty, herself and also has power over Teens' spending. Tina will continue to be the most important customer for Boots.com.

George and Mary is the new segment developed for Boots. According to Keynote report 2006 households of couple with no children have outnumbered all other types of households in the UK. Couple falls in this segment are referred to as DINKY in Key Note report which means

"Double Income No Kids Yet"; therefore, they have more money and time to spend on leisure activities. If Boots can develop products that are suitable and attractive for both George and Mary, this segment could become the new cash cow for Boots.

Charlotte is single female with no children with most interest in beauty products. She is currently the second most important customer segment for Boots.com. Boots offers its own strong premium beauty brand No7 products along with other high street premium beauty product online. Boots has a dedicated department for managing and developing No7 products and it has less power over other high street brands which are also available at many online stores. It is suggested for this customer segment Boots.com should focus on increase the sales through various marketing methods such as promotion, exclusive package offers and etc.

Bob is the male segment who represents 8 percent for both the online customer and spending. According to Key Note Report (2002) the typical online customer is male between ages 25 to 34. Unlike women prefer physical shopping, they enjoy the hassle free online shopping. They spend more online and their conversion rate is the highest among all the segments. Because of different interest from different age group within the male sector, it is needed to divide Bob into more specified segments. Male between ages 15 to 24 has most interest for toiletries and fragrances products which continues to grow. Male falls into the age group 15 to 24 will be referring as younger Bob. Male over 25 years old will be referring as older Bob. With combination of shopping behaviour and spending power, older Bob should be one the target segment for Boots.com.

Teens are the youngest female group and account for very small percentage of Boots current sales. Her spending is limited because majority of them comes from allowances given by the parents. Boots should still invest in product for Teens' interest for retain customer from this segment for building the brand image so Boots can attract their future spending they move into Tina, Charlotte segments.

A summary of customer segment scorecard result is shown in Table 14.

Table 14 – Boots.com Customer Segment Scorecard

Selection Criteria	Betty	Tina	George & Mary	Charlotte	Younger Bob	Older Bob	Teens
Size	3	2	1	3	4	1	4
Growth	2	3	1	2	4	2	4
Competitiveness	2	2	1	1	3	2	3
Competence Compatibility	1	1	1	1	1	2	2
Mission Compatibility	4	1	1	3	2	1	4
Total Score	12	9	5	10	14	8	17

The result of target segment selection scorecard shows that base on Boots.com's primary mission 'hungry for sales' the target customer segment should be targeted are Tina, George and Mary and followed by Bob.

6.3 Boots Positioning

The essential of the positioning problem is to give customer more than one good reason for choosing Boots brand. For instance, in order to differentiate itself from other retailer Superdrug adopted a fashion-let approach by offering a greater range of budget cosmetic product. As a result of this strategy, Superdrug has successfully increased its sales in 2007 by attracting younger shopper.

Being a pharmacy-let health and beauty specialist brand since 1849, Boots has established a trusting brand image and offers a wide range of exclusive products such as skincare products, Over-the-counter (OTC) medicine[5] to the customers. Therefore, Boots has clearly established the Point-of-difference (POD)[6] which associates with their strong brand image of a health and beauty specialist.

[5] OTC medicine: Over-the-counter medicine means medicine can be obtained without prescription such as cold and flu remedies.

[6] Points-of-difference (PODs) are attributes or benefits strongly associate with a brand, positively evaluate and believe that they could not find to the same extent with a competitive brand. (Kotler & Keller, 2006)

However, Health and beauty sector is different from other sectors of the retail industry where grocers account for more sales than specialist. The reason being grocery stores provides higher convenience for customer to buy health and beauty products when doing their essential regular grocery shopping. The same principle can also be utilized by Boots.com for customer attraction.

Currently Boots.com main customers are Tina and Charlotte who are interested in health, beauty treats and premium beauty. Tina, George and Mary, and Bob are the target customer segmentation that are identified for Boots.com primarily goal of increase sales. Boots should aim to attract their targeted customer with products that are offered exclusively by Boots. Then draw them into the extend product line that are especially developed according to their interests and needs.

Summary

Emerging customer segments for Boots.com are identified by considering future social trends, spending behaviour, interests and future growth for each group. Tina is mom with dependent children at home; she is Boots.com primary target customer because of the number of family members need to look after by her. Tina usually does the majority of household shopping for the families; therefore, she is first target customer. George and Mary is the newly identified customer base on the rising social trends. George and Mary are couples with no children; they are targeted for the willingness to spend and high spending power. After distinguished target customers, Boots.com could crosscheck the market trends with targeted customer segmentation for achieve the strategic goal of increase sales by product line extension.

7.0 Offensive and Defensive Marketing Strategies

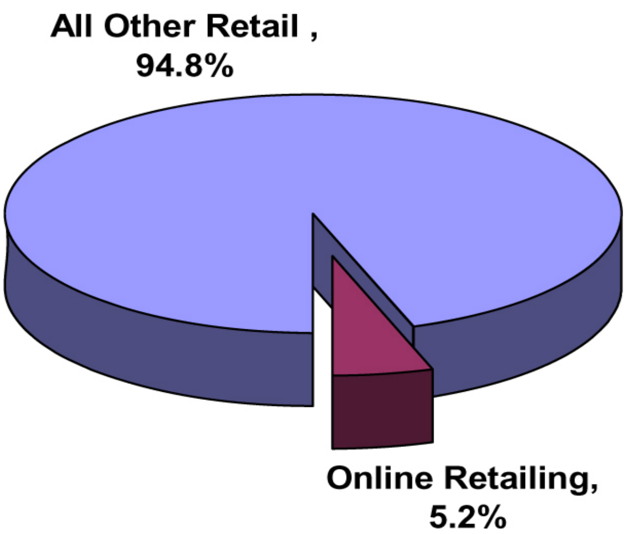
By analysing the target customer of Boots.com in Chapter 6, we need to consider the marketing strategies that Boots.com needs to approach for growth perspective. For the same, in this Chapter, we would analyse Health and Beauty market and Boots.com's current market position and which strategic marketing approach would enhance Boots.com's growth.

7.1 Market Analysis

According to Jennifer Marks (hometextilestoday.com, 2008) consumers are always unsettled and hence keeps the target moving. In indecisive market conditions like today retailers tend to move into defensive market strategy. "The consumer pulls back. So the retailer pulls back. So the supplier pulls hack. So the supplier's vendor pulls back". Thus when the market gets forceful it is imperative to have a defensive strategy however offensive strategy is necessary for the way forward for the growth.

As illustrated in Graph 1 below, analysis percentage of sales in the UK online market constitute 5.2% of the total retail sector as a whole.

Graph 1 - Online Retail Market Share



Source: Verdict e-Retail Report (2008)

As illustrated in Table 15, today e-retail market is moving at a rapid growth rate of 35.0% year-on-year with a market size of £14.7 billion. This attest to the fact that the online market has become an increasingly attractive channel for retailers.

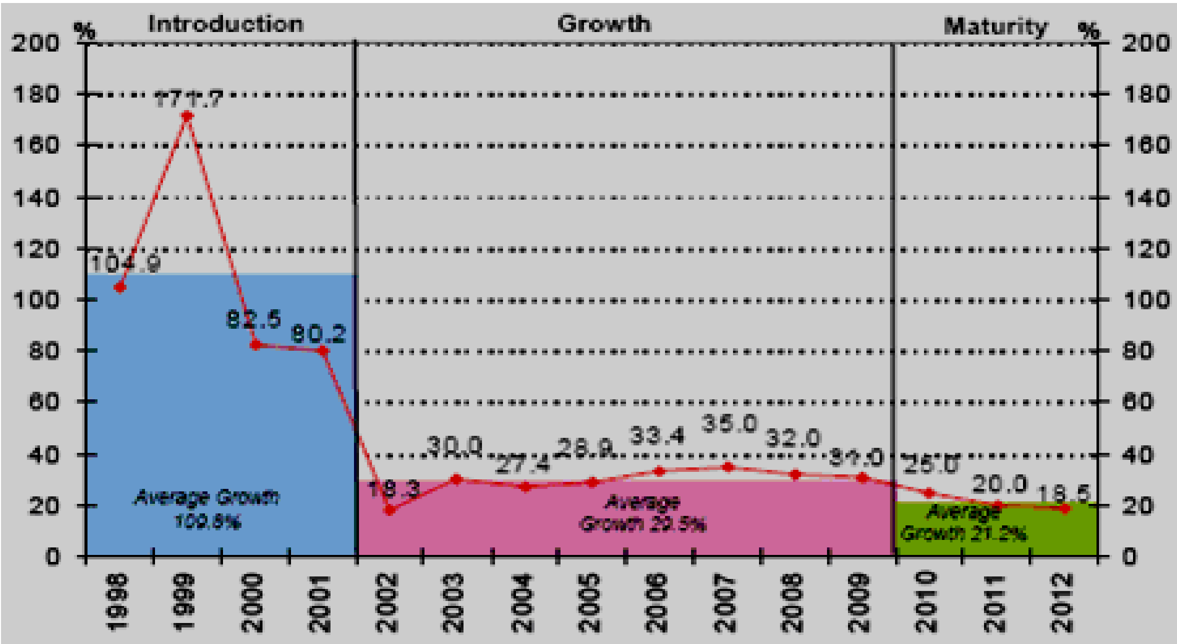
Table 15 - Year on Year Online channel Growth

	Total Online Spending £m	Y-o-Y Growth %	As a % of Retail Spending %
2002	3,834	18.3	1.6
2003	4,984	30.0	2.0
2004	6,350	27.4	2.4
2005	8,183	28.9	3.1
2006	10,917	33.4	4.0
2007	14,738	35.0	5.2

Source: Verdict e-Retail Report (2008)

The Graph 2 below illustrates the online market growth from 1998-2012. The graph suggests that the e-retail industry today is in its late growth stage.

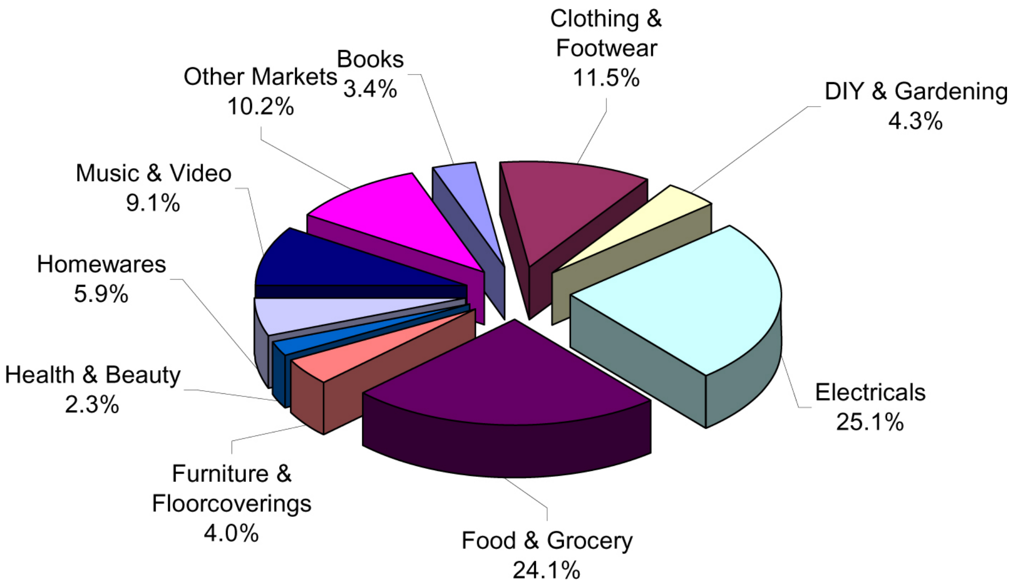
Graph 2 - e-Retail Industry Growth Stages



Source: Verdict e-Retail Report (2008)

The Graph 3 below provides the breakdown of the online market in UK, wherein the Health and Beauty market holds 2.3% of the market share. According to Verdict (2008) the retailers in the Health and Beauty sector has major prospects for growth.

Graph 3 – Health and Beauty Market Share



Source: Verdict e-Retail Report (2008)

Table 16 – UK Online Hot Shop List

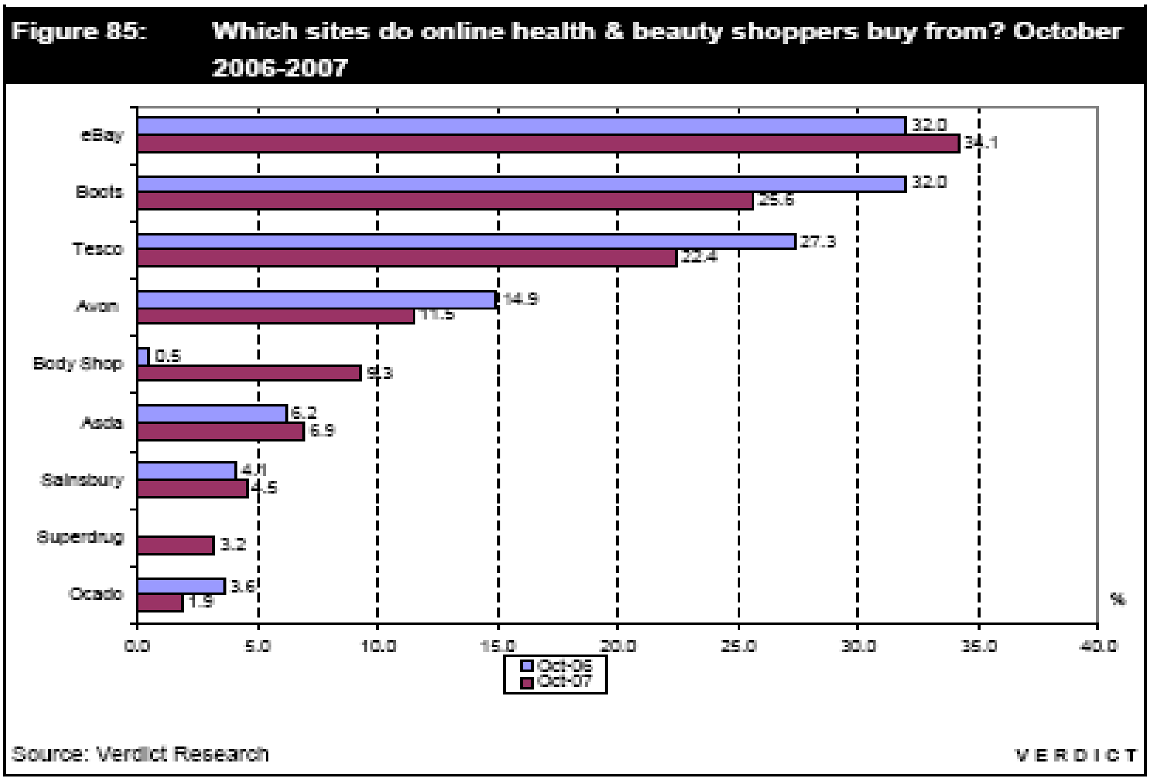
FEBRUARY 2008

	Nov 07		
1	= 1	Amazon UK	www.amazon.co.uk
2	▲ 3	Argos	www.argos.co.uk
3	▼ 2	Play.com	play.com
4	▲ 5	Apple Computer	www.apple.com
5	▼ 4	Tesco.com	www.tesco.com
6	▲ 7	Amazon.com	www.amazon.com
7	▲ 13	Thomson Holidays	www.thomson.co.uk
8	▲ 9	Tesco Direct	direct.tesco.com
9	▼ 6	Dell EMEA	www.euro.dell.com
10	▲ 12	Expedia.co.uk	www.expedia.co.uk
11	▲ 19	easyJet	www.easyjet.co.uk
12	▼ 8	Marks & Spencer	www.marksandspencer.com
13	▼ 10	Next	www.next.co.uk
14	▲ 15	Currys	www.currys.co.uk
15	▼ 14	lastminute.com	www.lastminute.com
16	▼ 11	HMV.co.uk	www.hmv.co.uk
17	▲ 18	RyanAir	www.ryanair.com
18	▲ 20	British Airways	www.britishairways.com
19	▼ 17	John Lewis	www.johnlewis.com
20	▲ 21	Comet UK	www.comet.co.uk
21	▲ 24	PC World	www.pcworld.co.uk
22	▼ 16	Ticketmaster UK	www.ticketmaster.co.uk
23	▲ 48	Thomas Cook	www.thomascook.com
24	▲ 30	Ebuyer	www.ebuyer.com
25	▼ 23	GAME	shop.game.net
26	= 26	O2 Shop	shop.o2.co.uk
27	▲ 29	ASOS	www.asos.com
28	= 28	Debenhams	www.debenhams.com
29	▲ 32	B&Q	www.diy.com
30	▲ 34	Littlewoods	www.littlewoods.com
31	▼ 27	Symantec Store	www.symantecstore.com
32	▲ 33	The Orange Shop	shop.orange.co.uk
33	▲ 36	ASDA	www.asda.co.uk
34	▼ 22	Woolworths UK	www.woolworths.co.uk
35	▼ 25	Boots	www.boots.com
36	▲ 39	Odeon Cinemas	www.odeon.co.uk
37	NEW	LOVEFiLM	www.lovefilm.com
38	▲ 43	IKEA	www.ikea.com
39	▲ 40	Screwfix Direct	www.screwfix.com
40	▼ 35	QVCUK.com	www.qvcuk.com
41	▼ 38	Topshop	www.topshop.co.uk
42	▼ 37	Carphone Warehouse	www.carphonewarehouse.com
43	▲ 45	Sainsbury's	www.sainsburys.com
44	▲ 50	Thomsonfly	www.thomsonfly.com
45	▼ 41	HP	www.hp.com
46	BACK	Flybe.com	www.flybe.com
47	BACK	Maplin Electronics	www.maplin.co.uk
48	▼ 46	Dixons	www.dixons.co.uk
49	▼ 47	Apple iTunes	www.apple.com/itunes
50	▼ 42	River Island	www.riverisland.com

Source: Verdict e-Retail Report (2008)

The Table 16 in page 79 shows the key e-retailers in the UK market (Hit wise, 2008). The list shows that the Boots.com sales have dropped its market position. In Figure 4, according to Verdict (2008) market report, Boots has fallen back in its market position specifically to Health and Beauty online market to eBay. Boots attractiveness has reduced significantly to its key competitors like Superdrug and Body shop.

Figure 4 - Which sites do online health & beauty shoppers buy from October 2006-2007



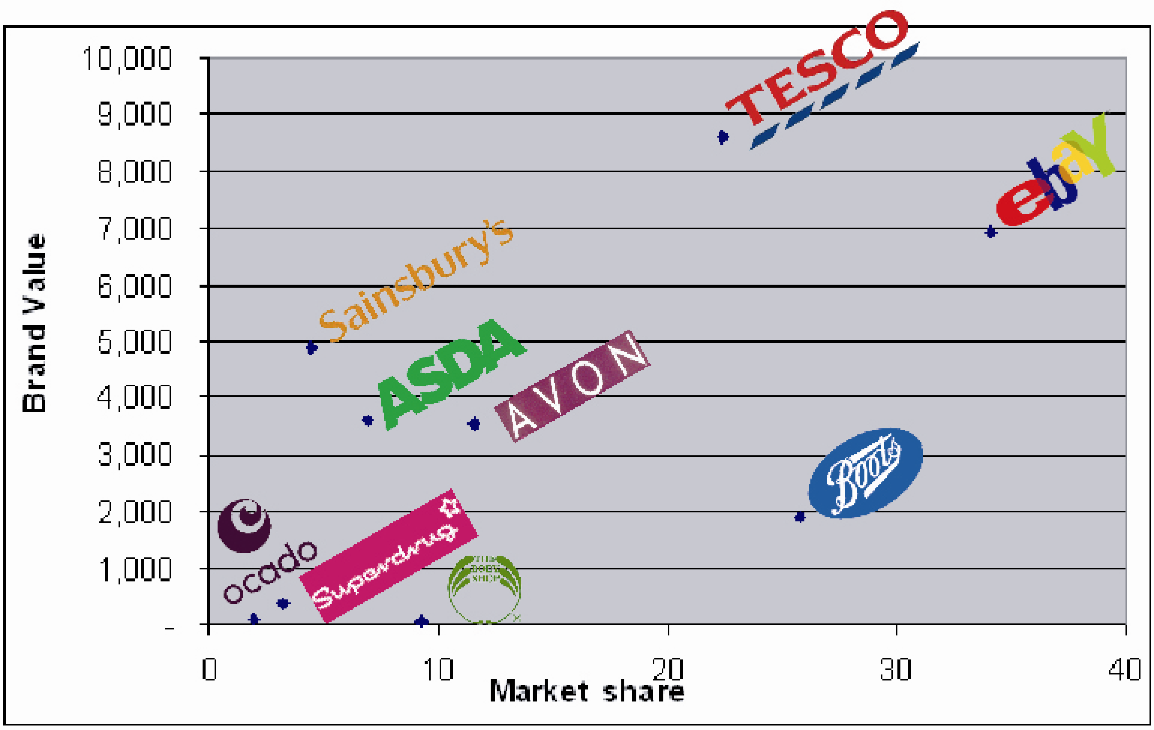
Base: Online health & beauty shoppers 15+

Source: Verdict e-Retail Report (2008)

Boots is also facing competition by the entry of the grocery retailers like Tesco, Asda and Sainsbury who have entered the health and beauty market. These major retailers have captured 40.06% of the market. Boots is also facing tough competition from the specialist retailers in health and beauty market like Superdrug who has positioned themselves with a fashion led approach by targeting the younger age segments.

Also Catalogue-based retailing companies in the health and beauty like Avon have entered into the online market to increase and facilitate the growth of its sales force in the direct selling scheme. In 2008 internet pure players like Amazon has also extended its product range in the health and beauty segment.

Diagram 22 – Online Health and Beauty Market Share and Brand Value



Source: Verdict (2008)

Diagram 22 illustrates market share and brand value for e-retailers. Boots brand is highly valued and has high market share because it is a specialist in Health and Beauty. The diagram shows that Asda, Sainsbury's Tesco are high in brand value but low in market share because they are grocers, whereas e-bay is high in brand value and market share due to the fact that it is a pure internet player.

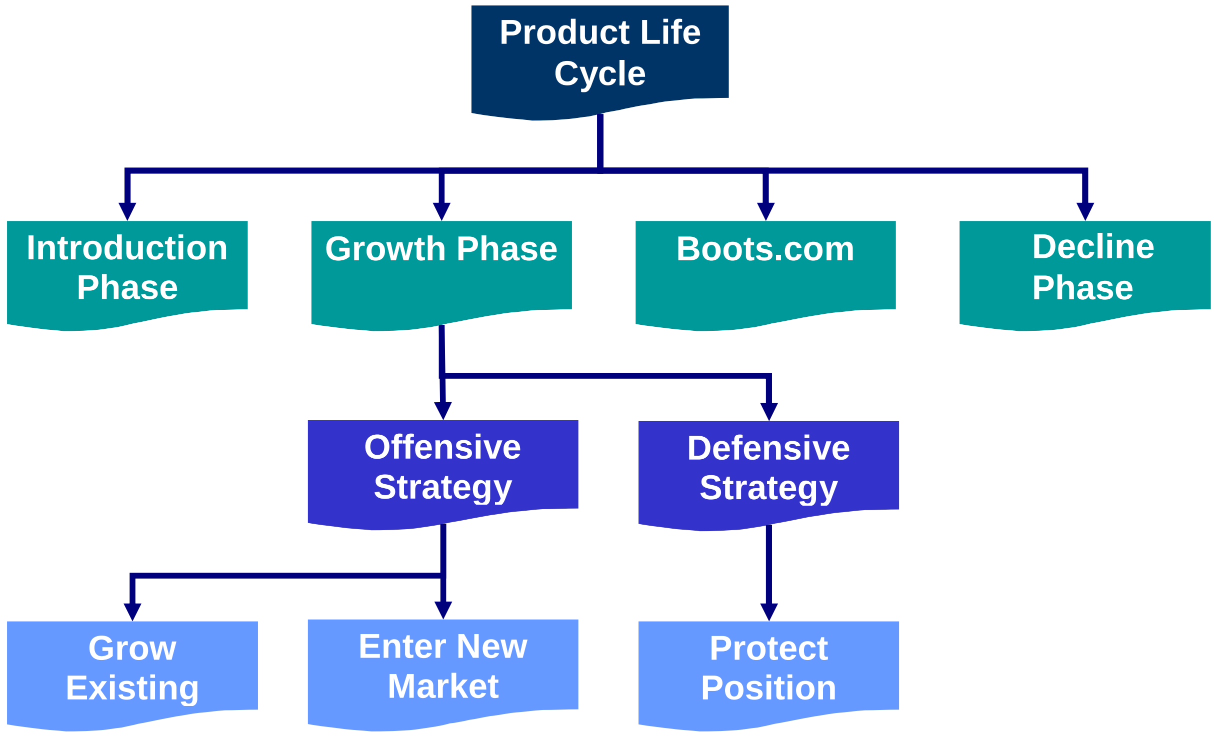
Table 17 - Characteristics of Growth Stage

	Introduction	Growth	Maturity	Decline
Characteristics				
Sales	Low sales	Rapidly rising prices	Peak sales	Declining sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising profits	High profits	Declining profits
Customers	Innovators	Early adopters	Middle majority	Laggards
Competitors	Few	Growing number	Stable number beginning to decline	Declining number
Marketing Objectives				
	Create product awareness and trial	Maximize market share	Maximize profit while defending market share	Reduce expenditure and milk the brand
Strategies				
Products	Offer a basic product	Offer product extensions, service, warranty	Diversify brands and items models	Phase out weak
Price	Charge cost-plus	Price to penetrate market	Price to match or best competitors	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase out unprofitable outlets
Advertising	Build products awareness among early adopters and dealers	Build awareness and interest in the mass-market	Stress brand differences and benefits	Reduce to level needed to retain hard-core loyal
Sales Promotion	Use heavy sales promotion on entice trial	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level

Source: Kotler, P. (2003)

The characteristics of growth stage for products are shown in Table 17 above. It can be seen that Boots.com is in the growth stage and has strong prospects in the online market as it is a specialist in Health and Beauty keeping the brand image and market share.

Diagram 23 – Product Life Cycle



Verdict (2008) Research found that the key challenge for online health and beauty market is that most of the goods purchased are small and can be easily carried, thus making less attractive for customers to purchase online. The future forecast suggests that the online health and beauty market would be the smallest market with much lower customer penetration level.

However the retailers have prospects for customer penetration at the premium end. Considering the grocers and internet pure players entering into the market Boots.com needs to have stronger strategic marketing approach for sustaining he online market.

As shown in Diagram 23 &Table 17, considering the current market environment, Boots.com is in its late growth stages of online health and beauty market. It depicts the characteristics, marketing objectives and strategies with respect to each level in the Product life cycle.

Boots.com being in the growth stage of the e-retail industry its key marketing objective is to increase the market share by market expansion strategy i.e. extending its product line or new categories or offerings at the product level. Also due current market competition Boots.com is losing its position in the online health and beauty market. As intuitively suggested by Best (2005), firms need to consider a mix of offensive and defensive strategies for increasing its market share and protecting its position.

7.2 Offensive Strategies:

"Grow in Existing Market": From Boots.com's perspective growth in the existing market could be achieved by increased by its growth in revenue per customer. Revenue per customer can be built with a strategy to build price premiums. Business that enhance their products by adding value-added services or building a superior reputation for quality can charge higher prices than competing business and still maintain a superior customer value(R. J Best, 2007)

Thus, Boots.com needs to extend its product line or category line in existing business by providing more shopping options for customers in various segments. This would make the online shopping more effective experience for Boots.com customers. Furthermore, this would also increase the numbers in the online basket as a result the conversation rate also increases. For example, Boots.com's brand equity in No.7 Protect & Perfect Beauty Serum, No. 7 Rewind & Perfecting Serum, Boots Soltan Sun care command a premium price relative to other competing beauty skin care. This premium is based on superior product quality and reputation for innovation and technology. Another approach for Boots.com could be entering into new market segments to tap the missed opportunities.

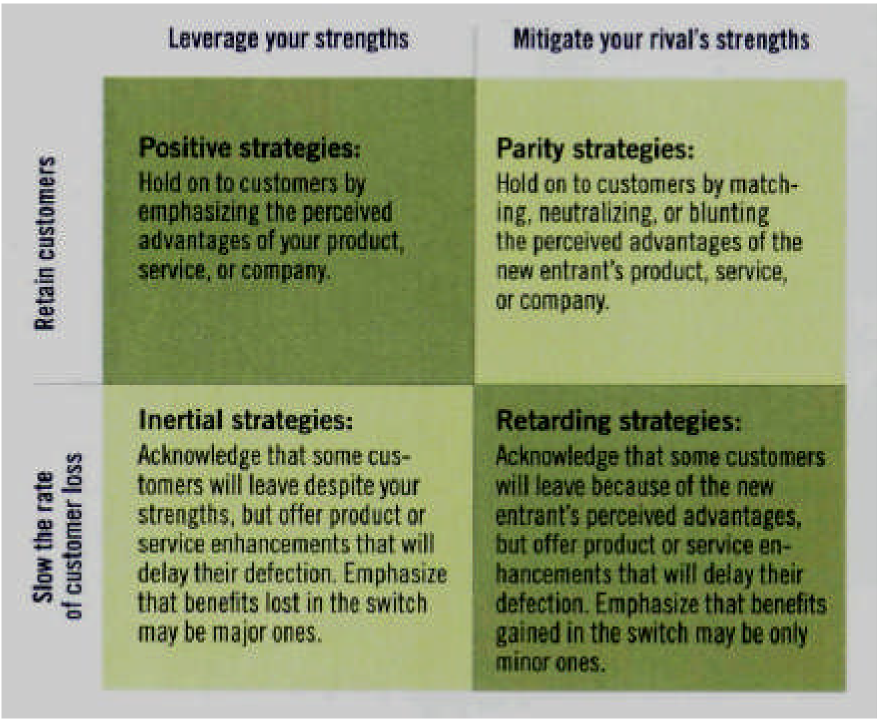
"Enter New Markets": In this scenario Boots.com could consider leveraging its existing brand value for entering into the related markets in the Health and Beauty. For example, beauty skin care and ailment therapy or hot salt water bathing, sauna treatment, etc. With demand in this segment growing faster than in any other segment, Boots.com can respond with a new product designed for the price-performance needs of the segment. Thus by employing this approach Boots.com could widen its customer segment and fulfilled its customer's requirements. This offensive strategic market plan can provide a new source of sales revenues and profitability for Boots.com.

Nevertheless, the approach of entering unrelated new market could be risky since Boots.com has established itself as a niche player in the Health and Beauty segment.

7.3 Defensive Strategies:

"Protect Position": Boots.com has strong share positions that generate considerable sales revenues and profits that direct affect the financial performance of this revenue segment. By 2012 Health and Beauty segment would be reduced to the smallest segment compared to books segment in e-Retail (Verdict, 2008). Also the market penetration also would be reduced. Hence, defensive strategies are intended to protect these high-share positions are critical to short-run profit performance and provide a major source of cash for investment in offensive marketing strategies for future growth and profit performance. Thus it is imperative for Boots.com to protect its market share and retain its existing customer.

Diagram 24 - Defensive Strategies



Source: Robert (2005)

According to Robert (2005) firms could retain its customers by breaking the perceptions created by new entrants by improving or matching to the competition (Parity Strategies) e.g. in terms of product choices etc. Also it could reduce its customer loss by employing retarding strategies i.e. customer perception for switching could be due to minor benefits which could be emphasized. In the Chapter 8 we would analyse the offensive strategy in detail considering the growth in the existing market or growing in the new market for boots.com considering parameter like market, product and brand.

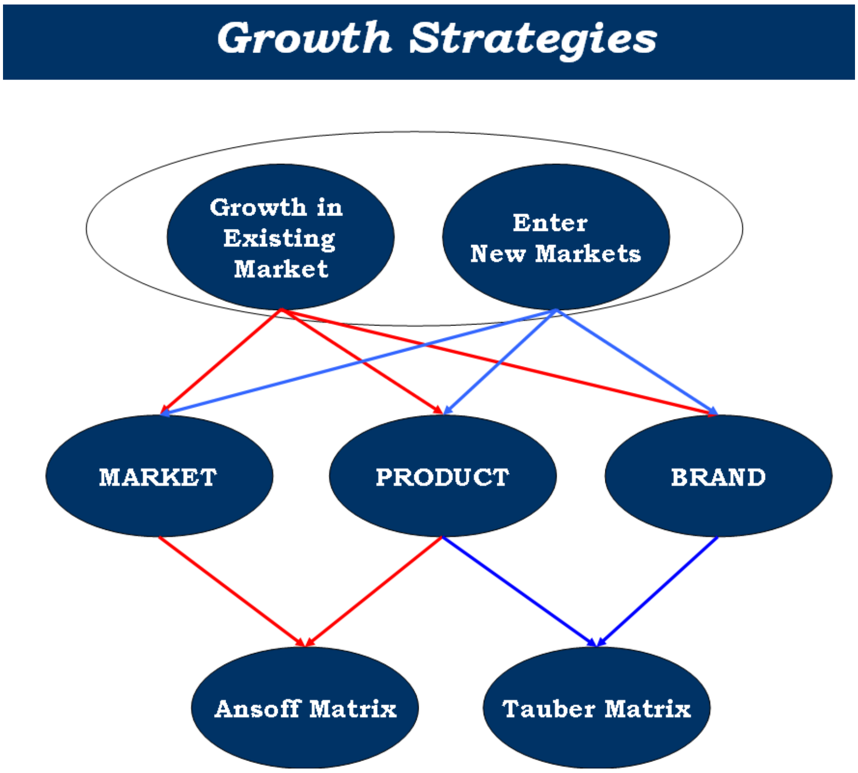
Summary

By analysing the e-retail market we could understand that it's in the growth stage and has become an increasingly attractive market for all the retailers. The entry barrier for the online market is quite low and also the entrants of supermarket, internet pure players and specialists the market is getting concentrated. Thus it has become an imperative for Boots.com to employ defensive strategy for protecting the current market share. However Boots.com needs to employ aggressive offensive strategy considering the growth in the existing market or the new market.

8.0 Extending Product Line and Brands

As discussed in the Chapter 7 we learn that online industry is in the growth stage and Boots.com needs employ aggressive offensive strategy in order to sustain in the e-Retail market. For this reason, Boots.com needs to consider whether it should stay in the existing market or move into new market. Diagram 25 below illustrates the approach to be considered for analysing the same**.** Here we would consider three parameters of market, product and brand at a 360° view and analyse the same with Ansoff Matrix and Tauber Matrix.

Diagram 25 - Growth Strategies

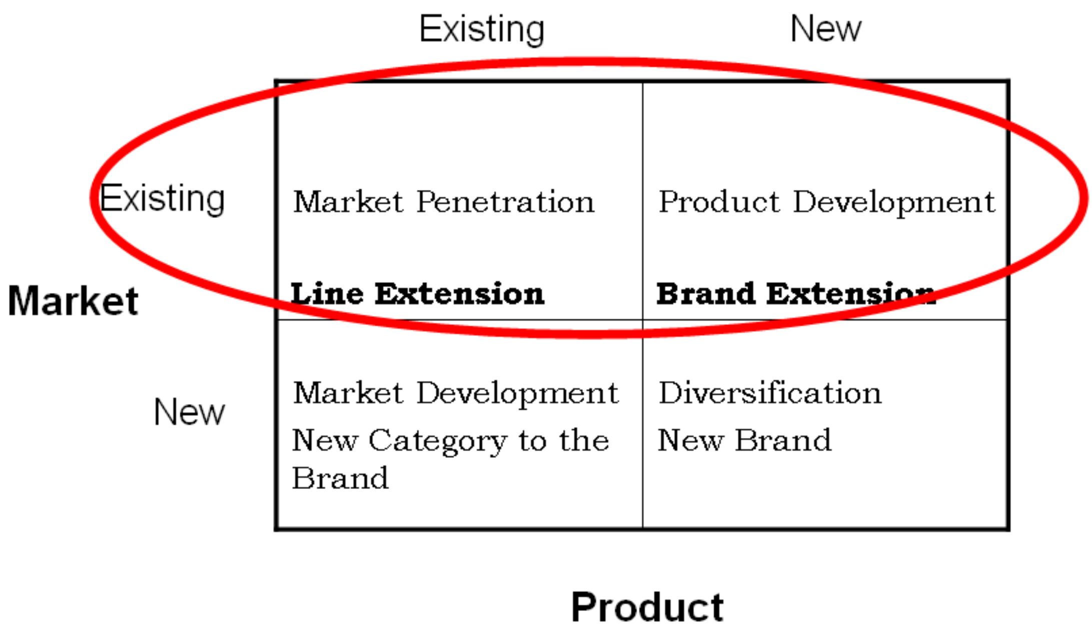


8.1 Analysing Market and Product Parameters

Ansoff Matrix

From Boots.com's product or category perspective Ansoff matrix structure would provide the right structure for developing the strategic choices which would be growth imperative. The growth prospects would be a combination of new/existing products and new/existing markets. The following options are illustrated in diagram 26 below, page 88.

Diagram 26 – Ansoff Matrix



Source: Jobber (2007)

Diagram 27 – Product and Market Parameters for Analysing Ansoff Matrix

New products	+ *New markets*	= *Growth direction*
No	No	Market penetration
No	Yes	Market development
Yes	No	Product development
Yes	Yes	Diversification

Source: Simmonds (1968)

Considering Boots.com's growth objective, it needs to consider its past strengths and directions, as way forward to maintain its market position as specialists in the Health and Beauty segment. This would act as a common thread in further growth in the Health and Beauty retail market (Diagram 27).

Market Penetration

By this approach Boots.com could increase its market share in the existing market with the line extension strategy in the existing product line and also it is a low risk strategy. Being a Health and Beauty specialist it could attract users from its competitors like grocers and internet pure players showcasing its competitive advantage and brand image. This could be enabled by effective marketing communication tools which would attract the competitor's customers or promote the existing customers to use more Boots products. However this strategy would have been a risk if only market penetration strategy would have been used for closing the gap since it would be been defenceless to products in the market i.e. reducing the brand lifecycle. This strategy needs to focused on the most profitable customer segment i.e. Tina. However the risk associated with such approach could be cannibalization of sales for the key product lines for example Coke and Diet Coke.

Product Development

Diagram 28 illustrates the current position of Boots.com in the online retail market. By employing this approach Boots.com could sell new products from the new category killers to the existing markets. This approach could be achieved by employing brand extension strategy. This could be achieved by understanding the market trends and consumer expenditure in the Health and Beauty market. Similarly Boots.com could use this strategy for targeting the emerging segment for extending the line of products. We could benchmark Amazon wherein it started as specialists in Books in the internet market. Later successfully added new category killers like toys, music etc. Here the focus could be on emerging customer segments like George and Mary (DINKY's) and older Bob. (Jobber, 2007)

Diagram 28 – Boots.com Positioning

By employing Market Development and Diversification strategy Boots.com would be moving away from the existing market of Health and Beauty (H&B), since Boots is a specialist in the H&B market. This would be riskier strategy for Boots.com since it would affect the brand image and value.

Thus these combinations of strategic choices enable Boots.com to achieve their growth objectives. We discuss further in this chapter Tauber matrix for formulating marketing strategy of line extension since Ansoff matrix provides strategic choices from markets-product perspective only whereas Tauber matrix considers product-brand perspective.

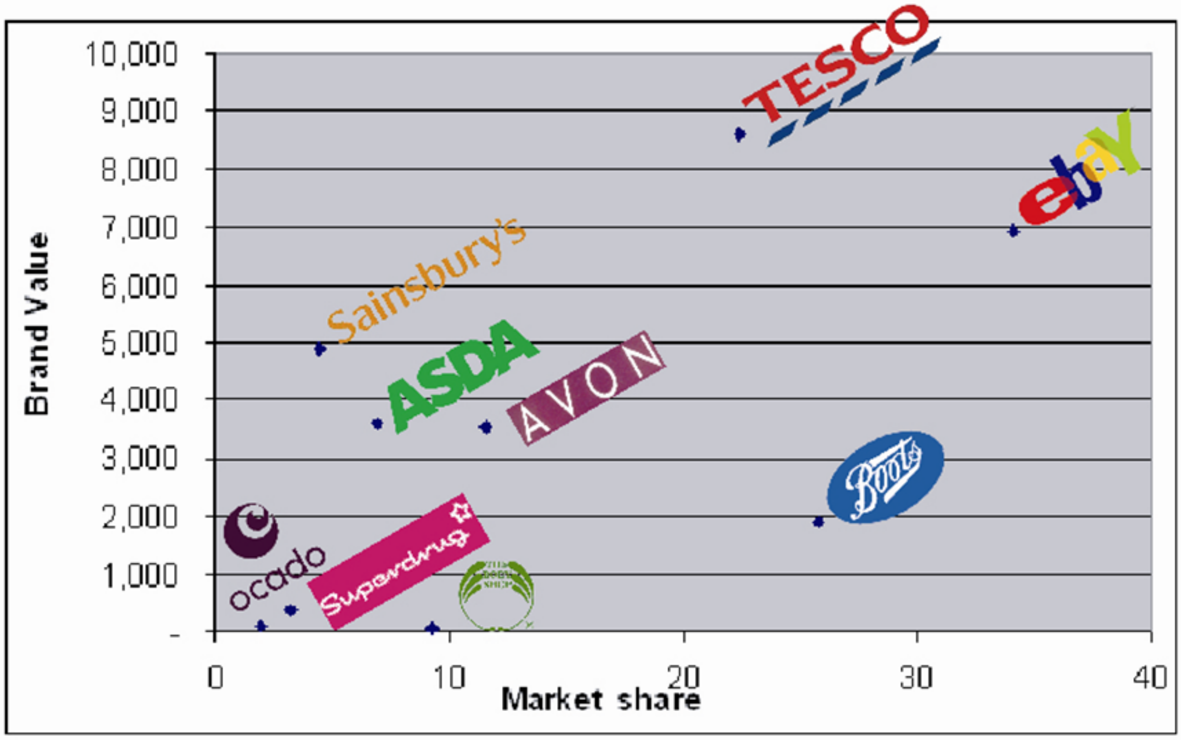
8.2 Analysing Product and Brand Parameters

Branding

Considering the brand value and market share combination Boots.com stands below eBay as shown in Diagram 29. The Boots brand image has turn down due to the increasing rivalry between the upcoming brands like Body shop and Superdrug. Also, the entrance of grocers like Tesco and internet pure player like eBay in the online health and beauty market has reduced the brand awareness of Boots.com. As a result of eroding brand awareness of Boots.com has reduced the brand equity which has affected the brand choice from customer perspective.

This resulted in the decline of customer lifetime value which ultimately effects customer equity for Boots.com. Hence it is imperative for boots.com needs to increase its brand equity for sustaining itself as a market leader in the Health and Beauty market. (Rust et al, 2004)

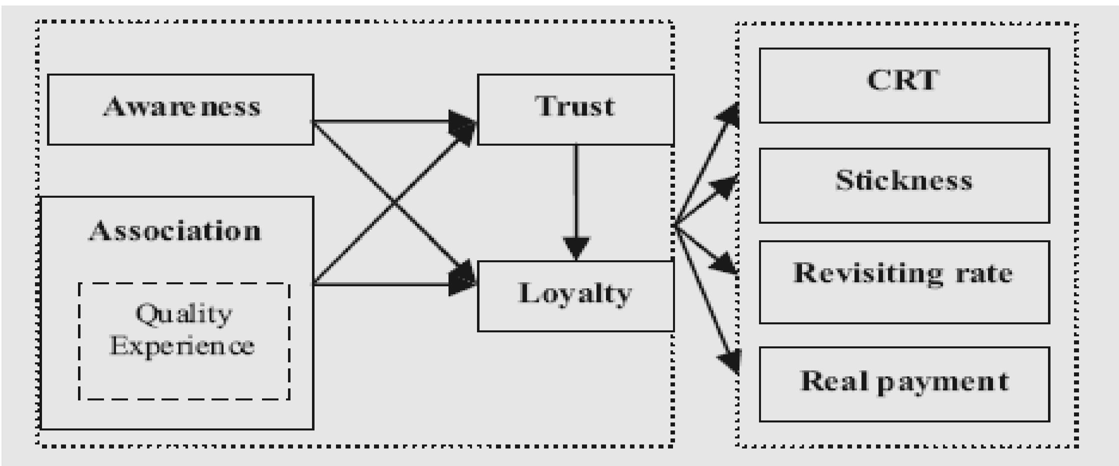
Diagram 29 – Brand Value and Market Share



Source: Verdict (2008)

For the same we could consider the framework suggested by Guan et al (2007) for evaluating the brand equity of Boots.com and illustrates the relationship between Alliance Boots brand equity and web market out comes of Boots.com. This also illustrates the effects of brand equity in the online business.

Diagram 30 – Web outcomes of Boots.com

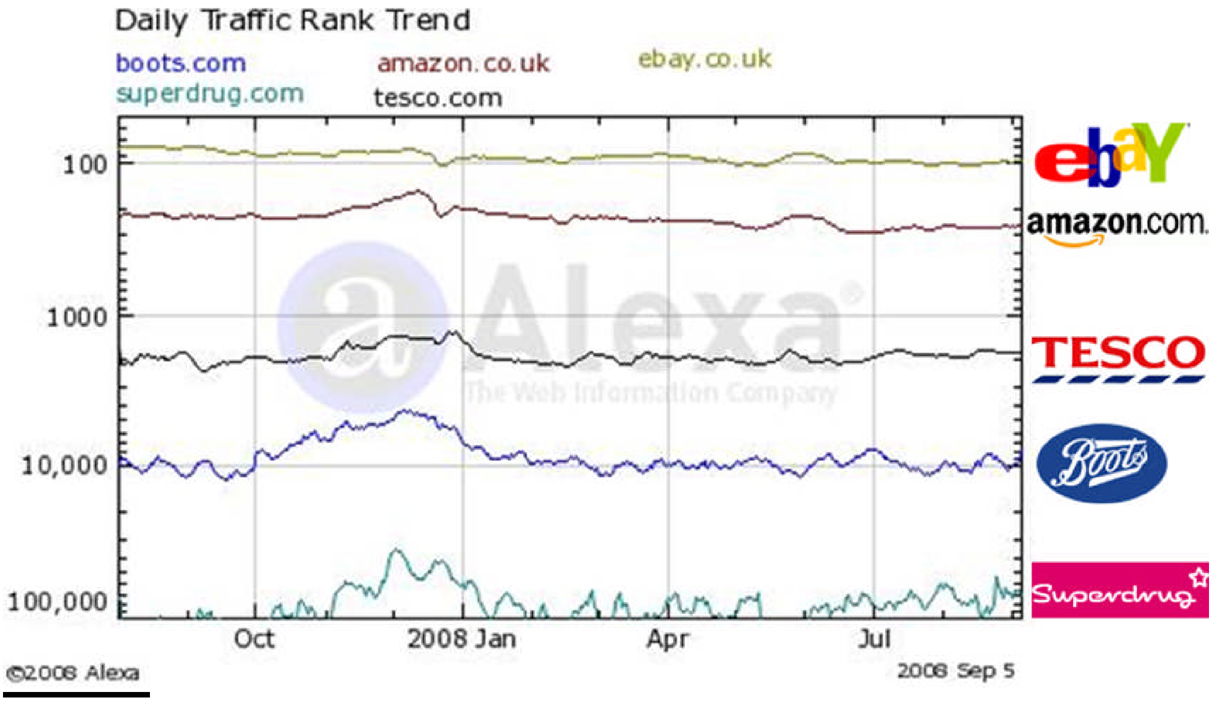


Source: Guan et al (2007)

In the Diagram 30 above illustrates that factors like Awareness, Association, trust and Loyalty could determine the brand equity for Online business which could result in it market out comes like the Click through rate, Stickiness, Revisiting Rate and Real Payment. In the case of boots.com the awareness factor of the Website is very low. For the quality experience in terms of online navigation has not been appealing for the existing Boots.com customers. However association and trust factor with the brand Alliance Boots has been strong due to its offline customer experience at physical stores.

Firstly due to these factors click through rate i.e. Attractiveness of the website and Stickiness i.e. the visitors staying in the website, has reduced. Secondly these factors has influenced the revisits of customers and reducing the capacity of the online basket i.e. the real payment conversion (Guan et al, 2007). Finally affecting the sales of Boots.com, the analysis of this research has been reinforced by our online and street surveys (Appendix 1, pp.126-130). Diagram 31 below illustrates the web comparison ranks with Boots.com key competitors.

Diagram 31 - The Daily Traffic Rank of Boots.com, Amazon.co.uk, eBay.co.uk, Superdrug.com and Tesco.com

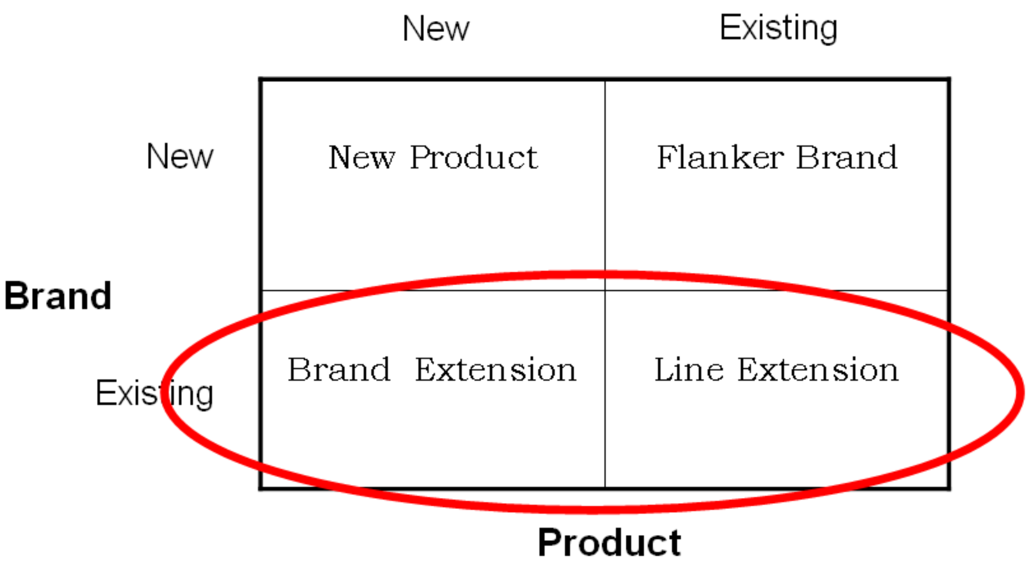


Source: http://www.alexa.com (2008)

Tauber Growth Matrix

Considering Boots.com's Product-Brand perspective Tauber Growth Matrix framework provide the right structure for developing the strategic choices which would be growth imperative. Tauber's strategic choices of growth are illustrated in the diagram 32 in page 93.

Diagram 32 – Tauber Matrix

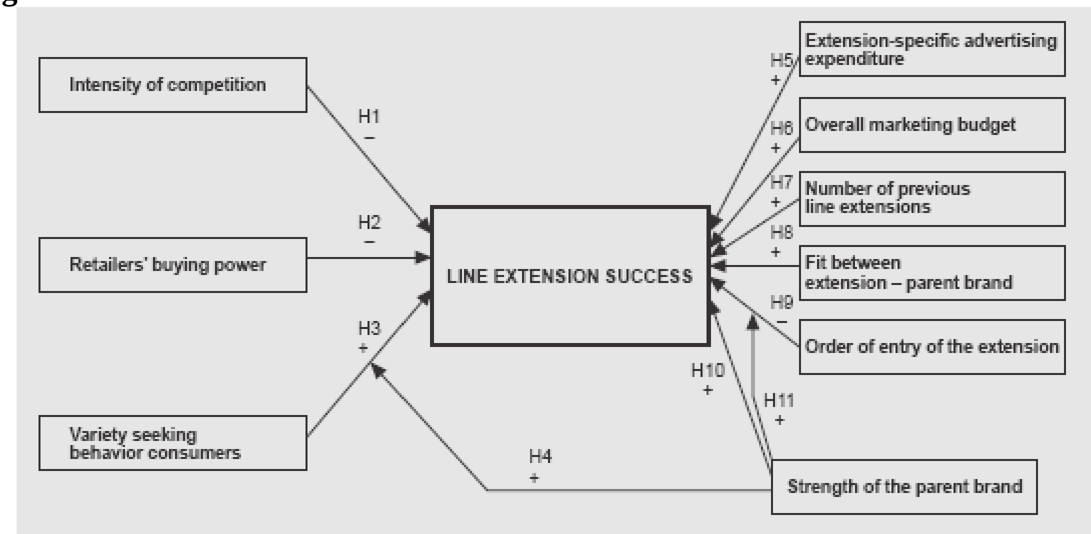


Source: Tauber (1981)

Considering Tauber growth matrix the key prospects for Boots.com is leveraging the existing brand value for employing the franchise extension strategy into new categories and extending the product line through line extension in the existing product category. From a Health and Beauty retailer perspective extending franchise would offer many benefits since Boots is not manufacturer to follow the conventional new product development. This approach would increase the customer traffic and sales for the core Health and Beauty products at Boots.com. Also the risk associated with the failure for the new product would be less since Boots has an established brand name in the Health and Beauty market. For extending the franchise, intensive customer analysis has been done in the health and Beauty market (Table 15, pp 78). Also it is significantly important for Boots.com to have a match with the product distribution channel which would be discussed in Chapter 9. The key risk associated for Boots.com is the dilution of the brand franchise considering longer term e.g. GE and Gillette have been associated with specific products. Thus Boots.com needs to consider these areas while franchise extension. Lastly, Boots.com also needs to consider the risk associated with the failure of the item in the new extended franchise this directly affect the parent brand.

According to Aaker (1991) new product types are 5 percent with new brand name, 6 percent with franchise or brand extension and 89 percent with line extension. Thus suggests that line extension is accepted strategy for introducing new products. "Today's consumers want variety and choice" (Datta, 1996). This has increased prospects for line extension strategy; hence retailers manage their product categories effectively and efficiently (Nijssen, 1999).

Diagram 33 - Success Factors of Line Extension



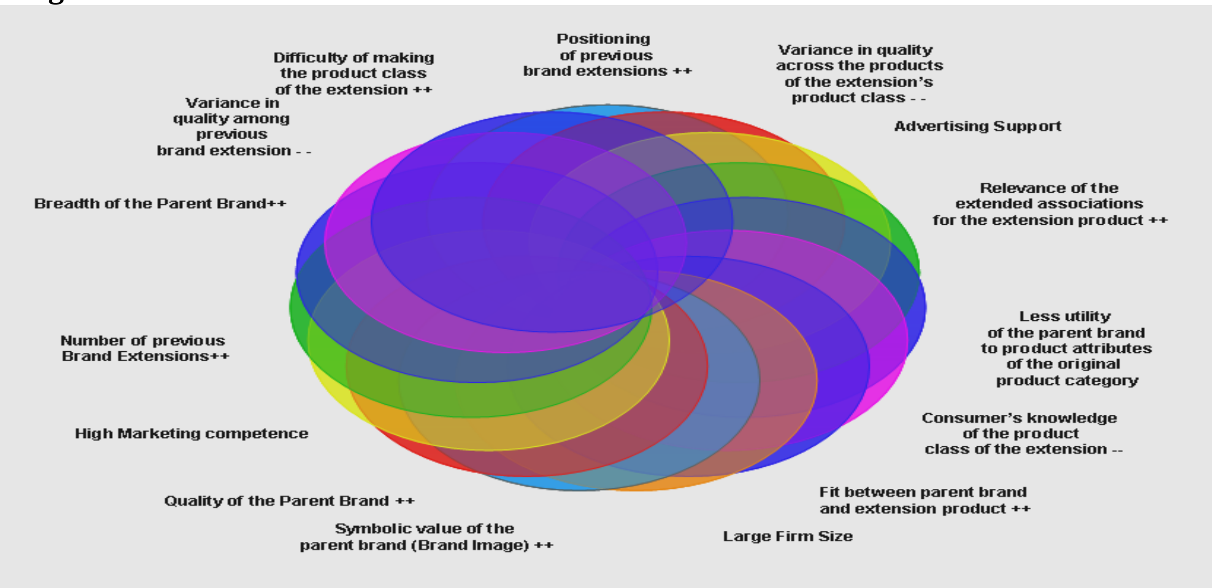
Source: Nijssen (1999)

As per the diagram 33 the intensity of competition in the Health and Beauty online market is very high due to the entrants of internet pure players like Amazon and eBay, grocers like Tesco and specialist like Superdrug. According to Verdict (2008) it is expected that in future the market penetration would be tighter due to aggressive competition and market maturity, as discussed in Chapter 7. Since trend forecasting expectation has been low due the variety of choices in consumer behaviour (Datta, 1996), it has become imperative for Boots.com for extending their existing product line from growth perspective (Nijssen, 1999). The strength of the parent brand Alliance Boots has strong presence in UK Health and Beauty market. Firstly due to Alliance Boots brand age and parent brand's advertising expenditure.

This would influence the decision of order of entry of new products from Boots.com perspective whether it could take the advantage in the market as a first mover or free ride on the investments of the early movers (Chmielewski et al, 2005). Boots.com also needs to consider the strategic fit of the new entries with parent brand else there are chances of brand dilution of the parent brand.

Brand Extension or Franchise extension is another approach for Boots.com for introducing new products in the Health and Beauty market as it could leverage the existing brand value of its parent brand Alliance Boots. By employing such strategies it could introduce new category killers into its product line which would add value to the product surface. The Diagram 34 depicts the success factors of brand extension suggested Sattler et al (2002).

Diagram 34 - Success Factors of Brand Extension



Source: Sattler et al (2002)

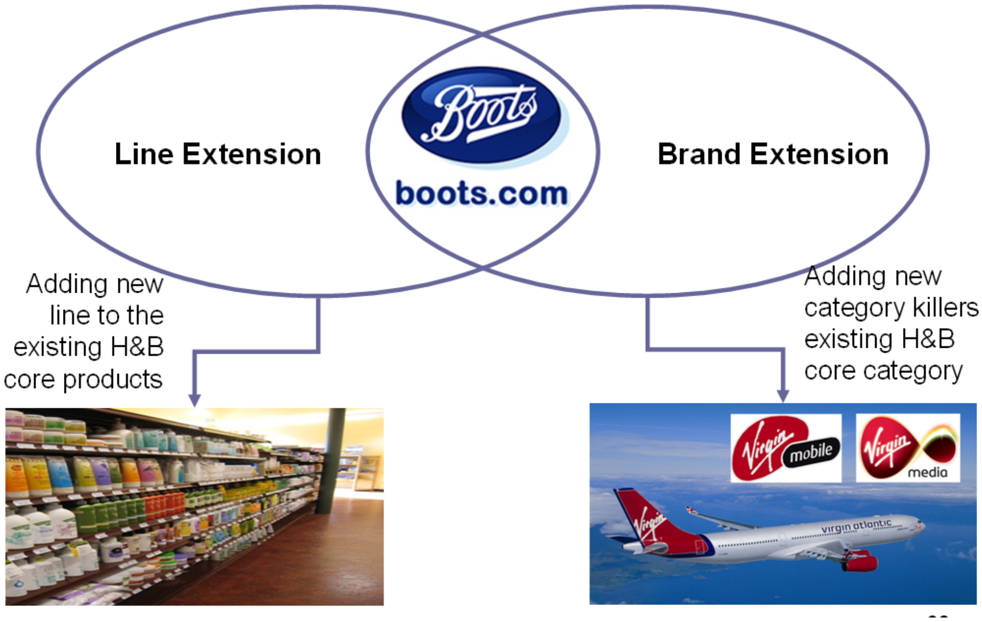
At the moment Boots.com has no KPI's or strategies for Brand extension[1] and line extension, thus these frame work would enable Boots.com for employing Line extension or Brand extension as growth strategies. Thus a combination of both Line and Brand extension would increase the depth and breadth of the Boots.com's product line.

We could benchmark Amazon for franchise extension or brand extension since Amazon initially started as an online book store and later moved into music, toys and recently announced to move into online grocery store lining up 'natural and organic' products. However as online retailer Amazon could leverage its brand into different category killers and sustain it growth. Similarly Boots.com also could introduce category killers to its product line and sustain its growth. However Boots.com needs are specific to Health and Beauty market considering the strategic fit of the new category with the brand since there is a risk for brand dilution if it moves away from the Health and Beauty market. (IBM Global Services, 2006) (Kargar, 2004)

Diagram 35 below illustrates how the line extension and brand extension would add value to the existing categories. By employing such growth strategies Boots.com could extend its current product line in Health and Beauty (H&B) core products and through brand extension it could add new category killers to the existing H&B core category as Virgin Atlantic had leveraged its brand into categories like mobile, media etc.

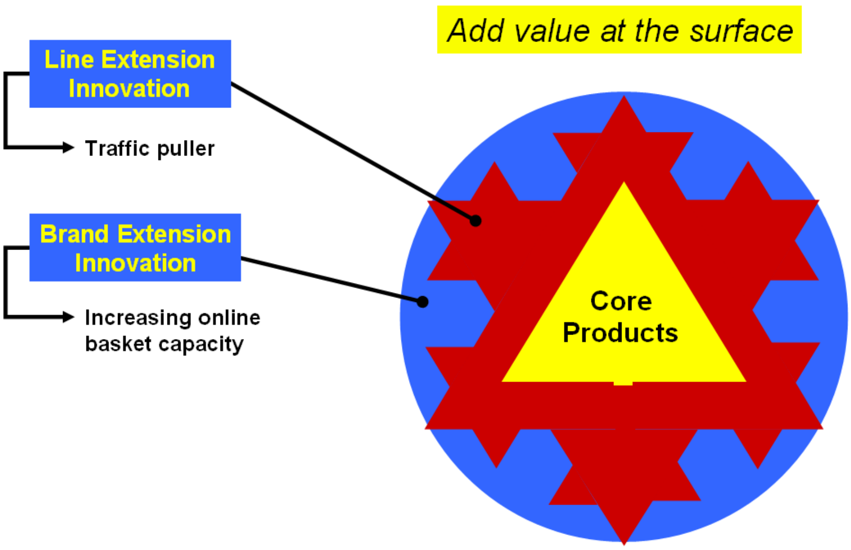
[1] Kotler's (1991) A brand extension strategy is any effort to extend a successful brand name to launch new or modified products or lines. A brand extension means using a brand name successfully established for one segment or channel to enter another one in the same broad market (Doyle, 1994).

Diagram 35 - Boots.com Mixed Strategy for Growth



The line extension innovation strategy would act as a traffic puller providing more variety for the existing customer base and brand extension would enable Boots.com to increase their online basket capacity. As a result these combined strategies would increase the sales of Boots.com and add value for the current product surface as depicted in Diagram 36 below.

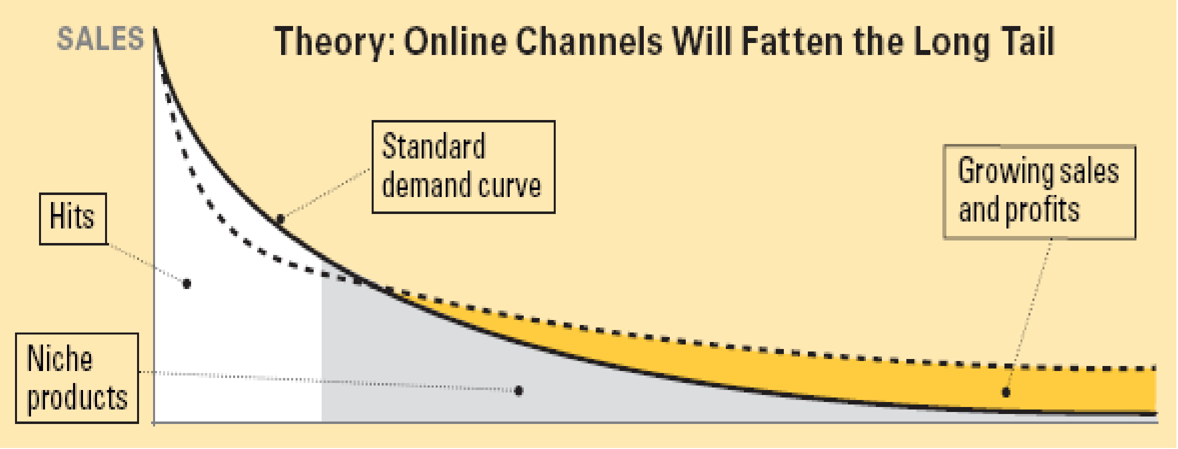
Diagram 36 – Innovation in Extending Products



8.3 Long Tail

According to Chris Anderson if the product categories are ranked as per their sales volume, the grey area in the Diagram 37 below depicts the long tail i.e. the *untapped* market. However the online channels could shift the demand curve such that the tail could be longer and flatter.

Diagram 37 – Long Tail Theory



Source: Elberse (2008)

By employing line extension and brand extension Boots.com could create more variety for the customers of Boots.com. For the same we plotted a long tail for the Boots.com existing category based on its sales volume as mentioned in Diagram 38 below. Further, we created a long tail depicted in Diagram 39 and superimpose Diagram 39 for the Health and Beauty industry by analysing the industry trends in the Health and Beauty market, benchmarking competitors like eBay and Amazon and social trends; we identify the misses by Boots.com.

Diagram 38 – Boots Current Long Tail

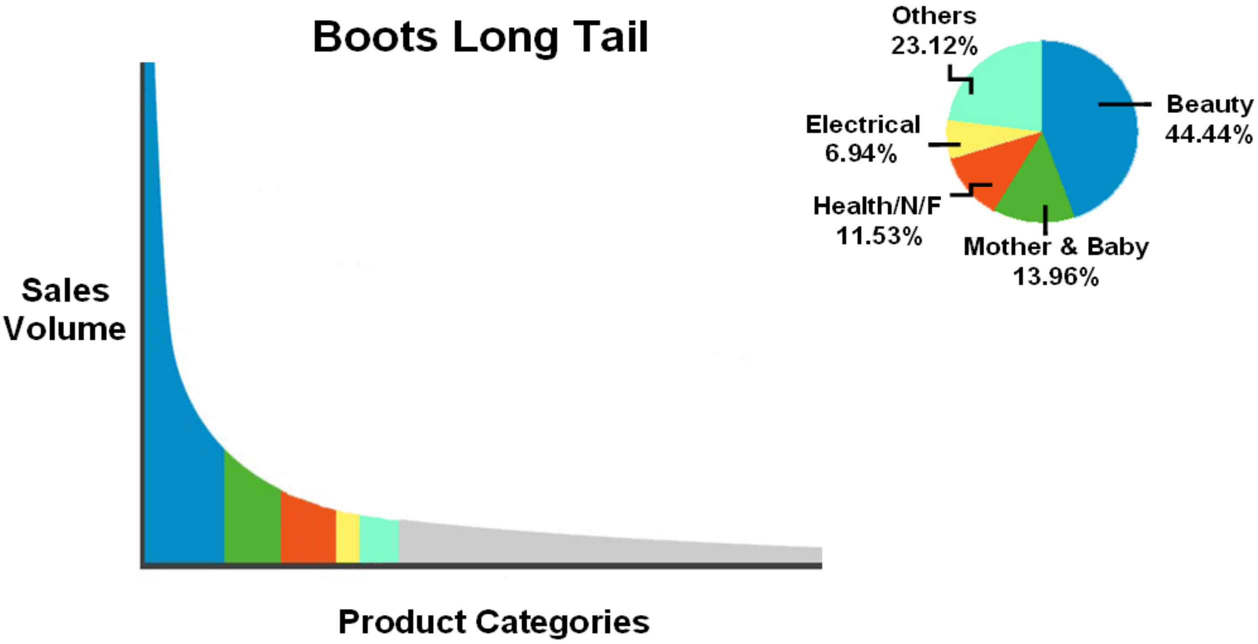
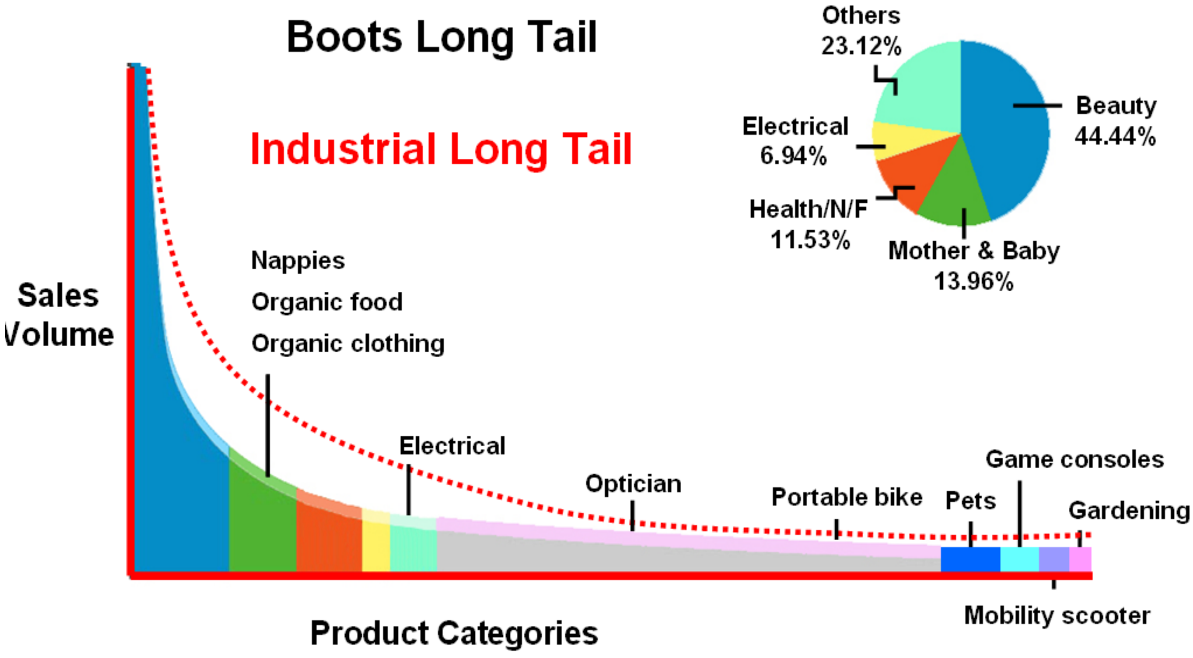
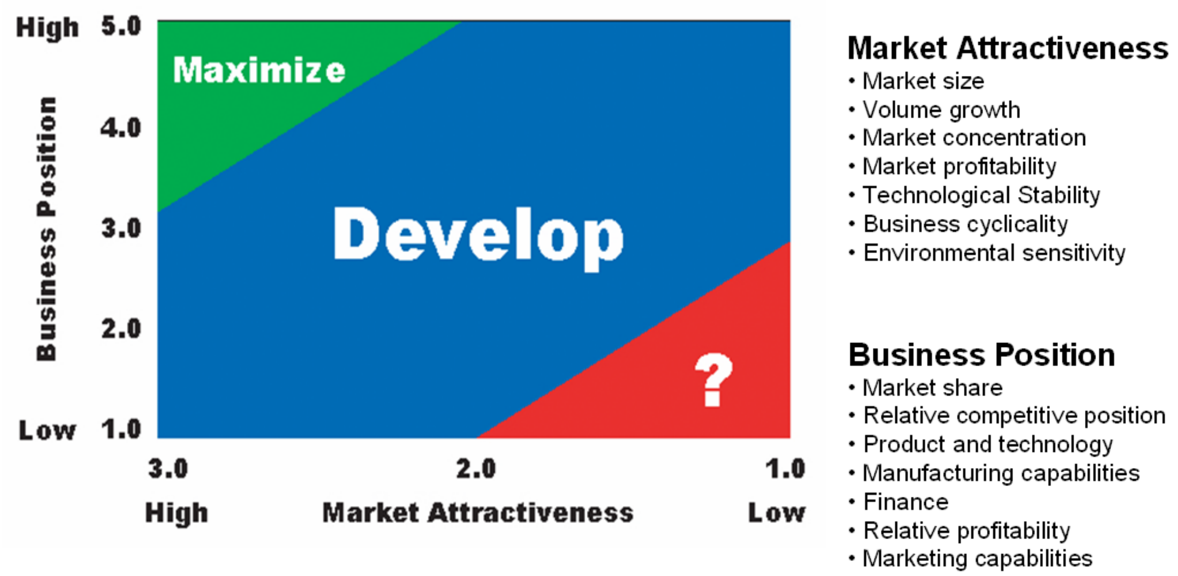


Diagram 39 - Superimposing Boots Long Tail with Industry Long Tail



By comparing these long tail graphs we can understand the hits and misses for Boots.com specifically. Thus we can consider these products in the tail which have been missed by Boots.com and added these to the tail of the Boots.com's product categories. This could be added to the tail through line extension and brand extension. However before adding these products to the Boots.com's long tail we have considered the list of products through screening criteria suggested my Wong (1993) as mentioned in the diagram 40 below, page 99: considering the parameters of Market Attractiveness and Business position (Appendix 7, Screen list, pp.135-138)

Diagram 40 – Screen Criteria



Source: Wong V. (1993)

After the screening process we could filter five product categories which could have strategic fit with Boots.com without diluting the brand of H&B. They are organic baby food, Bio degradable nappies, Pet Products, Gardening, Organic Clothing and Mobility Scooter.

Further in the Chapter 10 we could analyse the financial implication of adding these screened products to the Boots.com's long tail. Calculation details are in Appendix 9, pp.141.

Summary

In this chapter we have analysed the product extension strategies from market, product and brand perspectives. After our analysis we could understand that Boots.com need to consider Line and Brand extension strategies for introducing new products. For the same we also considered the long tail perspective and identified the misses by Boots.com. By the screening criteria approach we identified the key products which were the misses for Boots.com. Thus these products could add value for Boots.com's current product surface.

9.0 Supply Chain Management

Customer engagement aims for maintaining a long term relationship with the customer and increase customer loyalty, supply chain management is one of the ways to increase customer engagement level by sustaining customer experience across different distribution channel.

9.1 Channel Alignment

In the current dynamic retail business ecosystem customer desires to shop ‘anytime, anyplace, anywhere’ and are willing to pay for the delivery cost associated to it. In this scenario if the customer is unable to find the right channel there is a risk of initially moving to different channels and prospects of migrating to different brands permanently. At the moment Alliance Boots is just touching the maturity level. Thus Boots.com the internet channel and Boots store needs to be tightly integrated so that the Boots customers could utilize the multi-channel environment. Current challenge is that Alliance Boots is store led and for enabling services like ‘order and collect’ in which customers order through the internet channel and collect in stores.

In this scenario the customers of the Boots.com using this service ’order and collect’ may not be prioritized at stores level rather the store customers may be prioritized at store level, which could affect the experience of the multi-channel customer at Boots per se. Thus Alliance Boots needs to integrate these channels tightly and leverage their existing assets for better customer experience. The current challenges in multi-channel environment at Alliance Boots could also led to cannibalization in the sales revenue and customer experience between stores and the internet channel. Further in Chapter 6 we will discuss further on the sustaining customer experience so that both store and internet channel can be customer led by improving the delivery methods**.**

9.2 Current Scenario

Boots.com delivery is currently done through *i-Force* - a central warehouse for Boots.com located in Birmingham. *i-Force* provides an automated warehouse system that stores products for Boots.com and Boots.com is charged fifty pence for each item picked. The orders are packed and sorted according to parcel sizes and weights and then are allocated to different carriers for delivery accordingly. Delivery methods offered by Boots.com and charges are listed in Table 18. Boots.com needs to subsidize delivery cost for orders value below £40; it costs Boots.com £4 for a standard delivery. Online orders are only charged upon despatched.

Table 18 - Boots.com delivery methods and costs

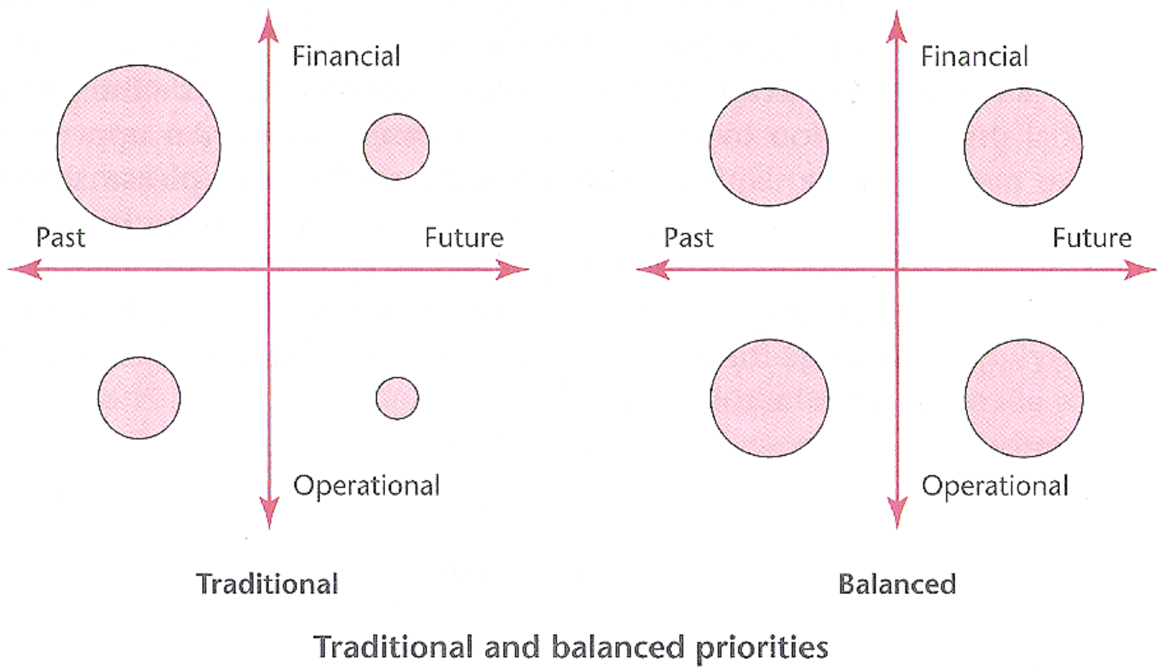
Delivery Methods	Delivery Details	Delivery Cost for Customer
Standard	Delivered within 5 working days between 8am – 7pm Monday - Friday	£2.95 or FOC for orders value over £40
Next Day	Usually delivered between 8am – 7pm Monday - Friday	£5.50
Named Weekday	Usually delivered between 8am – 7pm	£4.50
Bulky, Heavy and Over Size	Not Applicable	£4.95
Saturday	Usually delivered between 7am – 1pm	£7.50
Order & Collect	Available at certain stores, will notify customer via email	Free of Charge(FOC)
BFPO[1]		£6.50

Source: Boots.com (2008)

9.2 Key Performance Indicators for sustaining customer experience

Traditionally company tend to evaluate the supply chain efficiency using financial focused performance measures. However, other aspects involved in SCM should also be considered equally especially when trying to measure customer satisfaction (Diagram 41). A certain level of investment is expected for sustaining customer experience and satisfaction across difference retail channels. Firm should seek balance between financial and operational benefits to identify consistent performance measures for sustaining customer experience through difference channels. Some information required for determining the KPIs for sustaining customer experience and satisfaction across difference channels could not be obtained due to confidentiality of the data, guesstimates were made from interviews with various employees of Boots.com for measurements require financial data.

Diagram 41 Traditional and Balanced Supply Chain Management Priorities



Source: Harrison & Hoek (2005)

For e-business there are only two interfaces which contacts the customer directly, the website experience and distribution service. Majority of Boots customer still comes from store shopping, therefore, customer experience in the store will be used as a benchmark when measure the online experience using e-business scorecard Table 3, pp 35. The result of Boots.com performance in comparison to Boots store is illustrated in Table 19.

Table 19 - The Boots.com e-Business Scorecard

The Boots.com Scorecard	
Area	***Impact***
Response Time	-1
Product Variety	+2
Product Availability	0
Customer Experience	0
Time to Market	+1
Order Visibility	-1
Returnability	+1
Flexible Pricing, Product Portfolio and Promotions	0
Efficient Funds Transfer	0
Direct Sales	0
Inventory	0
Facilities	+2
Transportation	-1
Information	-1

Key: +2 = very positive; +1= positive; 0 = neutral; -1 = negative; -2 = very negative

Unlike manufacturer such as Dell who could take more advantage of e-business by selling direct to the consumer, being a retailer Boots already have direct contact with their consumers. However, Boots.com can be used as a market testing tool for new products. Boots.com is able to gather market feedback and conduct market research efficiently with a relatively cheap cost.

Being a multi-channel business, Boots need to have a standardized price for different channels to keep customer experience at the same level. Thus, the advantage for e-business to have flexible pricing does not apply to Boots. Additionally, customer is only charged when their online order is despatched. Fund transfer efficiency is similar to physical store. It is very difficult to compare the cost involved in e-business with the store because they are developed on different grounds.

The store sales volume is closely related to its location, cost for high traffic location tends to be much higher. The Information Technology cost is much higher for e-business because it is the core for providing a customized and satisfactory shopping experience via internet. Furthermore, store tend to need higher personnel expenditure then Boots.com due to the number of people employee required for 390 stores across the nation is greater than Boots.com which can be managed from a single location. After evaluation of Boots.com using the e-business score card, KPIs for Boots.com to sustain customer experience and satisfaction can be summarized into four aspects.

Presentation of Website and Easy Navigation

People's preferences towards shopping are different, some prefers physical shopping and others might prefer the convenience offered by online shopping. Thus, the website must provide a close feel to physical shopping to attract more customer visit. This can be achieved using advanced technologies for more detailed product display.

Shopping is a chore for some people because it is time consuming and sometimes they are unable to find the product needed in store quickly. Therefore, the navigation of the website must be made easy for customer to find the product they want.

Order Visibility

Consumer are not able to receive product instantly, therefore, allow them to monitor the progress of their order becomes an essential part for sustaining customer experience. Moreover, to achieve high order visibility it would require a well constructed information system; a well organized information system should provide real time information on each order, this would also enable Boots.com to provide better customer service in the future.

Delivery Guarantee

Customer may have more patients for product that is not available at the store or when home delivery is more convenient. Therefore, to deliver in the time promised is imperative. Product variety can be easily extended for Boots.com then the store; however, the relevant areas such as inventory, supplier relationship and etc. also need to be considered thoroughly before action can be taken further. Without complete Supply Chain planning, sudden increase of product variety might result in higher level of customer dissatisfaction. For example, in events of stock out, order delays and etc. would cause customer dissatisfaction.

Transportation cost is higher for Boots.com because it needs to take care of both outbound (delivery to customer) and inbound delivery (return delivery) cost, however, this can be minimized with attentive pricing plan.

Returnability

Returnability is harder with online orders, however, with the advantage of being a multi-channel retailer Boots has exercised in this area well and make the return process very convenient for customers. A return pack is enclosed in every order delivered, customer can choose to return the goods by post or bring it back to Boots store.

9.3 Future Delivery Models for Direct Delivery from Suppliers

After successful product line extension, Boot.com would have a much large number of suppliers in the near future. It will be inefficient for Boots.com to hold all products in stock. To optimize the warehouse space and cost, Boots.com would need to adopt supplier managed inventory strategy in the future. Direct delivery from manufacturer to the end customer, bypassing the retailer is referred to as drop-shipping. Drop-shipping allows retailer to lower inventory of seasonal, unpredictable demand slow-moving products by pushing the ownership upstream to the manufacturer.

Although inventory costs are typically lower with drop-shipping but transportation cost tend to be higher due to the average outbound distance to the customer is increased. Furthermore, a significant investment in information infrastructure is usually required. Adoption of drop-shipping principle will be unavoidable when it becomes too costly to hold all products for Boots.com's product extension. There are three possible drop shipping models being considered by Boots.com for future integration which will be critically evaluated to determine the most efficient and cost effective delivery method for Boots.com.

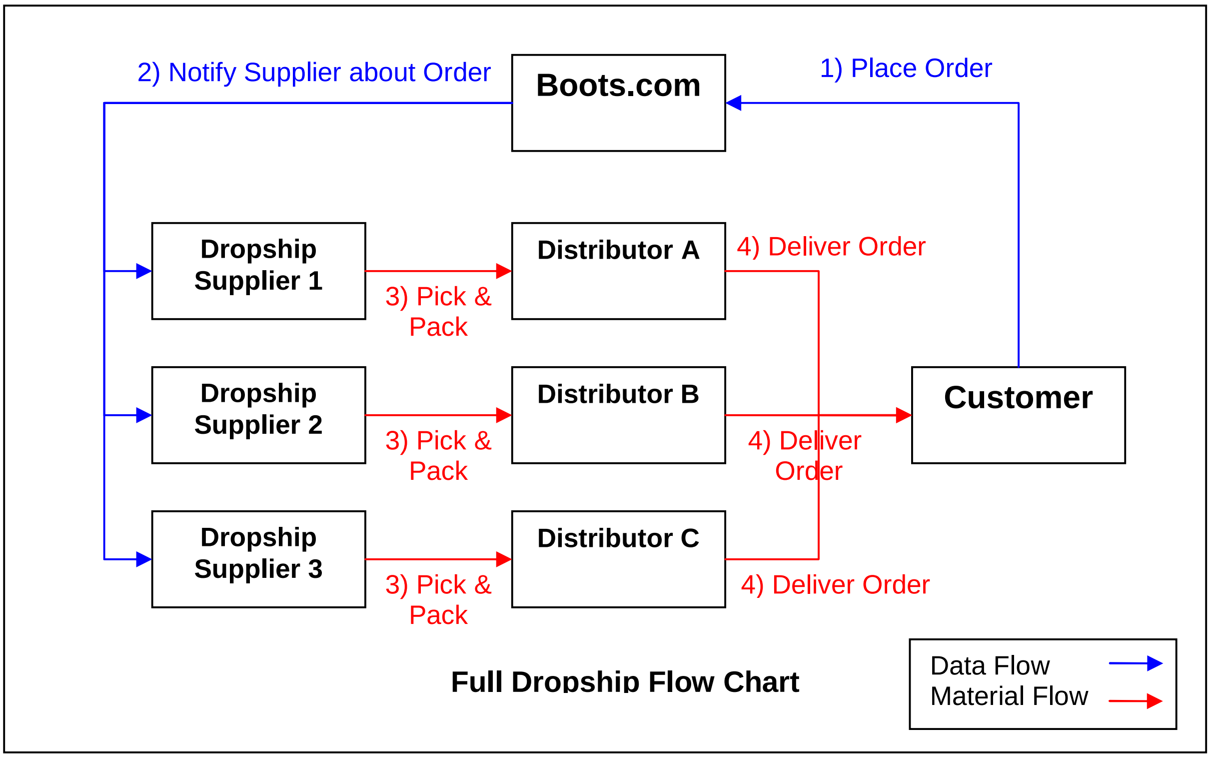
9.3.1 Drop-Shipping Models

a) Full Drop-ship Model

Full Dropship model is to assign full distribution responsibility to supplier. In this process, Boots.com will notify supplier after order is received, and then supplier will pack the order and delivery to customer through their contracted carrier. The advantage of this method is the delivery responsibility is allocated to supplier; however, the complexity of information flow and the uncertainty of delivery service quality are increased dramatically.

Boots.com has no direct access about the order packing and delivery status unless a sophisticated information system is implemented. There will be a chaotic period when working with new supplier using this method and customer experience cannot be guaranteed. Moreover, supplier needs to cover the cost for delivery to customer using the full *drop-ship* process (Diagram 42) and it often requires further negotiation about product price and cooperation. Some supplier might be resistant to accept this process due to the increased complexity.

Diagram 42 - Boots.com Full Dropship Proposal



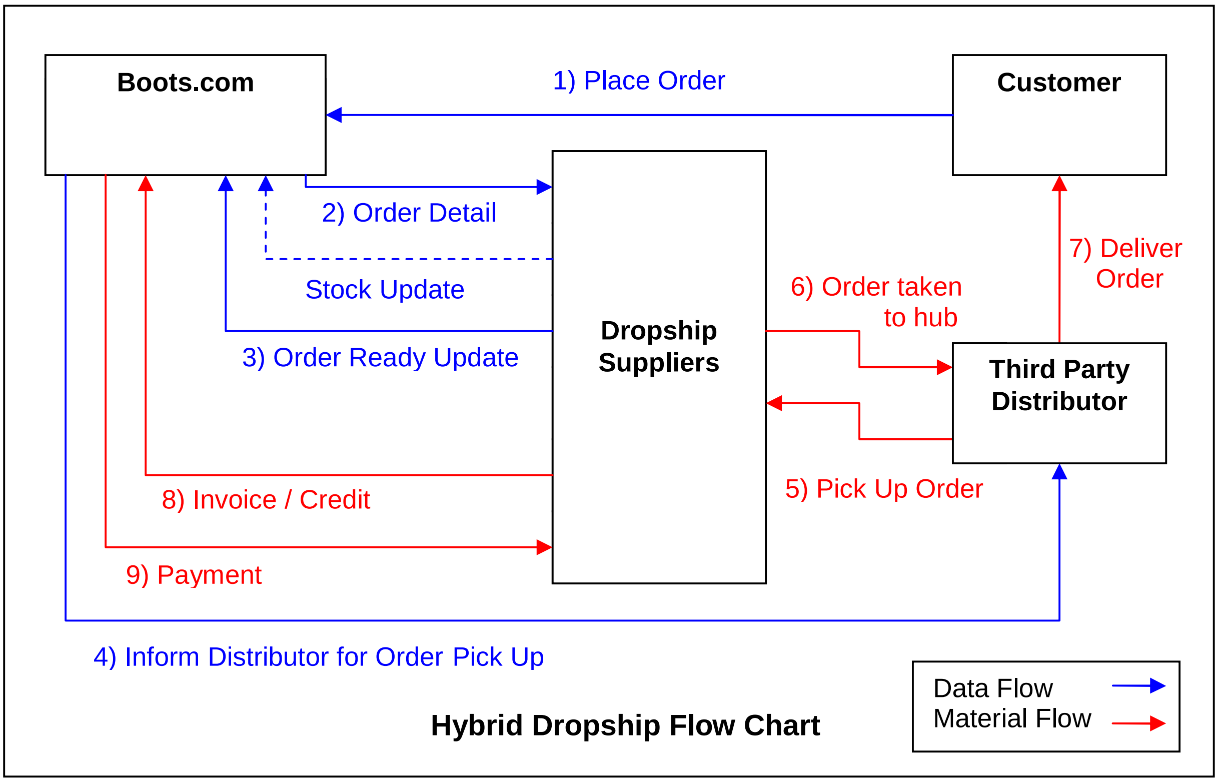
Source: Boots.com (2008)

b) Hybrid Dropship Model

The Hybrid Dropship model (Diagram 43) is to use third party carrier preferably Boots.com current contracted carriers to pick up order from supplier when order is ready for delivery. By using existing carriers who are familiar with Boots.com requirement and working process, Boots.com can sustain a uniform delivery experience to their customers. It is also easier for customer service to monitor the delivery process through existing system. Cooperation between supplier and Boots.com mostly remains the same.

However, in the model the information availability is limited to certain parties; this would degrade the efficiency in the process. For instance, the supplier should be able to contact the distributor directly according to Boots.com requirement and pass the information to Boots.com at the same time.

Diagram 43 - Boots.com Hybrid Drop-ship Proposal



Source: Boots.com (2008)

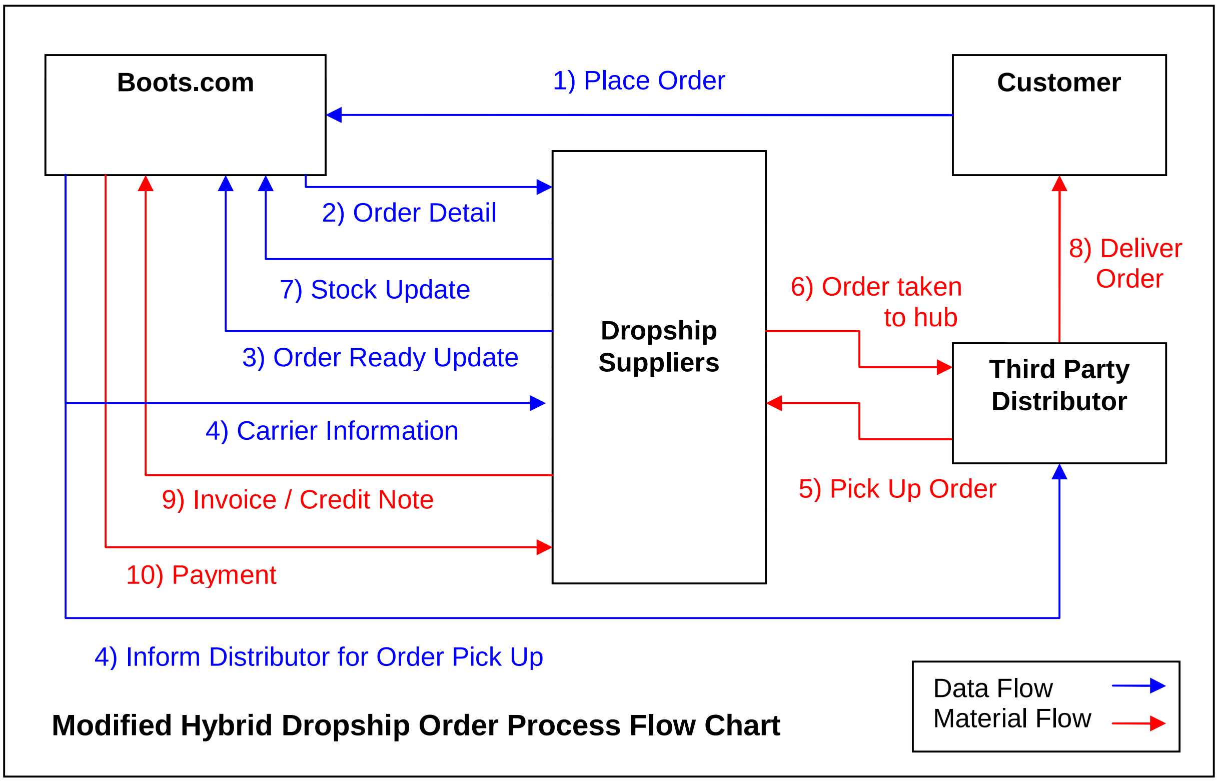
9.3.2 Integrated Drop-ship Model

After analysed the advantage and disadvantages for the three drop-shipping models proposed, two modified model is recommended for future implementation base on consideration of possible customer needs.

a) Integrated Hybrid Dropship Model

The integrated Hybrid drop-shipping model (Diagram 44) is suitable for product delivery made direct from the supplier which means the product will not enter Boots.com iForce warehouse. Product is picked up by third party carrier and delivered to the customer directly. When supplier advice order is ready for delivery, Boots system will notify the supplier and carrier about relevant delivery information. Supplier and carrier will also be able to contact each other for arrange the most efficient pick-up and delivery method.

Diagram 44 - Modified Hybrid Dropship Order Process Flow Chart



b) Cross-Docking Dropship Model

Cross-docking is a strategy made famous by Wal-Mart, 85 percent of its products are delivery using cross-docking techniques compares to 50 percent for Kmart. With this type of drop-shipping method, products are kept in the warehouse in a minimal time to reduce inventory cost. Warehouse is used as a transportation point rather than storage location. The transportation cost and delivery time could have the potential of increase even more if supplier is geographically located closer to the customer.

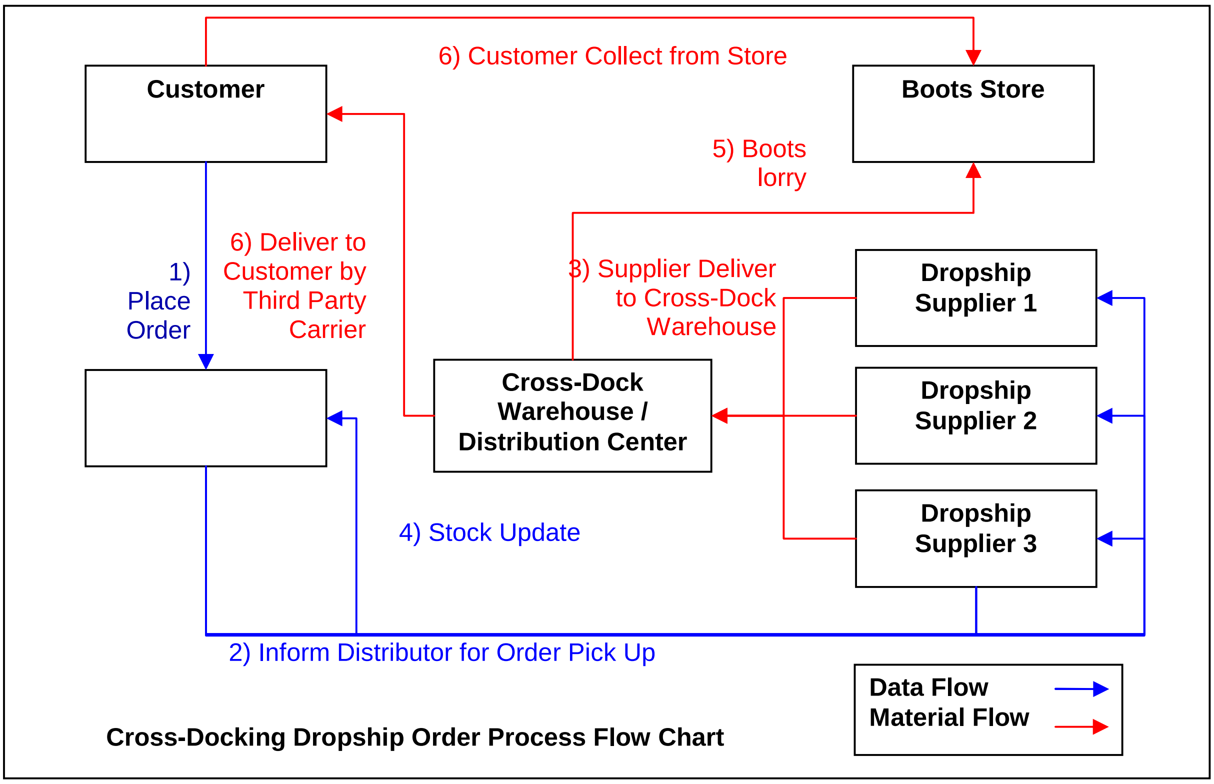
Cross-docking model can be applied to the order and collect in store delivery method, whereas supplier delivers the order to Boots distribution centre and later on it is transfer to Boots store by Boots lorry for customer collection.

This model also provides another delivery option for customers who prefer to have their product delivered at once. This delivery option is being offered by Amazon to their customers. When customer places an order consist of product supplied by different dropship suppliers, customer can choose between the following options. First, customer can choose to allow the product with shorter lead time to arrive first through Hybrid dropship model. If they wish to have all products to arrive at once, it can be done through cross-docking model.

Cross-docking requires a considerable amount of investment in IT and it is only efficient for companies with a large number of product delivery and a large number of vehicles for transportation purpose.

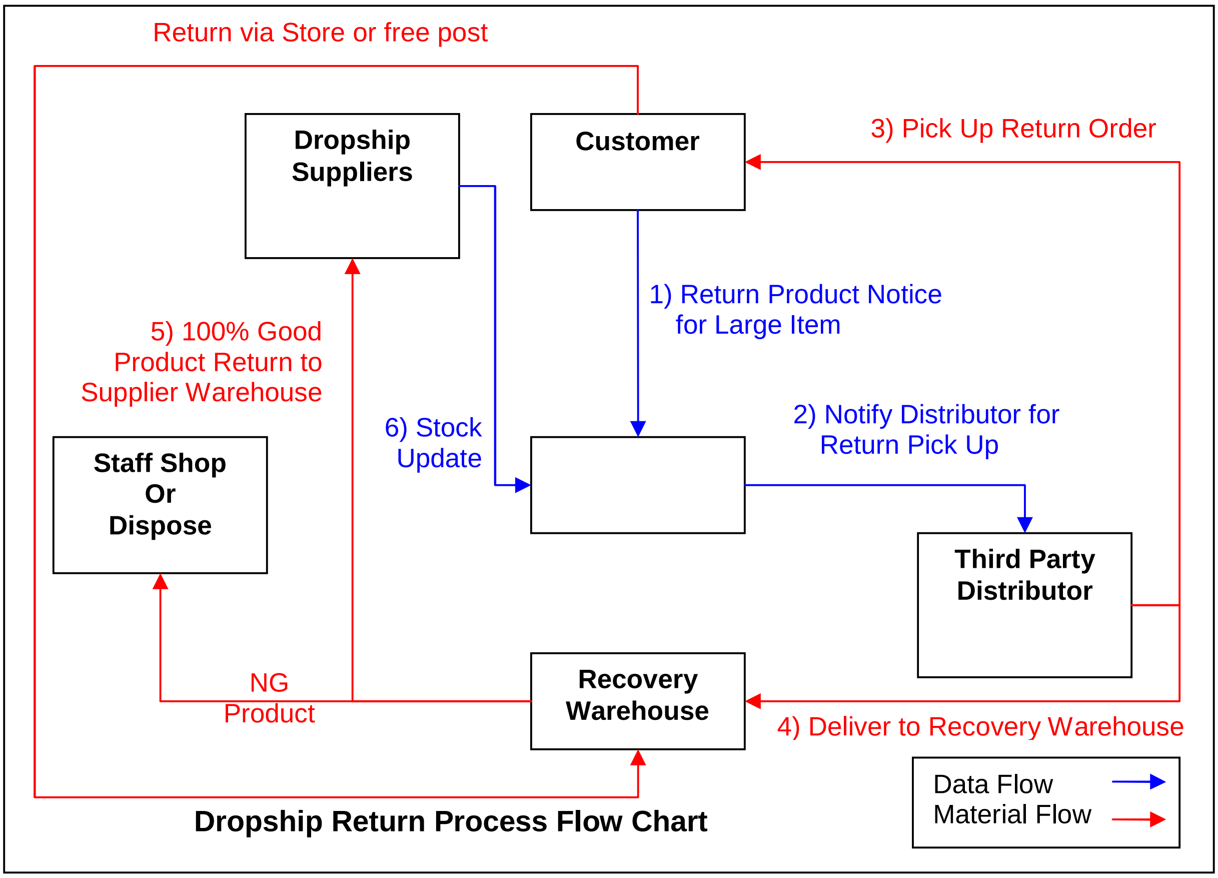
This model is more suitable for later stage when Boots.com has established buyer-supplier relationship with a considerable number of suppliers with full range products of a category. The Cross-Docking drop-shipping model is illustrated in Diagram 45. Suppliers would delivery to the cross-docking warehouse for order rearrangement and orders are despatched from the warehouse to customer.

Diagram 45 - Cross-Docking Dropship Order Process Flow Chart



To standardize the process and make it leaner, a single drop-shipping return process is proposed. All returns are transported to the recovery warehouse in Dunkirk, if the returned product is goods for sales it will be returned to the supplier where it is originally located. Defective product are sent to staff shop or disposed.

Diagram 46 - Dropship Return Process Flow Chart



For both Hybrid and Cross-Docking Drop-Shipping models, a middle ware for linking the information from Boots.com website front end to BTC SAP system in order to automate this process. By connect these two systems, information are made transparent for stakeholder involved during the process and therefore, leads to improvement of process efficiency.

Summary

Adoption of appropriate dropship models at different stages of product line extension would help to optimize Boots.com warehouse space and cost. Therefore, the delivery process is made leaner.

By using the KPIs determined for sustaining customer experience across channels, Boots.com should be able to attract more online customers. Providing a close to physical shopping feel website with easy navigation, more customers would be tempted to shop at Boots.com. High order visibility, delivery guarantee and returnability would help to sustain customer satisfaction between Boots.com and customers. By improving the quality of customer experience in those areas it would also engage them to continuously shop at Boots.com and therefore increase the conversion rate which leads to increase of sales.

10.0 Financial Implications

This Chapter seeks to evaluate the financial implications of the new product-line extension for Boots.com having examined the screening criteria for desirability index and market position. The screening tests have been dealt with in extensive detail in Chapter 8, extending product line and brand, from 10 product categories to 5 product categories.

The Chapter draws analysis for 5 products for maximisation, namely biodegradable nappies organic baby food, and mobile scooter whilst brand extension in gardening products and in pet food. The financial implications are important in order to support the analysis and recommendation for the product line extension and brand extension. The numerical evidence will form the founding blocks for the financial feasibility of the product line extension.

The financial analysis performed in this Chapter will seek to establish (1) the Future Cash Flow of Boots.com with the implementation of new product line extension and brand extension (2) the Projected Profit Margin of Boots.com with the implementation of the Product Line Extension and brand extension (3) Net Present Value of Product Line Extension and brand extension.

10.1 Future Cash flow for New Online Products

Pet Product (Foods)

For Pet Products, based on screening criteria matrix of desirability index and market business positioning, there is potential to maximise. This is due to (discussed on customer analysis in Chapter 6), increasing trend for pet ownership in the United Kingdom, owing to the elderly segment of the population seeking domestic companionship. In keeping with trends, fashion accessories for pets, as well as more investment in pet health and pet foods chiefly drive the future growth of this sector.

In Table 20, the industry for pet foods shows acceptable growth with year-on-year ranging between 1.1% to 1.2% largely driven largely by manufacturer innovation, with new product launches leading to increased segmentation, and to a higher number of pet owners trading up to premium products.

The future cash flow for pet food seems favourable largely due to prospects of developments such as (1) a greater emphasis on pets as ‘individuals’, with individual needs and wants, for example, by products tailored to life-stage (2) growing concern with health and nutrition for pets (3) greater interest in organic pet food (4) a need for convenience, reflected in developments in packaging and (5) product formulation (Key Note Report, 2008)

According to Verdict Report, 2008 pet food market is destined to benefit from this trend, with owners spending more on products such as single-serve portions Pet food dominates the overall market for pet products and the drive towards pet foods are (1) growing health-consciousness among consumers on behalf of their pets and (2) a need for convenience, with high demand for products that minimise the time and effort needed to look after pets.

Table 20 – Industry Future Cash Flow Forecast

Industry Future Cash Flow Forecast (£million at rsp), Year 2007-2011					
Products	**2007A**	**2008B**	**2009F**	**2010F**	**2011F**
Pet Foods	89.0	90.0	91.0	92.0	93.0
%Change Yoy	1.1%	1.2%	0.7%	1.1%	1.1%
Organic Baby food	5.94	7.19	8.62	9.66	9.85
%Change Yoy	-	9.5%	9.4%	9.1%	9.0%
Mobility Scooter	381	382	386	388	391
%change Yoy	-	0.2%	1.0%	0.5%	0.7%
Gardening	0.3%	0.4%	0.4%	0.5%	0.5%
% Change Yoy	-				
Biodegradable nappies	27.8	31.3	31.5	31.8	32.3
% Change Yoy	-	0.6%	0.9%	1.6%	1.5%

Source: Key Note (2008)

Organic Baby Food

For organic baby food, there is potential to *maximise* according to on screening criteria matrix of desirability index and market business positioning. The present drive towards organic food[1] is the more nutritious organic foods and lesser artificial fertilisers, pesticides and preservatives in organic foods (Key Note Report, 2008).

The 9.0% to 10% year-on-year forecast in organic baby food is very much driven by greater switch over from conventional foods into organics. Greater concern and awareness over health and ethical issues are the main drivers behind growth for organic food. Such continued growth will result in organic food taking a greater share within expenditure on in-home food, up from 2.5% in 2007, to 3.4% in 2012 (Mintel's British Lifestyles report March 2007), indicating a greater switch over from conventional in-home foods into organics. However the share remains relatively small, still leaving an untapped mass market for organic food to tap into. Therefore this creates a Blue Ocean Strategy for Boots.com (Key Note Report, 2008).

Organic' or 'Fair-trade' refer to products certified as such; 'natural' describes products that do not include any synthetic materials. Studies show that organic foods tested had a higher nutritional quality than non-organic. For example, parents of babies and children are increasingly turning to organic products due to the increasing element of nutritional flavours and health safety.

Organics food such as 'wet meals' reflect current cooking trends with recipes such as Carrot, Lentil and Cheddar Meal or use 'super foods', for example blueberries or spinach. In addition, organic baby food has branched into finger foods where New Product Development has also been especially active and extending ranges into toddler and children's snacks.

Gardening

Projected growth in gardening is also somewhat lackadaisical due to lack of enthusiasm. However, this creates a blue ocean for Boots.com to further maximise its potential in garden and recreational centre. Based on screening criteria matrix of desirability index and market business positioning, there is potential to *maximise.* In the last 12 months, 66.4% of consumers visited a gardening centre (a high penetration figure compared to other leisure activities), driven by rising enthusiasm for gardening among consumers. (Key Note Report)

The drivers for gardening products are essentially women were more likely than men to visit garden centres (at 68.8% compared 63.9%, respectively), and the later middle-aged and older generations showed much stronger tendencies than others to do so. Consumers in the highest social grade (A) were the most likely to visit garden centres. The inclination to do so declined further down the social grading. (Key Note Report, 2008)

Bio-Degradable Nappies

For Bio-degradable nappies, there is potential to *maximise* according to on screening criteria matrix of desirability index and market business positioning. Demand for bio-degradable nappies is *driven* by increasing awareness of environmentally friendly nappies and the avoidance of pesticides. Population growth is also a major factor and according to the National Statistics, live births in England and Wales increased for the fifth successive year in 2006. In 2006, births rate was 3.7% to 669,601 births, from 645,835 in 2005. (Keynote Report, 2008)

According to Key Note 2008, percentage penetration of disposable nappies proved highest among those aged between 25 and 34 years old (at 21.4%). The disposable nappies and trainer pants sector has been boosted recently by the introduction of more trainer products, including swimmer pants, and these do, cannibalise sales of traditional disposable nappies.

Total expenditure on baby care products, including baby toiletries etc was £22.6m in the year ending June 2007. Thus, the leading brands Huggies and Pampers spent the most on main media advertising in the year ending June 2007.

Procter & Gamble spent almost £7.3m on its Pampers brand (bearing in mind still more may be included in sub-threshold spending) with its Active Fit and Baby Dry variants receiving the most support. Rival Kimberly-Clark spent almost £8.5m in the same period on its Huggies brand, investing the most in the Natural Fit range. Baby Nappies (or diapers) are shaped to provide a good fit for babies and have adhesive tape side fastenings making changing easier. The nappy is designed to absorb and retain urine and contain faeces inside an absorbent core with wetness isolated from the baby's skin (Key Note, 2008)

Mobility Scooter

Projected growth for mobility scoter is acceptable given the fact there is increasing population which are aging. Demand for mobility scooter is picking up especially for the elderly who may not be able to stand or walk for a long time and have the need to undertake daily chores. According to Key Note report, elder people will be on the increase. By 2011, there will be 12,538 million elderly above 45 years of age to 75 years and 13,998 million elderly women above 45 years of age to 75 years respectively. These categories of the elderly and disabled will utilise mobility scooter owing to their inability to stand and walk for a long-time. (Refer Appendix 4, page 132)

10.2 Projected Profit Margin

Table 21 – Projected Profit Margin 2007-2011

The Projected Profit Margin 2007-2011					
Products	**2007A**	**2008B**	**2009F**	**2010F**	**2011F**
Pet Foods	10.10	11.1	12.22	13.41	14.79
Bio-degradable nappies	5.88	6.23	6.59	6.98	7.39
Organic Baby food	5.95	6.30	6.68	7.08	7.50
Gardening	7.13	7.64	8.18	8.77	9.39
Mobility Scooter	5.65	5.97	6.31	6.66	7.04

Details are in Appendix 8, pp.139

Pet Foods

The projected profit margin for the recommended pet foods product is based on the screening criteria and future cash flow. In the analysis, it is assumed that Boots.com will achieve the industry profit margin due to its brand capabilities and the long standing market position as a player in the Health and Beauty specialist segment. The projections are based on a 10.01% margin increase each year due to drivers mentioned in section 10.1. The implication is that the industry has huge prospects of developments arising from (1) a greater emphasis on health care and grooming for pet (2) growing concern with health and nutrition for pets (3) greater interest in organic pet food (4) and companionship for the ageing population. (Keynote Report, 2008)

Bio Degradable Nappies

The projected profit margin for the recommended bio degradable nappies is based on the screening criteria and future cash flow. In the analysis, it is assumed that Boots.com brand in biodegradable is strong and will achieve the industry profit margin. Its long standing market position as a player in the Health and Beauty specialist segment is also a crucial element. The projections is based on a 5.88% margin increase each year due to drivers such as such as (1) increasing child birth (2) growing concern of health for pets (3) introduction of more trainer products, including swimmer pants and the (4) certain extent, cannibalise sales of more traditional disposable nappies. (Keynote Report, 2008)

Organic Baby Food

The projected profit margin for the recommended organic baby food is based on the screening criteria and future cash flow. In the analysis, Boots.com brand name and market presence as a long standing market position as a player in the Health and Beauty specialist segment becomes a strong determinant to achieve the industry profit margin.

The projections is based on a 5.95% margin increase each year due to drivers such as greater concern and awareness over health and ethical issues are the main drivers behind growth for organic food. Such continued growth will result in organic food taking a greater share within expenditure on in-home food, up from 2.5% in 2007, to 3.4% in 2012. (Keynote data, 2008)

Gardening

The projected profit margin for the recommended gardening product is based on the screening criteria and future cash flow. In the analysis, it is assumed that Boots.com will achieve the industry profit margin. The projections is based on a 7.31% margin increase each year due to drivers such as 66.4% of consumers visited a gardening centre (a high penetration figure compared to other leisure activities), driven by rising enthusiasm for gardening among consumers. (Keynote Report, 2008)

Mobility Scooter

The projected profit margin for mobility scooter is acceptable given the fact that by 2011, there will be 12,538 million elderly above 45 years of age to 75 years and 13,998 million elderly women above 45 years of age to 75 years respectively. These categories of the elderly will utilise mobility scooter owing to their inability to stand and walk for a long-time.

Impact on Financial Statement

As shown in projected future cash flows and projected profit margin in Table 20 & 21, the financial statements will be more meaningful with higher profit margin from 40.8% in 2007/08 to an incremental 30% based on line extension and an incremental 10% based on brand extension. These projections are made based on statistical data from Key Note and Mintel report. The projections rest on very conservative estimates to reflect factors internally generated and externally influenced.

Higher projected profit margin will increase the future cash flow and profit margin for Boots.com. The balance sheet of Boots.com will be stronger with higher asset base and cash and cash equivalent will be higher with stronger reserves. The analysis of net present value which incorporates time value for money based on future cash flow discounted at the costs of capital goes far to signify increasing shareholders wealth and maximisation of shareholder satisfaction.

10.3 Net Present Value of New Online Products

The Net Present Value (NPV) calculation for Product Line Extension and brand extension is the difference between the present value of cash inflows and the present value of cash outflows. NPV is used in capital budgeting to analyze the profitability of an investment or project. NPV analysis is sensitive to the reliability of future cash inflows that an investment or project will yield. A positive NPV signifies an increase in shareholders wealth whilst a negative NPV signifies a reduction in shareholders wealth. (Table 22)

Table 22 – Net Present Value for Extended Product

Products	Net Present Value (£)
Pet products	3.59
Organic Baby Food	4.10
Bio-degradable Nappies	3.78
Gardening	0.09
Mobility Scooter	1.81

Details are in Appendix 9, pp.141

Pet Product

NPV for pet products is derived at by discounting future cash flow of pet products industry based on industry cost of capital of 7.62%. Boots.com cash flow is proportionate based on Boots market share of 4.70% (assumption based on its brand value and market share in the grocer and Health and Beauty specialist industry). A positive NPV of 3.59 signifies increasing shareholder’s wealth and that the products can be maximised and taken further.

Organic Baby Food

NPV for organic baby food is derived at by discounting future cash flow of pet products industry based on industry cost of capital of 5.24%. Boots.com cash flow is proportionate based on Boots market share of 4.70% (assumption based on its brand value and market share in the grocer and Health and Beauty specialist industry). A positive NPV of 4.10 signifies increasing shareholder’s wealth and the products can be maximised and taken further

Biodegradable Nappies

NPV for bio degradable is derived at by discounting future cash flow of pet products industry based on industry cost of capital of 7.26%. The boots.com cash flow is proportionate based on Boots market share of 4.70% (assumption based on its brand value and market share in the grocer and Health and Beauty specialist industry). A positive NPV of 3.78 signifies increasing shareholder’s wealth and the products can be maximised and taken further.

Gardening

NPV for gardening is derived at by discounting future cash flow of pet products industry based on industry cost of capital of 7.77%. The boots.com cash flow is proportionate based on Boots market share of 4.70% (assumption based on its brand value and market share in the grocer and Health and Beauty specialist industry). A positive NPV of 0.09 signifies increasing shareholder's wealth and the products can be maximised and taken further

Mobility Scooter

NPV for mobility scooter is derived at by discounting future cash flow of pet products industry based on industry cost of capital of 9.64%. The boots.com cash flow is proportionate based on Boots market share of 4.70% (assuming its brand value and market share in Health and Beauty specialist industry). A positive NPV of 1.81 signifies increasing shareholder's wealth and the product can be maximised and taken further

Return on Investment

Return on Investment for the 5 products are projected to be in between 10 % to 15% based on the cost structure of Boots.com. Indeed it is a viable venture, a profitable option. Details are in Appendix 8, pp 139

Real Options

The accuracy of data and the"*realisticness*"of projections questionable. The difficulty of quantifying *real options* has also been debated. Often practitioners question whether the risk estimate like beta (β), cost of capital (Ke), expected market premium, risk free (rf) and cost of debt (kd) are a true reflection of reality. It is therefore necessary to undertake "***sensitivity analysis***" to determine the impact of variability in the parameters that affects the investment.

Real Options are a tool to grow out of pressing need for better investment criteria, as well as advances in Real Option pricing. Projects with uncertainty and require more valuable than discounted cash flow allow can use the flexibility of Real Options. Boots.com has the liberty to choose options that include (1) Option to abandon *the project if it is not commercially viable;* (2) Option to defer (*begin later);*(3) Option to switch *(resources to another use*); (4) Option to expand (*with capital injections or new information*); or (5) Option to contract.

Summary

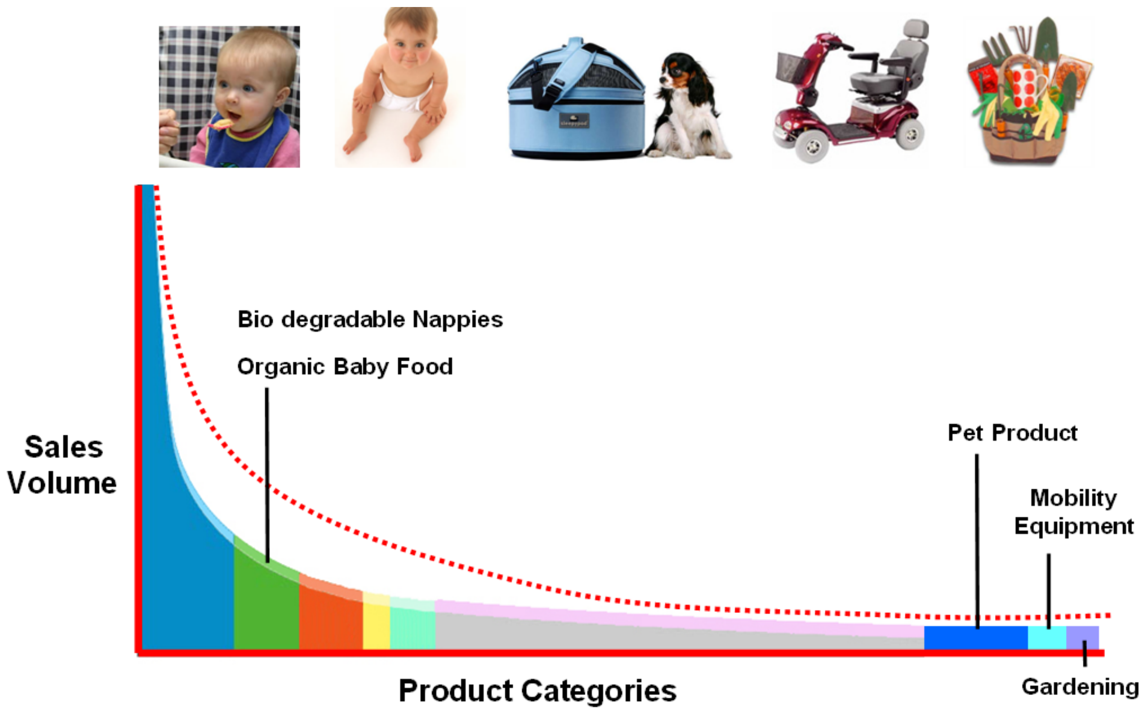
Based on the analysis above, the primary drivers to a successful product line extension or brand extension are (1) steady stream of future cash flow (2) adequate profit margin (3) Return on Investment and Positive Net Present Value to signify increase in shareholders wealth. The five (5) products identified above based on the screening parameters should be taken further to maximise in the market due to its desirability and market position.

11.0 Conclusion and Recommendations

11.1 Conclusion

As discussed in previous Chapters regarding the market strategies we analysed the different approaches Boots.com needs to consider from growth perspective in terms of marketing, supply chain and financial. In this chapter we would present the Boots.com's extended long tail which could add value to its product surface as illustrated in the Diagram 47 below:

Diagram 47 – Boots.com Extended Long Tail



Boots.com's new customer segmentation was modified according to the social trends, customer spending behaviour, interests and future growth of different groups. The new customer segments are Betty, Tina, Charlotte, George and Mary, older Bob, younger Bob and Teens.

The targeted customers for sales increase after product line extension are Tina, George and Mary and older Bob. Tina is Mom with dependent children at home; she has influence over majority of household spending for looking after every members of the family and sometimes they would include Betty and older Bob. Therefore, base on the spending controlled by Tina, she will continue to be our most important target customer. George and Mary is the newly identified customer base on the rising social trends. George and Mary are couples with no children; they are targeted for the willingness to spend and high spending power.

Older Bob is male above age 25; he is targeted for his potential of spending and likelihood to shop online. By matching the targeted customers with the product recommended Boots.com should be able to achieve the strategic goal of increase sales by product line extension

From product line extension perspective, the Bio degradable Nappies and Organic nappies could add to the core H&B products as Line Extensions. Thus would add value for the profitable customer segment like Tina. On the other hand products like Pet Products, Mobility equipments and Gardening could be added to the tail of Boots.com as brand extensions which could be targeted to the emerging customer segment like George& Mary and Older Bob.

Adoption of supplier managed inventory with appropriate drop ship models at different stages of product line extension would help to optimize Boots.com warehouse space and cost. Therefore, the delivery process is made leaner.

By using the KPIs determined for sustaining customer experience across channels, Boots.com should be able to attract more online customers. Providing a close to physical shopping feel website with easy navigation, more customers would be tempted to shop at Boots.com. High order visibility, delivery guarantee and returnability would help to sustain customer satisfaction between Boots.com and customers. By improving the quality of customer experience in those areas it would also engage them to continuously shop at Boots.com and therefore increase the conversion rate which leads to increase of sales

The important financial criteria for success in product line extension and brand extension are (1) a steady stream of future income stream for the products (2) acceptable profit margins for the products (3) Positive Net Present Value signifying increasing shareholders wealth and adequate Return on Investment on the products. The screening criteria analysis based on desirability index and market position enabled products to be categories based on its readiness to be (1) taken further into product launch i.e. to maximise (2) taken further after reconsideration of market attractive and company’s strength i.e. to develop and (3) not to be taken further due to lack of resources available.

Older Bob is male above age 25; he is targeted for his potential of spending and likelihood to shop online. By matching the targeted customers with the product recommended Boots.com should be able to achieve the strategic goal of increase sales by product line extension.

From product line extension perspective, the Bio-degradable Nappies and Organic nappies could be added to the core Health and beauty products as line extensions. Thus would add value for the profitable customer segment like Tina. On the other hand products like Pet Products, Mobility equipments and Gardening could be added to the tail of Boots.com as brand extensions which could be targeted to the emerging customer segment like George& Mary and Older Bob.

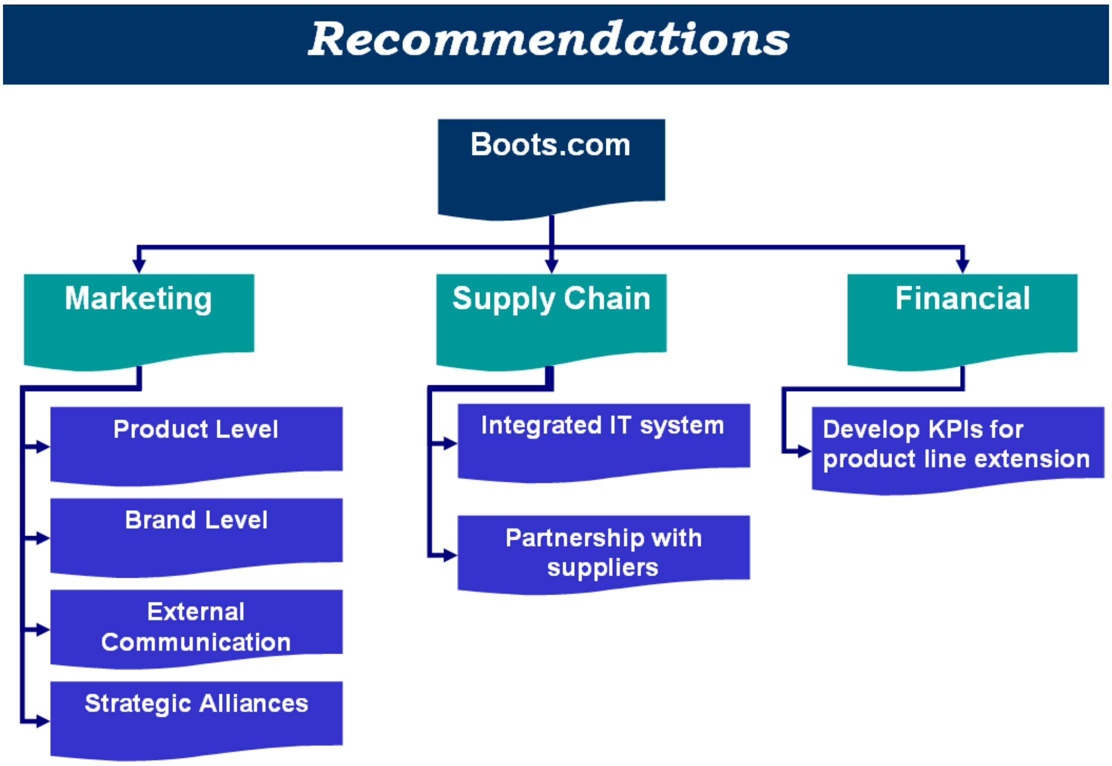
Adoption of supplier managed inventory with appropriate drop ship models at different stages of product line extension would help to optimize Boots.com warehouse space and cost. Therefore, the delivery process is made leaner.

By using the KPIs determined for sustaining customer experience across channels, Boots.com should be able to attract more online customers. Providing a close to physical shopping feel website with easy navigation, more customers would be tempted to shop at Boots.com. High order visibility, delivery guarantee and returnability would help to sustain customer satisfaction between Boots.com and customers. By improving the quality of customer experience in those areas it would also engage them to continuously shop at Boots.com and therefore increase the conversion rate which leads to increase of sales.

11.2 Recommendations

According to our research and analysis carry out by the MBA group proposes the following recommendations for Boots.com's business development strategy considering marketing, supply chain and financial perspectives. (Diagram 48)

Diagram 48 - Recommendations



From a marketing perspective, the online channel needs to act as testing platform for Alliance Boots for introducing new products and understanding the consumer behaviour considering the space of abundance in the internet space than scarcity in the physical stores. Once understanding the consumer reactions the best sellers could be moved to physical stores, by doing so the stores could utilize their shelves space more efficiently and effectively. This would be win-win situation for offline channel (the physical stores) and online channel (Boots.com). Thus Alliance Boots could rightly leverage and utilize their multi-channel retailing resource effectively.

Also for the same Boots.com needs to clearly define their screening criteria since at the moment there are no criteria or strategies for screening and product line extension from online perspective. At brand level Boots.com needs have aggressive marketing communication tools for increasing the website awareness. Also the search engine optimization would provide more visibility for Boots.com in the internet space.

The website needs to more interactive for better engagement for customer since it would enhance the customer "stickness" with the website and increase the online website traffic.

Finally from marketing perspective Strategic Alliances with internet pure players like eBay and Amazon are critical since Boots could get access to 2.1 million internet customers. From Boots.com perspective it could add value to the internet pure players since it is specialist in the H&B market. Secondly internet pure players are also looking for multi-channel partners since they are not.

Consider these two factors with Boots established brand it could add value and would be win-win situation for Boots.com and internet pure players. We could benchmark Yahoo and Barnes and Noble partnership for the online sales of books. However there have been spin-offs between Amazon and Toys-R-Us, as Toys-R-Us could not meet the order fulfilment requirements of Amazon due to which Amazon could provide toys to 2 out of 20 children in the market (Cleary,2008).Hence Boots.com needs to critically consider such decisions for strategic alliance with internet pure players. Lastly partnership with social networking websites like Facebook, Myspace etc could create new market places for Boots.com. For the same we could benchmark Amazon, wherein Amazon has created application for Facebook. e.g. Facebook customer could add books to their 'wish list' and their friends could gift them these books through online purchases (Medford, 2006).

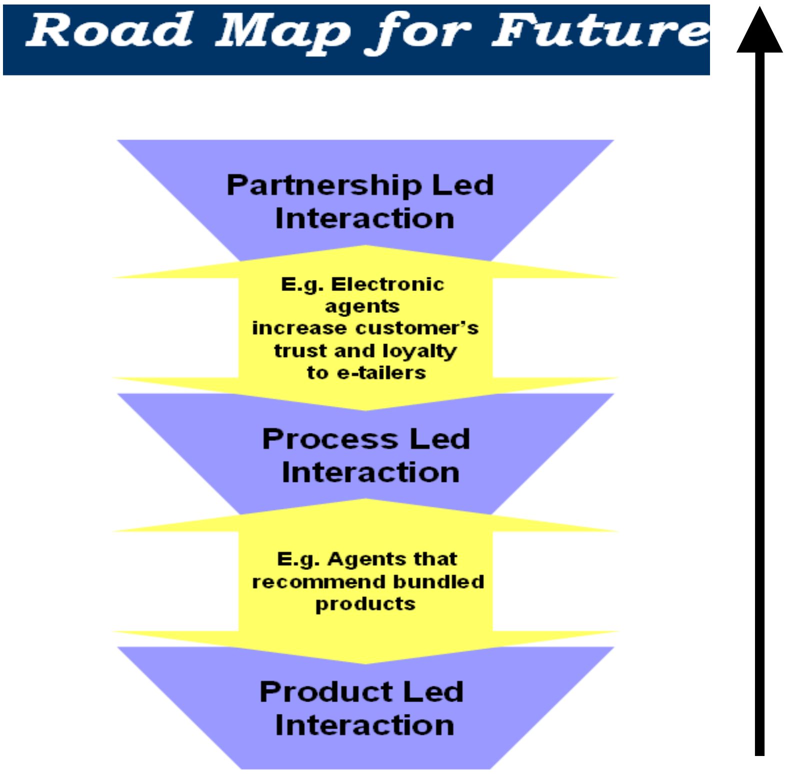
From Supply Chain Management point of view, for further business development Boots.com should enable an integrated information system and building partnership with suppliers. An integrated information system would assist Boots.com in sustaining customer experience and satisfaction in areas such as order visibility, delivery guarantee and returnability. Boots.com also needs to establish salient partnership with the suppliers in order to move the business to the next level. For instance, Wal-Mart is more profitable than Kmart in the US because it invest heavily on IT system which allows suppliers to monitor the stock level for Wal-Mart stores and to deliver in full truck loads. Wal-Mart is willing invest in IT system, to trust the suppliers and share information with them which result in higher profitability for the company

Having established the important criteria for a successful product extension launch or brand extension, it is important for Boots.com to establish a strong and intrinsically linked Key Performance Indicator such as Kaplan and Norton Balanced Scorecard such as (1) good financial returns (2) customer satisfaction (3) strategy implementation and (4) build profitable and sustainable franchise.

Boots.com can establish a balanced scorecard to track all important element of its strategy. In addition, a Boots.com could establish a balanced scorecard that links financial and non-financial measures. Boots.com could improve on communication between business plan and its mission. Furthermore, Boots can establish performance measures that lead to sustainable competitive advantage and continuous improvement. The recommended frameworks include:

- Combines different elements of competitive agenda;
- That puts strategy, vision, not control in the centre;
- Guards sub-optimization (no-trade off between measures);
- Links performance with vision and strategy;
- Drives organizational performances;
- Translates objectives into measures and lead to improved performance;
- Deploy strategic direction, communicating, expectation & assess progress for objectives;
- Create a healthy, efficient and effective Health and Beauty player;
- Specify how actions impact performances;
- Provides service to its customers & employees; and
- Put value on results earnestly.

Diagram 49 – Road Map for Future



Source: Florenthal (2007)

According Florenthal (2007) framework as mentioned in the Diagram 49 above provides the roadmap for Boots.com's future. At the moment Boots.com is in the bottom level i.e. in the product led interaction stage wherein key strategy for the company is providing product differentiation for its customers specifically in Health & Beauty market by being a specialist.

However Boots.com needs to move to interaction led process where it could take feedback from its customers in terms of developing new products e.g. Lego toys developed new products with voluntary participation of their customers based on their feedback (Moon & Sproull, 2001).

Finally Boots.com needs to move into partnership led interaction wherein it could increase their loyalty and lock in strategies for their customers by partnering with social networking websites like Facebook and Myspace e.g. Amazon. Thus would increase the customer engagement resulting in the increasing customer loyalty.

Lastly as per our analysis and our research, we forecast that online channel is becoming an increasingly attractive channel for Multi-channel retailers. Thus it is imperative that Alliance Boots focus on the online channel from being a store led organization and optimize the online channel for matching it up with the physical stores.

Appendices

Appendix 1 – Street Survey

Boots.com Customer Survey

1. Where did you hear Boots website from?

☐ Search engine

☐ Boots store & advertisement

☐ Friends

☐ Others please specify____________________________________

2. What 3 type of product do you most often purchase?

☐ Health	☐ Nutrition	☐ Toiletries
☐ Cosmetics	☐ Fragrance	☐ Electricals
☐ Gift	☐ Photo	☐ Optician
☐ Food & drink	☐ Baby	

3. Can you think of any other products you wish Boots would sell?

A. ___________________________

B. ___________________________

C. ___________________________

4. Please specify your preferred delivery method that is currently NOT offered by Boots.com (Service currently being offered includes: Next day delivery, Standard delivery (5 days), Delivery on named date)

____

____

____

1

5. How would you rate the shopping experience at Boots website? Please circle one.

Very Unsatisfied	Unsatisfied	Partially Satisfied	Satisfied	Very Satisfied

6. How would you rate the after sales experience at Boots website? Please circle one, ignore the following questions if you do not have previous experience in the using following services.

In terms of refund

Very Unsatisfied	Unsatisfied	Partially Satisfied	Satisfied	Very Satisfied

In terms of exchange

Very Unsatisfied	Unsatisfied	Partially Satisfied	Satisfied	Very Satisfied

In terms of repair service

Very Unsatisfied	Unsatisfied	Partially Satisfied	Satisfied	Very Satisfied

In terms of payment security

Very Unsatisfied	Unsatisfied	Partially Satisfied	Satisfied	Very Satisfied

2

7. What are your recommendations for Boots website for improving your shopping experience?____

____

____

____

____

____

---

8. Gender

☐ Male ☐ Female

9. Please select your age group

☐ 55+ ☐ 20-55 ☐ Below 20

Do you have any children?

☐ Yes ☐ No

10. Please select your occupation

☐ Student ☐ Professionals ☐ Technicians

☐ Sales Workers ☐ Craft Workers ☐ Operatives

☐ Laborers and Helpers ☐ Service Workers ☐ Retired

☐ Officials and Managers

☐ Administrative Support Workers

☐ Others please specify____

Thank you !

3

Appendix 2 - Online Survey

Customer Survey — Exit this survey

1. Boots.com Customer Survey

1 / 3 — 33%

1. Where did you hear Boots website from?

- [ ] Search engine
- [ ] Boots store & advertisement
- [ ] Friends

Other (please specify)

2. What 3 type of product do you most often purchase?

- [ ] Health
- [ ] Cosmetics
- [ ] Gift
- [ ] Food & drink
- [ ] Nutrition
- [ ] Fragrance
- [ ] Photo
- [ ] Baby
- [ ] Toiletries
- [ ] Electricals
- [ ] Optician

3. Can you think of any other products you wish Boots.com would sell?

A

B

C

4. Please specify your preferred delivery method that is currently NOT offered by Boots.com (Service currently being offered includes:Next day delivery, Standard delivery (5 days), Delivery on named date)

Next

Survey Powered by:
SurveyMonkey.com
"Surveys Made Simple."

Customer Survey — Exit this survey

2.

2 / 3 — 67%

1. How would you rate the shopping experience at Boots Website?Please choose one.

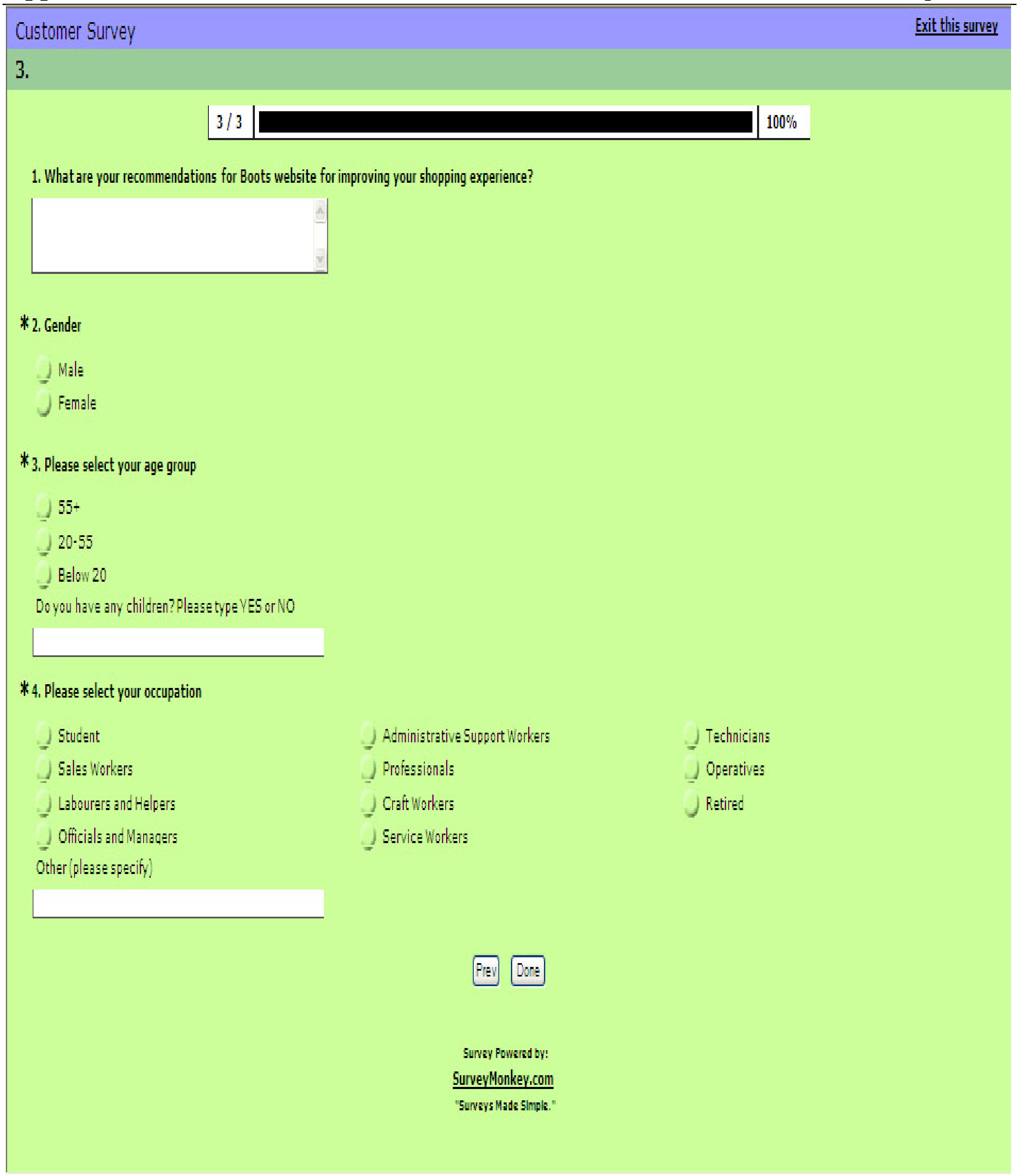
- Very Unsatisfied
- Unsatisfied
- Partially Satisfied
- Satisfied
- Very Satisfied

2. How would you rate the after sales experience at Boots website? Please choose one, ignore the following questions if you do nit have previous experience in the using following services.

	Very Unsatisfied	Unsatisfied	Partially Satisfied	Satisfied	Very Satisfied
In terms of refund					
In terms of exchange					
In terms of repair service					
In terms of payment security					

Prev Next

Survey Powered by:
SurveyMonkey.com
"Surveys Made Simple."


Customer Survey

Exit this survey

3.

3 / 3 100%

1. What are your recommendations for Boots website for improving your shopping experience?

*2. Gender

- Male
- Female

*3. Please select your age group

- 55+
- 20-55
- Below 20

Do you have any children? Please type YES or NO

*4. Please select your occupation

- Student
- Sales Workers
- Labourers and Helpers
- Officials and Managers
- Administrative Support Workers
- Professionals
- Craft Workers
- Service Workers
- Technicians
- Operatives
- Retired

Other (please specify)

Prev Done

Survey Powered by:

SurveyMonkey.com

"Surveys Made Simple."

Appendix 3 - Households in Great Britain by Type of Household and Family, 1971, 1981, 1991, 2001 and 2006

Households in Great Britain by Type of Household and Family (% and million), 1971, 1981, 1991, 2001 and 2006

	1971	**1981**	**1991**	**†2001**	**†2006**
Type of Household (%)					
One-Person Households					
Under state pension age	6	8	11	14	14
Over state pension age	12	14	16	15	14
Total one-person households	**18**	**22**	**27**	**29**	**28**
One-Family Households (Couple)					
No children	27	26	28	29	28
One or two dependent children	26	25	20	19	18
Three or more dependent children	9	6	5	4	4
Non-dependent children only	8	8	8	6	7
Total one-family households (couple)	**70**	**65**	**61**	**58**	**57**
Lone-Parent Households					
Dependent children	3	5	6	7	7
Non-dependent children only	8	8	8	6	7
Total lone-parent households	**11**	**13**	**14**	**13**	**14**
Multi-family households	1	1	1	1	1
Total (%)	**100**	**100**	**100**	**100**	**100**
All households (million)	18.6	20.2	22.4	23.8	24.2

† — data are as at Quarter 2 each year

Note: totals may not sum due to rounding.

Source: Census, Labour Force Survey/Social Trends 37, 2007, National Statistics © Crown copyright material is reproduced with the permission of the Controller of HMSO (and the Queen's Printer for Scotland)

Appendix 4 - Age of UK Resident Population by Gender, 2002-2011

Age of UK Resident Population by Gender (000), 2002-2011

				% Changes		
	2002	**2006**	**2011**	**2002-2006**	**2006-2011**	**2002-2011**
Men						
0-15	6,025	5,912	5,961	-1.9	0.8	-1.1
16-29	5,220	5,626	6,082	7.8	8.1	16.5
30-44	6,683	6,597	6,313	-1.3	-4.3	-5.5
45-59	5,598	5,804	6,060	3.7	4.4	8.3
60-74	3,738	3,964	4,460	6.0	12.5	19.3
75+	1,652	1,792	2,018	8.5	12.6	22.2
Total	**28,916**	**29,695**	**30,894**	2.7	4.0	6.8
Women						
0-15	5,375	5,625	5,682	4.7	1.0	5.7
16-29	5,156	5,456	5,802	5.8	6.3	12.5
30-44	5,795	6,706	6,386	15.7	-4.8	10.2
45-59	5,704	5,940	6,235	4.1	5.0	9.3
60-74	4,115	4,305	4,805	4.6	11.6	16.8
75+	2,813	2,867	2,958	1.9	3.2	5.2
Total	**28,958**	**30,899**	**31,868**	6.7	3.1	10.0

Source: 2006-based Population projections by age and sex for the UK, Series PP2 No 26 (2002 figure from Key Population Statistics Series VS No. 29. 2002) National Statistic © Crown copyright material is reproduced with the permission of the Controller of HMSO (and the Queen's Printer for Scotland)

Appendix 5 - Time Spent on Main Activities by Sex, 2005

Time Spent on Main Activities by Sex (minutes per day), 2005

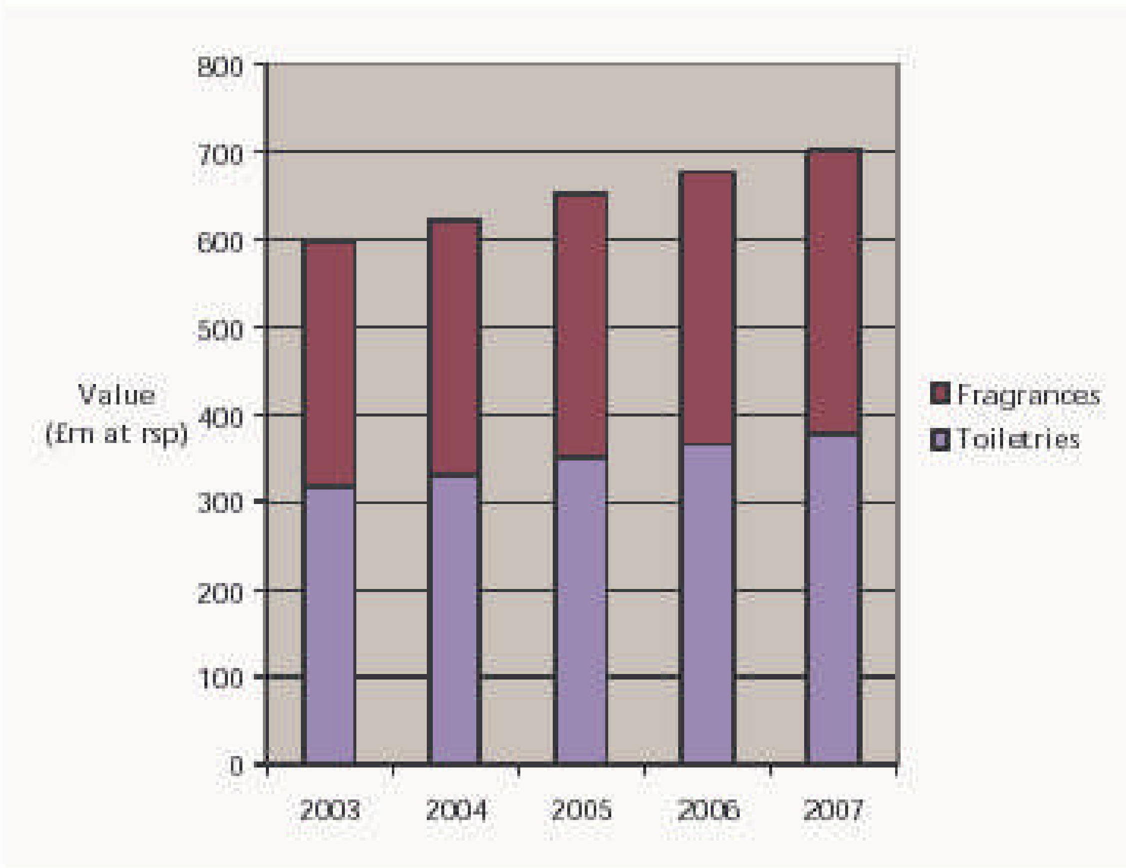
	Male	**Female**
Sleep	484	498
Eating and drinking	85	79
Resting	43	48
Personal care	40	48
Leisure		
Watching television/DVD and listening to radio/music	170	145
Social life	77	87
Entertainment and culture	5	5
Reading	23	26
Hobbies and games	37	23
Sport	13	7
All leisure	**325**	**293**
Housework	100	177
Employment and study	226	147
Using the computer	15	7
Travel	92	32
Childcare	15	32
Voluntary work and meetings	15	20
Other	13	15
Total	**1,453**	**1,396**

Note: minutes may not sum exactly to 24 hours due to rounding.

Source: Time Use Survey 2005, National Statistics © Crown copyright material is reproduced with the permission of the Controller of HMSO (and the Queen's Printer for Scotland)

Appendix 6 - The UK Men's Toiletries and Fragrances Market by Sector by Value at Current Prices, Years Ending December 2003-2007

The UK Men's Toiletries and Fragrances Market by Sector by Value at Current Prices (£m at rsp), Years Ending December 2003-2007



rsp — retail selling prices

Source: Key Note

Appendix 7 - Market Attractiveness and Business Position Screening Criteria

The following section is amended from Wong, v, (1993), Identifying and Exploiting New Market Opportunities, DTI, Central Office of Information, UK

Screening criteria

The management team should decide upon which criteria are the most critical and the level of accuracy in the data needed for decision-making. This is to avoid wasting resources on refining information pertaining to factors that the project's viability is relatively insensitive to. Whilst the desired criteria may vary according to the nature of the indus1ry and the circumstances of the individual firm, some criteria are likely to be relevant to most companies. These will be highlighted in this section.

The most useful screening device should consider:

1. The attractiveness of the market for the proposed new product idea

2. The company's capabilities and whether it has the business skills required to cater to the needs of the market in a way which gives it distinct edge over competition (current and/or potential).

Determining market attractiveness

Most companies are likely to find the following items relevant in the screening and selection of new product ideas:

- Market size (reflects extent of meeting a clearly defined market need)

- Market concentration (intensity of competition which affects ease of capturing market share)

- Profit potential of market

- Technology stability (rate of change, which impacts on future product developments and future applications of the technology)

- Business cyclicality/seasonality

- Environmental sensitivity (vulnerability to legislation and sensitivity to public opinion).

Figure 3.2 shows how a scoring chart can be constructed and used to determine the 'desirability' of an idea. The factors determining market attractiveness should be weighted since not all of them are of equal importance.

The following section is amended from Wong, v, (1993), Identifying and Exploiting New Market Opportunities, DTI, Central Office of Information, UK

Figure 3.2 Determining market attractiveness - the desirability index

Factor	Weight	Rating	Score
	(a)	(b)	(a x b)
Market size (Small=1, Medium=2, Large=3)	e.g. 40%	2	0.8
Volume Growth (Low=1, Moderate=2, High=3)	❑	❑	❑
Market concentration (High=1, Moderate=2, Low=3)	❑	❑	❑
Market profitability (Low=1, Moderate=2, High=3)	❑	❑	❑
Technological Stability (Radical=1, Changing=2, Static=1)	❑	❑	❑
Business cyclicality (High=1, Moderate=2, Low=3)	❑	❑	❑
Environmental sensitivity (High=1, Moderate=2, Low=3)	❑	❑	❑
	100%	*Desirability index*	

Code	Score	Action
Red	1	NOGO
Amber	2	HOLD
Green	3	GO

Determining business position

Having determined if an idea is attractive in terms of the factors the firm would most like to find present (or to avoid) in the market, the screening team should ascertain the firm's position by considering those factors that govern success in the market. Business position is reflected by:

- The ability to capture market share
- Relative competitive position (reflects product newness, uniqueness and ability to satisfy customers' needs)
- R&D ability to develop/exploit product technology with high probability of success/ability to protect technology through patent

The following section is amended from Wong, v, (1993), Identifying and Exploiting New Market Opportunities, DTI, Central Office of Information, UK

- Manufacturing capabilities (i.e. availability of personnel, new processes and synergies with existing capabilities)
- Availability of financial resources
- Relative profitability
- Marketing capabilities (i.e. adeptness in segmenting and targeting customers, effective brand positioning, developing and implementing market strategy, maintaining quality leadership, sustaining differential advantage).

Figure 3.3 below shows how to determine the business position index.

Figure 3.3 Company Capabilities - Business position index

	Weight (reflecting relative importance (a)	**Rating* of firm vis-a-vis competition (b)**	**Score (a x b)**
Market share	❑	❑	❑
Relative competitive position	❑	❑	❑
Product and technology	❑	❑	❑
Manufacturing capabilities	❑	❑	❑
Finance	❑	❑	❑
Relative profitability	❑	❑	❑
Marketing capabilities	❑	❑	❑
		Business position Index	

*Rating: Very weak = 1, Very strong = 5

Code	Score	Action
Red	1-2	NOGO
Amber	3	HOLD
Green	4-5	GO

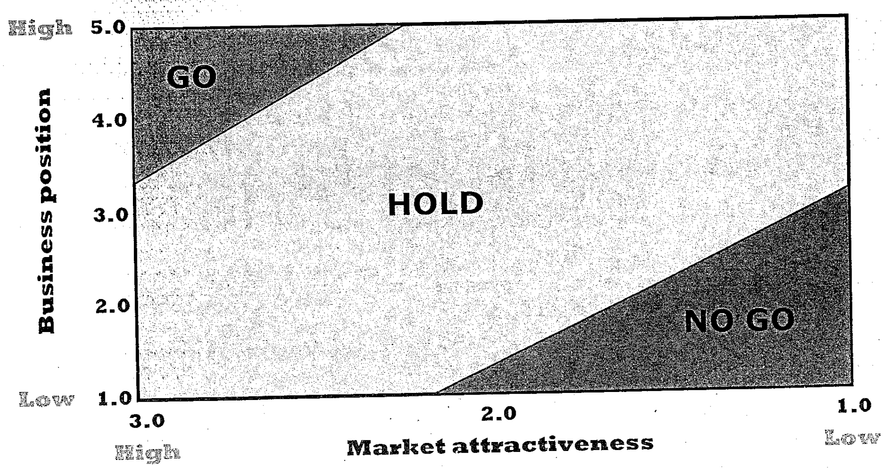
The following section is amended from Wong, v, (1993), Identifying and Exploiting New Market Opportunities, DTI, Central Office of Information, UK

Combining business position and market attractiveness analysis

Once the position and desirability of a new product idea are measured, it can be plotted onto one of the three bands of the matrix as shown in *Figure* 3.4. For each band, there is a corresponding innovation investment recommendation:

GO	The idea is not only very desirable in terms of industry attractiveness, but also takes advantage of company strengths. So, take the idea into further development
HOLD	The market is attractive but the company lacks the factors that make for success. So, build or acquire success factors within acceptable time scale, or DROP idea
	The idea offers good opportunity for exploiting Company strengths but is not a worthwhile market to attack. So, unless market conditions improve, DROP idea
	Average company skills and a lack-lustre market suggests that the idea needs to be re-worked to seek wider potential applications whilst the business addresses means by which its competitive position within identified markets might be strengthened. If management is committing to neither, DROP idea
NO GO	The business should not contemplate further investment of resources in the idea given the poor measure of market attractiveness and the firm's relatively weak position in the market. Abort idea development.

Figure 3.4 Market attractiveness - business position matrix



Appendix 8 - Profit Margin Forecast

1 Pet Products						
Years	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
	£m	£m	£m	£m	£m	£m
Industry sales	£89.10	£90.20	£90.80	£91.80	£93.00	£98.80
Industry COGS	(80.11)	(80.18)	(79.73)	(79.46)	(79.25)	(82.73)
Industry net sales	8.99	10.02	11.07	12.34	13.75	16.07
Industry margins	10.10%	11.11%	12.22%	13.44%	14.79%	16.27%
Incremental margins for Boots	10.10%	11.11%	12.22%	13.44%	14.79%	16.27%

Assumption: Industry Margin based on average profit margin of industry players
Future cash flows are based on forecast of industry by Key Note Report, 2008

Boots share *4.70%* *online market of retail* 5.20%

ASSUMPTIONS due to lack of market intelligence

The average industry margin is benchmarked against industry players such as Pets at Home Ltd, Pets Plan Ltd, and Nestle Purina Pet Care Ltd, Master Foods Ltd and Armitage Brothers Ltd. Industry margin is assumed to be projected margin growth and increases Year on year.

2) Mobility Scooter						
Years	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
	£m	£m	£m	£m	£m	£m
Industry sales	£11.90	£12.60	£13.20	£13.50	£13.90	£14.30
Industry COGS	**(11.23)**	**(11.81)**	**(12.37)**	**(12.61)**	**(12.92)**	**(13.24)**
Industry net sales	0.67	0.75	0.83	0.89	0.98	1.06
Industry margins	5.65%	5.97%	6.31%	6.66%	7.04%	7.44%
Incremental margins for Boots	5.65%	5.97%	6.31%	6.66%	7.04%	7.44%

Assumption: Industry Margin based on average profit margin of industry players
Future cash flows are based on forecast of industry by Key Note Report, 2008

Boots market share 4.70% online market share 5.20% of retail industry

3) Online Organic Baby Food						
Years	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
	£m	£m	£m	£m	£m	£m
Industry sales	£5.90	£7.20	£8.60	£9.70	£9.90	£10.0
Industry COGS	**(5.55)**	**(6.75)**	**(8.03)**	**(9.02)**	**(9.16)**	**(9.23)**
Industry net sales	0.35	0.45	0.57	0.68	0.74	0.77
Industry margins	5.95%	6.30%	6.68%	7.08%	7.50%	7.77%
Incremental margins for Boots	5.95%	6.30%	6.68%	7.08%	7.50%	7.77%

Assumption: Industry Margin based on average profit margin of industry players
Future cash flows are based on forecast of industry by Key Note Report, 2008

ASSUMPTIONS due to lack of market intelligence

The average industry margin for organic baby foods is benchmarked against industry players such as Nestle Ltd, SMA Nutrition, Organix Brand, Nutricia Baby Care Ltd, HIPP Organic etc. Industry margin is assumed to be projected margin growth and increases Year on year.

The average industry margin for mobility scooter is benchmarked against industry players such as Yamaha and Suzuki. Industry margin is assumed to be projected margin growth and increases Year on year

3) Gardening						
Years	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
	£m	£m	£m	£m	£m	£m
Industry sales	£0.35	£0.38	£0.42	£0.46	£0.51	£0.56
Industry COGS	**(0.325)**	**(0.351)**	**(0.386)**	**(0.420)**	**(0.463)**	**(0.504)**
Industry net sales	0.025	0.029	0.034	0.040	0.047	0.056
Industry margins	7.13%	7.64%	8.18%	8.77%	9.39%	10.06%
Incremental margins for Boots	7.13%	7.64%	8.18%	8.77%	9.39%	10.06%
Assumption: Industry Margin based on average profit margin of industry players						
Future cash flows are based on forecast of industry by Key Note Report, 2008						
Boots market share 4.70%, online market share 5.20% of retail industry						

ASSUMPTIONS due to lack of market intelligence

The average industry margin is benchmarked against industry players such as Wyevale Gardens Ltd; Industry margin is assumed to be projected margin growth and increases Year on year

4 Disposable Nappies						
Years	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
	£m	£m	£m	£m	£m	£m
Industry sales	£27.8	£31.3	£31.5	£31.8	£32.3	£32.8
Industry COGS	(26.17)	(29.35)	(29.42)	(29.58)	(29.92)	(30.24)
Industry net sales	1.63	1.95	2.08	2.22	2.38	2.56
Industry margins	5.88%	6.23%	6.59%	6.98%	7.39%	7.82%
Incremental margins for Boots	5.88%	6.23%	6.59%	6.98%	7.39%	7.82%
Assumption: Industry Margin based on average profit margin of industry players						
Future cash flows are based on forecast of industry by Key Note Report, 2008						
Boots market share 4.70% online market share 5.20% of retail industry						

ASSUMPTIONS due to lack of market intelligence

The average industry margin is benchmarked against industry players such as SCA Hygiene Products Ltd, LPC Group Ltd, Kimberly Clarke Group Ltd, and Georgia Pacific GB Ltd. Industry margin is assumed to be projected margin growth and increases Year on year

Appendix 9 – Net Present Value and Future Cash Flow Forecast

1 Pets Products(Food)						
Years	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
	£m	£m	£m	£m	£m	£m
Industry Cash flows	£89	£90	£91	£92	£93	£99
Boots projected cash flow	***4.19***	***4.24***	***4.27***	***4.31***	***4.37***	***4.64***
Industry Terminal Value						92
Boots Terminal Value						***4.34***
Industry Investment	97					
Boots Investment	***4.55***					
Discount factor@7.62%	1.000	0.929	0.863	0.802	0.745	0.693
Present Value	(0.37)	3.94	3.69	3.46	3.26	7.55
Net Present Value	**3.59**					
Boots share of industry	*4.70%*	*online market retail share*			5.20%	

ASSUMPTIONS

Forecast of pet food is based on data from Key Note Report, 2008 from year 2008 to 2012. The forecast have been proportionate by the online market at 5.2% of the entire retail industry. Cost of capital is based on Rf + β (Rm-Rf), where Rf is risk free rate, β is beta measuring industry risk of 0.89 and Rm= market risk

The weighted average cost of capital (WACC) measures the cost of capital. Here the industry estimate is used.

WACC = ke x E / [E+D] + kd (1-T) x D / [D+E] *(details in page 163)*

Where ke is cost of equity, E = equity, D = debt kd = cost of debt, T= Tax

In the case of pet food, the WACC is given as 8.3% x (85.38) + 5.27% (1-0.3) (14.62%)
= 7.08% + 0.54 = <u>7.62%</u>

Boots proportionate market share is based on its brand assets value, benchmarked against other players such as H&M, Ikea, M&S, Tesco, Boots, Asda, Body Shop, Argos and Sainsbury's. The brand value assets of the benchmarked industry players based on £42,895 million are illustrated below

Players	**Brand assets(£)**
H&M	£10,366,000,000
Ikea	£6,620,000,000
M&S	£5,100,000,000
Tesco	£5,617,000,000
Boots	***£2,003,000,000***
Asda	£11,224,000,000
Body Shop	£727,000,000
Argos	£726,000,000
Sainsbury's	£512,000,000
	42,895,000,000
% boots share	**4.7%**

It can be seen that Boots proportionate market share is about 4.7%. Terminal Value is estimated at the average cash flow taking into consideration of cost of capital of 7.62%. Initial investment is estimated at industry initial capital outlay for the new investment. Present value are the cash flow discounted at the cost of capital of 7.62% and net present value is the sum of all the present value and terminal value of the project less initial outlay.

2	**Mobility Scooter**						
	Years	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
		£m	£m	£m	£m	£m	£m
	Industry Cash flows	£11.9	£12.6	£13.2	£13.5	£13.9	£14.3
	Boots projected cash flow	**0.56**	**0.59**	**0.62**	**0.64**	**0.65**	**0.67**
	Industry Terminal Value						13
	Boots Terminal Value						**0.61**
	Industry Investment	25					
	Boots Investment	**1.20**					
	Discount factor@9.6%	1.000	0.912	0.832	0.759	0.693	0.630
	Present Value	(1.20)	0.54	0.51	0.48	0.45	1.03
	Net Present Value	**1.81**					
	Boots share of industry	*4.70%*		*online market retail share* 5.20%			

ASSUMPTIONS

Forecast of mobility scooter is based on data from Key Note Report, 2008 from year 2008 to 2012. The forecast have been proportionate by the online market at 5.2% of the entire retail industry. Cost of capital is based on Rf + β (Rm-Rf), where Rf is risk free rate, β is beta measuring industry risk of 1.32 and Rm= market risk. The weighted average cost of capital (WACC) measures the cost of capital. Here the industry estimate is used.

WACC = ke x E / [E+D] + kd (1-T) x D / [D+E] *(details in page 163)*

Where ke is cost of equity, E = equity, D = debt kd = cost of debt, T= Tax

For mobility scooter, the WACC is given as 10.32% x (87.38) + 6.02% (1-13.25%) (12.41%)
= 9.04% + 0.562 = 9.60%

Boots proportionate market share is based on its brand assets value, benchmarked against other players such as H&M, Ikea, M&S, Tesco, Boots, Asda, Body Shop, Argos and Sainsbury's. The brand value assets of the benchmarked industry players based on £42,895 million are illustrated below. Based on the brand assets in the Table, Boots proportionate market share is about 4.7%. Terminal Value is estimated at the average cash flow taking into consideration of cost of capital of 9.60%. Initial investment is estimated at industry initial capital outlay for the new investment. Present value are the cash flow discounted at the cost of capital of 9.60% and net present value is the sum of all the present value and terminal value of the project less initial outlay.

3	*Online Organic Baby Food*						
	Years	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
		£m	£m	£m	£m	£m	£m
	Industry Cash flows	£5.9	£7.2	£8.6	£9.7	£9.9	£10.0
	Boots projected cash flow	**0.58**	**0.70**	**0.84**	**0.94**	**0.96**	**0.97**
	Industry Terminal Value						4.85
	Boots Terminal Value						**0.47**
	Industry Investment	1.59					
	Boots Investment	**0.42**					
	Discount factor@2.62%	1.000	0.974	0.949	0.925	0.901	0.878
	Present Value	(0.42)	0.68	0.79	0.87	0.86	1.32
	Net Present Value	**4.10**					
	Boots share of industry	*4.70%*		*online market share of retail 5.20%*			

ASSUMPTIONS
Forecast of organic baby food is based on data from Key Note Report, 2008 from year 2008 to 2012. The forecast have been proportionate by the online market at 5.2% of the entire retail industry. Cost of capital is based on Rf + β (Rm-Rf), where Rf is risk free rate, β is beta measuring industry risk of 0.79 and Rm= market risk

The weighted average cost of capital (WACC) measures the cost of capital. Here the industry estimate is used.

WACC = ke x E / [E+D] + kd (1-T) x D / [D+E] *(details in page 163)*

Where ke is cost of equity, E = equity, D = debt kd = cost of debt, T= Tax

For organic baby food, the WACC is given as 5.4% x (47.2) + 3.7% (1-0.23)(10.23%)
= 2.54% + 0.08 = <u>2.62%</u>

Boots proportionate market share is based on its brand assets value, benchmarked against other players such as H&M, Ikea, M&S, Tesco, Boots, Asda, Body Shop, Argos and Sainsbury's. The brand value assets of the benchmarked industry players based on £42,895 million are illustrated above. Based on the brand assets in the Table, Boots proportionate market share is about 4.7%. Terminal Value is estimated at the average cash flow taking into consideration of cost of capital of 2.62%. Initial investment is estimated at industry initial capital outlay for the new investment. Present value are the cash flow discounted at the cost of capital of 2.62% and net present value is the sum of all the present value and terminal value of the project less initial outlay

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4) Gardening						
Years	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
	£m	£m	£m	£m	£m	£m
Industry Cash flows	£0.35	£0.38	£0.42	£0.46	£0.51	£0.56
Boots projected cash flow	**0.016**	**0.018**	**0.020**	**0.022**	**0.024**	**0.026**
Industry Terminal Value						0.445
Boots Terminal Value						**0.021**
Industry Investment	0.41					
Boots Investment	**0.02**					
Discount factor@7.26%	1.000	0.927	0.861	0.799	0.741	0.688
Present Value	(0.02)	0.017	0.017	0.017	0.018	0.038
Net Present Value	0.087					
Boots share of online industry 4.70%			*online market share of retail* 5.20%			

ASSUMPTIONS

Forecast of gardening is based on data from Key Note Report, 2008 from year 2008 to 2012. The forecast have been proportionate by the online market at 5.2% of the entire retail industry. Cost of capital is based on Rf + β (Rm-Rf), where Rf is risk free rate, β is beta measuring industry risk of 0.95 and Rm= market risk

The weighted average cost of capital (WACC) measures the cost of capital. Here the industry estimate is used.

WACC = ke x E / [E+D] + kd (1-T) x D / [D+E] *(details in page 163)*

Where ke is cost of equity, E = equity, D = debt kd = cost of debt, T= Tax

For Gardening, the WACC is given as 8.59% x (82.20) + 4.77% (1-0.16) (17.80%)
= 7.06% + 0.77 = <u>7. 26%</u>

Boots proportionate market share is based on its brand assets value, benchmarked against other players such as H&M, Ikea, M&S, Tesco, Boots, Asda, Body Shop, Argos and Sainsbury's. The brand value assets of the benchmarked industry players based on £42,895 million are illustrated above. Based on the brand assets in the Table, Boots proportionate market share is about 4.7%. Terminal Value is estimated at the average cash flow taking into consideration of cost of capital of 7.26%. Initial investment is estimated at industry initial capital outlay for the new investment. Present value are the cash flow discounted at the cost of capital of 7.26% and net present value is the sum of all the present value and terminal value of the project less initial outlay.

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5 **Biodegradable Nappies**						
Years	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
	£m	£m	£m	£m	£m	£m
Industry Cash flows	£27.8	£31.3	£31.5	£31.8	£32.3	£32.8
Boots projected cash flow	1.309	1.471	1.481	1.496	1.518	1.540
Industry Terminal Value						188
Boots Terminal Value	1.000	0.909	0.826	0.751	0.683	0.621
Industry Investment						
Boots Investment	2.944					
Discount factor@7.62%	1.000	0.932	0.869	0.810	0.755	0.704
Present Value	(2.944)	1.371	1.287	1.212	1.146	1.705
Net Present Value	3.78					
Boots share of industry 4.70%		*online market share of retail* 5.20%				

ASSUMPTIONS

Forecast of biodegradable nappies is based on data from Key Note Report, 2008 from year 2008 to 2012. The forecast have been proportionate by the online market at 5.2% of the entire retail industry. Cost of capital is based on Rf + β (Rm-Rf), where Rf is risk free rate, β is beta measuring industry risk of 0.93 and Rm= market risk

The weighted average cost of capital (WACC) measures the cost of capital. Here the industry estimate is used.

WACC = ke x E / [E+D] + kd (1-T) x D / [D+E] *(details in page 163)*

Where ke is cost of equity, E = equity, D = debt kd = cost of debt, T= Tax

In the case of pet food, the WACC is given as 8.3% x (85.38) + 5.7% (1-0.) (14.62%)

= 7.08% + 0.54 = <u>7.62%</u>

Boots proportionate market share is based on its brand assets value, benchmarked against other players such as H&M, Ikea, M&S, Tesco, Boots, Asda, Body Shop, Argos and Sainsbury's. The brand value assets of the benchmarked industry players based on £ million are illustrated below. Based on the brand assets Table, Boots proportionate market share is about 4.7%. Terminal Value is estimated at the average cash flow taking into consideration of cost of capital of 7.62%. Initial investment is estimated at industry initial capital outlay for the new investment. Present value are the cash flow discounted at the cost of capital of 7.62% and net present value is the sum of all the present value and terminal value of the project less initial outlay

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Detailed Calculations of WACC Component for Analysis in Appendix 9 & Chapter 10

WACC = Ke*E/V + Kd*(1-T)D/V

Sources Damoradon Industry Analysis

Industry Name	*Beta*	*Cost of Equity*	*E/(D+E)*
Mobility Scooter	1.32	10.32%	87.59%
Pet Products	0.89	8.30%	85.38%
Biodegradable nappies	0.93	8.47%	71.00%
Organic baby food	0.79	7.81%	67.43%
Gardening	0.95	8.59%	82.20%

Industry Name	*Cost of Debt*	*Tax Rate*	*After-tax Cost of Debt*
Mobility Scooter	6.02%	13.25%	3.61%
Pet Products	5.27%	29.49%	3.16%
Biodegradable nappies	5.02%	14.27%	3.01%
Organic baby food	5.27%	31.85%	3.16%
Gardening	4.77%	15.98%	2.86%

Industry Name	*D/(D+E)*	*Cost of Capital*
Mobility Scooter	12.41%	9.49%
Pet Products	14.62%	7.55%
Biodegradable nappies	29.00%	6.89%
Organic baby food	32.57%	6.30%
Gardening	17.80%	7.57%

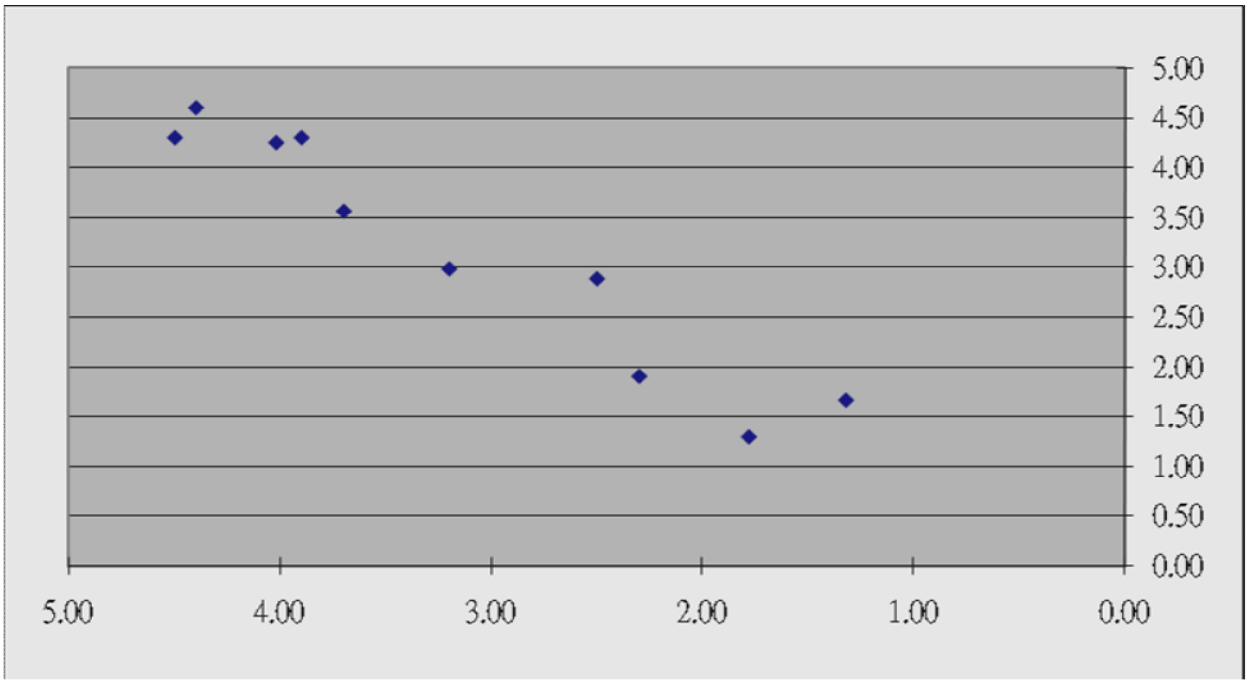
Market Attractiveness and Business Position Screening results

Weight x Rating				
= Score	**Market Attractiveness**	**Criteria set**	**Business Position**	**Criteria set**
Organic baby food	**3.90**	++ve	**4.30**	++ve
Bio Degradable nappies	**4.02**	++ve	**4.25**	++ve
Pet Products	**4.50**	++ve	**4.30**	++ve
Gardening	**3.70**	++ve	**3.56**	++ve
Mobility scooter	**4.40**	++ve	**4.60**	++ve

Products	**Market attractiveness**	**Business position**
Organic baby food	Maximise	Maximise
Bio Degradable nappies	Maximise	Maximise
Pet Products	Maximise	Maximise
Gardening	Maximise	Maximise
Mobility scooter	Maximise	Maximise

It can be seen from the above that market attractiveness and business position screening results attest to the fact that the 5 new products recommended for expansion can be maximised and taken further. The positive marks indicate that the criteria have been fully met. The results of the screening based on market attractiveness and business position include market size, market concentration, profitability, technological competence, manufacturing capacity etc signifies strong prospective for further expansion as illustrated in Appendix 7, page 135 -138 and discussed heavily in Chapter 8, 10 and the recommendation and conclusion Chapters.

Market Attractiveness and Business Position Graph



Determining Business Position- The desirability Index Parameters							
	Market Size	Relative Competitive	Product & Technology	Manufacturing capability	Finance	Relative profitability	Market capability
Weight x Rating = Score							
PRODUCTS PRODUCTS PRODUCTS							
Organic baby food	0.6	0.6	2.4	1.8	0.6	0.6	0.6
Bio Degradable nappies	4.5	3.6	3.6	3.6	4.5	4.5	2.7
Pet Products	4.0	2.4	2.4	2.4	2.4	2.4	2.4
Gardening	0.15	0.15	0.3	0.15	0.15	0.3	0.3
Mobility scooter	4.5	3.6	3.6	3.6	3.6	4.5	3.6

Determining Market Attractiveness- The desirability Index Parameters

	Market Size	Volume Growth	Market concentration	Market Profitability	Technology	Business cycle	Environ ment
Weight x Rating							
= Score							
PRODUCTS PRODUCTS PRODUCTS							
Organic baby food	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Bio Degradable nappies	2.7	0.9	2.7	1.8	1.8	2.7	0.9
Pet Products	2.4	2.4	2.4	2.4	0.8	2.4	2.4
Gardening	0.15	0.15	0.45	0.15	0.15	0.45	0.45
Mobility scooter	2.4	0.8	2.4	0.8	2.4	2.4	2.4

Return on Investments

Due to the difficulty of market intelligence, calculating Return on Investments is difficult. Based on the formula of taking the difference between the gain of investment and the cost of investments, return are forecasted at about 10% to 15%, based on the cost structure and expected gains from product extension or brand extension are as follows:-

Net Sales	£45,097 million
COGS	£27,608 million
Funding	£2,726 million
Variable cost	£7,760 million
Semi. Fixed cost	£2,761 million
Fixed cost	£5,805 million

With a £8m invested in the new website IRR of 66% of 5yrs, the gains for a product line extension are between 10% to 15% based on the formula of the difference between gain from investment and cost incurred during the project outlay

Impact on Financial Statement

Boots.com - Financial performance summary - History and Projections

	03/04 £m Act	04/05 £m Act	05/06 £m Act	06/07 £m Act	07/08 £m LF3	08/09 £m Bud	09/10 £m Proj	10/11 £m Proj	11/12 £m Proj
E-Commerce sales	15.4	18.6	25.7	32.2	47.0	70.2	92.1	119.1	157.5
yoy%		21%	38%	25%	46%	49%	31%	29%	32%
Less - cost of Adpoints issued	(0.3)	(0.6)	(0.9)	(1.5)	(1.9)	(2.7)	(3.4)	(4.4)	(5.8)
Net sales	**15.1**	**18.0**	**24.8**	**30.7**	**45.1**	**67.5**	**88.7**	**114.7**	**151.7**
yoy%		19%	38%	24%	47%	50%	31%	29%	32%
Gross Profit	**4.4**	**7.2**	**9.6**	**11.5**	**18.4**	**27.5**	**36.1**	**46.7**	**61.7**
GM%	29.1%	40.0%	38.7%	37.5%	40.8%	40.7%	40.7%	40.7%	40.7%
Logistics	(1.7)	(3.2)	(5.3)	(6.8)	(10.1)	(13.2)	(16.7)	(20.7)	(26.7)
IS&T	(2.5)	(2.0)	(1.8)	(1.7)	(2.5)	(2.9)	(3.5)	(4.0)	(4.5)
M&T	(3.2)	(1.5)	(1.2)	(1.5)	(2.2)	(3.2)	(3.5)	(3.8)	(4.2)
A&P (net)	(0.4)	(0.7)	(0.5)	(0.9)	(1.5)	(1.5)	(2.1)	(2.9)	(3.8)
Costs	**(7.8)**	**(7.4)**	**(8.8)**	**(10.9)**	**(16.3)**	**(20.8)**	**(25.8)**	**(31.4)**	**(39.2)**
Cost/sales %	51.7%	41.1%	35.5%	35.5%	36.1%	30.8%	29.1%	27.4%	25.8%
Trading contribution	**(3.4)**	**(0.2)**	**0.8**	**0.6**	**2.1**	**6.7**	**10.3**	**15.3**	**22.5**
OM%	-22.5%	-1.1%	3.2%	2.0%	4.7%	9.9%	11.6%	13.3%	14.8%

Source: Boots.com

Boots.com cost structure 07/08
Costs are actual

Net Sales	£45,097 million
COGS	£27,608 million
Funding	£2,726 million
Variable cost	£7,760 million
Semi Fixed cost	£2,761 million
Fixed cost	£5,805 million

£8m invested in the new website IRR of 66% of 5yrs

Profit margins for 2007 are about 34.1% and with the projected margins earned from the 5 new products, it can incrementally increased to another 30% line extension (cumulative profit margins of organic baby food, mobility scooter, bio-degradable nappies products) and 10% brand extension (pet products and gardening).

ANNEX

Annex 1 – Retail Industry Background

1. Multi- Channel Retailing

Retailers rely heavily on human resources for business. Whilst retailers' largest fixed assets may be their space and supply chain, their greatest assets are the shoppers themselves. Retailers that are customer centric create customer value through passing costs that have been achieved through efficient supply chain management. Cost efficient retails enjoy sustainable competitive advantage from process standardisation, economies scale and focusing on core competencies and resource based capabilities (Prahaled and Hamel, 2000).

In an e-commerce setting, consumers and e-retailers usually communicate through automated interfaces with no direct contact with the products. By decreasing the human service provided, e-retailers can substantially lower transaction costs.

The intensity of competition has pressured retailers to reorganise their business around the customer using customer information and dynamically change business processes such as offering personalised services, giving customers the flexibility of making price comparison, enquire product information, buy and return product on any combination of channel. This revolutionary change has presented retailers with an excruciatingly uphill challenge to service their customers whilst remaining profitable and sustainable. (Bagge, D (2007)

Global players like Tesco, Carrefour and Wall Mart, Macro invest heavily in new customer centric services, fuelling higher customer expectation an operationally complexity. Channel structures describe the way a manufacturer or selling organization delivers products and services to its customers. The distribution channel will consist of one or more intermediaries such as wholesalers and retailers or even the company's sales force.

The use of multiple channels of distribution to serve a given product-market is rapidly becoming the rule rather than the exception (Frazier, 1999; Moriarty and Moran, 1990). The primary motivations for supplier firms establishing multi-channel or hybrid arrangements are the desire to increase market share and to reduce costs (Frazier and Antia, 1995).

A hybrid distribution system is a multi-channel arrangement in which distribution tasks are performed by a combination of distinct channel. As illustrated in Figure 3, Channels are designed to satisfy the needs of diverse market segments by delivering a variety of product/service offerings. Argos has been one of the lead drivers of this hybrid system.

In hybrid systems, markets are often targeted by more than one distribution channel. Although a hybrid channel strategy provides many benefits to the firm, it present challenges as well. Retailers need to capitalise on the strength of all available channel in reach. With Multi-Chanel Retailing, channels can complement each other and the key to succeed will be in developing a seamless fusion between both physical and online channels.

Developing a seamlessly integrated multi-channel often will be the key for specialist in all areas, with ranges portrayed in-store alongside comprehensive pre and post sales advice and guidance, and linked to an informative website(Bagge, D (2007)

Multi-Channel Retailing is not merely multiple channels but focuses on lifetime value of the customers and delivers a consistent brand expansion. Multi-Channel Retailing is being able to remove barriers such as entry cost and allow "customers to choose the right channel for the right product at the right time based on each and every shopping mission.

Multi-Channel Retailing stresses on the ability to consistently deliver customer choice to the service standard dictated by the combination of channels and brand, and this is giant step closer to a customer centric business for many retailers (Bagge, D (2007).

According to Retail-industry.com, Multi-Channel Retailing is bolstered upon three (3) sales channels, typically each with its own advantages that can enhance the customer experience. Typically, stores with facilities of browsing, touching and feeling products, personalised service, cash payment, immediate gratification and entertainment and social interaction. In catalogue, it offers convenience, portability, visual presentation and comparison. With internet, it offers convenience, safety, broad selection, detailed information and personalisation and problem-solving information (Bagge, D (2007).

In the analysis, if effectively implemented, Multi Channel Retailing is a catalyst for change across the business centric organisation that meets the expectation of future customer whilst delivering "*stupendous*" profitability and sustainable growth. In the United Kingdom retailing industry, the benefits of Multi-Channel Retailing are multifarious and an imperative for success as illustrated below:-

- Multi-channel customers drive more sales at a higher gross profit – over 60% of retailers have found multi-channel customers to be more profitable (Kumar:2005)
- Multi-channel customers are more loyal (Kumar: 2005).

- 'Super Shoppers' – those who use all three channels - represent 34% of online shoppers and are four times as likely to purchase online, 70% more likely to purchase from the store and 110% more likely to purchase from the catalogue (Kumar:2005)

Alongside, increased customer expenditure, the seamless integration that spearheads technological revolution Multi-Channel retailing is a powerful means of reaching a more diverse customer channel communication such as online shopping, internet stores, catalogue, telephone, mobile, delivery to home, and delivery to work and collect to stores. This create a seamlessly integrate online channel, reduces channel cannibalization, enhances products offering for customers and results in high level of customer satisfaction.

With the multiplicity of channels, shoppers are lavished with many options which enhance variety, choices and more diverse selections, thus generating revenue. Stone *et al* (2002) found that Multi Channel Retailing has benefits namely:

1) Benefits the work through which customers:
    a. Identify and capture of opportunities for increasing value per customer
    b. Increase convenience and an improved experience, reducing customer churn rates and increasing their motivation to buy more from the supplier
    c. Harness the ability to leverage an established brand creating positive impacts on brand perception and mitigating the risk of brand damage
2) Benefit efficiency drive in respect of:
    a. Increased efficiency through the sharing of processes, technology and information
    b. Increased organizational flexibility
    c. Increased efficiency in dealing with business partners, so they can reduce costs
    d. Increased efficiency in exploiting customer data to identify customer needs, possibly indicating new paths for growth.
3) The benefits for customers are:
    a. Increased choice in the way they can interact
    b. The ability to switch easily between the various channels, when it suits them and wherever they want to, depending on their preference and the type of interaction

However, MCR does not come without its own challenges, many of which can override any potential benefits and lead to inconsistencies across the channels. These challenges include:

- Heavy investments in unconvincing multichannel strategies and technologies that result in a poor return on investment

- Problems in bringing together and standardizing data about customers or resulting from interactions with them
- Problems unifying different systems which may have very different data models
- Difficulties in reducing or abolishing organizational boundaries (Stone *et al*:42:2002)

Many retailers face uphill challenge in "their inability to recognize known customer through all touch points" (Stone *et al*: 42:2002). This is because MCRs typically control a number of customer touch points that are not coordinated as closely as they should be and few have a 'curriculum of contact' that "lays out the precise type, timing and frequency of the customer contact" that leads to promotional overlap and inefficient use of company resources.

2. Online Shopping

(Vargas 2005) argued that traditional retailers would become successful with online retailing and capture growing consumer demand, with multi-channel marketing through the integration of online and offline channels because retailers can meet up with consumer expectations for seamless shopping experience. This has become a critical part for *retailer's growth* strategy.

Many e-Retailers today adopt multi-channel retailing strategy to leverage on the benefits of online and traditional stores. Melissa Campanelli (2005) argued that e-retailers' virtual businesses of a "Click and Brick" mix will realise the value of multiple offering shoppers and integrated points of shopping access, as this strategy strengthens the brand name recognition, enabling customers to try, feel, and test products before purchase. It also provide them the opportunity of having a physical store where they can return merchandise, or make outright purchase without incurring shipping costs. This strategy results in lower promotional cost, while expanding customer base by winning over Internet shy or sensitive consuming public.

3. Online Customer Experience and Satisfaction

Consumer perception is considered a process of sensing, selecting, and interpreting stimuli in the external, physical world into the internal, mental world (Willkie, 1994). Consequently, one can infer that external signals, such as what consumers experience when they are shopping online, can influence consumers' internal perceptions of customer value. Prior work supports this argument (e.g., Buyukkurt, 1986; Donovan, Rossiter, & Nesdale, 1994; Ghosh & McLafferty, 1987; Kerin, Jain, & Howard, 1992).

Traditional store shopping experience evolves from a consumer's interactions with a store's physical surroundings, personnel, and customer- related services (Kerin et al., 1992). The internet is an enabling electronic technology makes the on-line shopping experience different from what happens in the traditional (bricks and mortar) business format. Online customer satisfaction and service creates value truly reflect the truth of establishing and developing win-win partner relationships with customers. With on-line purchasing, the physical store environment no longer exists, as the shopping experience is converted into a human–Web-site interaction. (Porter, 2001).

Annex 2 – Dissertation Layout

Chapter 1 is the opening emblem to the research area by providing the introductory dynamics to the dissertation. Chapter Two is where literature reviews are put into perspective and are intrinsically linked with Chapter Four of Research Methods. Chapter Five considers each hypothesis in relation to the evidence gathered and provides substantive arguments to the research question. Chapter 6, 7 and 8 are closely linked where strategic marketing bases such as offensive strategies and defensive strategies, targeting, and positioning dimensions create the cornerstones for online product extension.

Chapter 9 explains the supply chain management, its challenges and key performance indicators. Chapter 10 highlights the financial implications, risk returns of new product line extension discussed in Chapters 6 to 8. Chapter 11 draws conclusion from the entire study and sets-out recommendations for Boots.com.

Annex 3 – Financial Implications

1. Pricing Consideration

Bakers et al (2001) argued that setting prices on the internet is either by offering untenably low prices to capture first mover advantage or simply charging the same prices on-line or they do off-line. However, fundamentally the value in internet lies not in lowering prices but optimising prices. Accordingly, the internet allows companies to optimise prices through (1) precision, (2) adaptability and (3) segmentation.

In *precision*- the internet lets companies set and announce prices with greater precision, compared and tested easily. Companies can set the most profitable prices and tap into previously hidden customer demand

In *adaptability*- with internet, prices can be arranged easily and adjusted rapidly in response to variations in market conditions, customer demand or competitors behaviour.

In *segmentation*-companies can use the click stream data and uses the internet to segment customer quickly, thus offering segment specific prices or promotions immediately.

The drive to e-business success is taking full advantage of the unique possibilities afforded by the Internet- to set prices with precision, adaptability to changing circumstances, accurate customer segmentation, convenience and the right prices set (http;//www.ncbi.nlm.nih.gov)

Chattey (2002) argued the main implications of the internet prices strategies are (1) increased price transparency and differential pricing (2) downward pressure on pricing (3) new pricing approaches including dynamic pricing and (4) alternative pricing structure or policies.

In *precision*, Quelch & Klein (1996) described price transparency effects, where suppliers can use technology for differential pricing. However, this may result in price discrimination and may prejudice the company or its brand- In standardised products, customer knowledge of price policies is enhanced through the internet-customers can visit the company's website and sites with price comparison engines provided by intermediaries.

In *adaptability*, internet tends to drive prices down because-internet only retailer do not have stores, thus online companies can offer lower prices, then offline rival (more products are commodities and being more price sensitive)

However, Pan et al (2002) argued that e-retailer with high traffic do not always command higher prices. Chaffey et al (2002) argued that some companies reduce online pricing for revenue contribution and offer discounts for higher profit margin like Amazon.com book sale.

In *new pricing approaches* internet introduces opportunities for dynamic pricing, where prices can be updated in real-time according to current market conditions. Different customers can charge different prices based on knowledge about the customer.

In *alternative pricing structure or policies* different types of pricing may be possible on the internet especially for digital, downloadable products like payment per-use or rental (Chaffey, 2002). Internet leads towards a perfect market, where there are intimate buyers and sellers and a trend to price transparency- Diamantopoulus et al (1993) argued that an organisation is less able to control prices but must respond to competitors' prices strategies.

For a company like Boots.com, pricing strategies is affected by a brand differentiation and are less subjected to downward pressures in prices. Boots, build on their products expertise particularly in health and beauty is premised on its long standing and established reputation, trust, recognition, quality and perception. Many products of Alliance Boots for example No7 skin care and cosmetics, Soltan sun care products hold leading market positions in the UK.

In the short term, pricing does not constitute sustainable competitive advantage due to the price changes and profitability, positioning of products in market places; the price can be used to signal more general forms of competitive advantage. Thus, differentiated products like brand No.7 skin care command high premium.

It can be seen that strategic pricing creates value-for money impression about the organisation. For example, price needs to be coupled with quality after-sales service and other aspects of the products. For Boots.com, pricing decision can be considered as a balance of two main factors namely costs and competition. Setting the market price below the marginal cost of production will erode profits but Boots brand value and brand assets provide them with multiple opportunities which can be capitalised on and enhanced its strength upon.

In further analysis, pricing forms a key role of the overall company strategy. Alliance Boots operates in a highly attractive market with potential for significant long-term growth. Almost all of Boots own brand retail products are developed in their own products development testing and customer evaluation facilities. Therefore its strategy is premium pricing owing to its differential products i.e. its uniqueness and capabilities. Its price of goods is at permanently high price for example No7 skin care and cosmetics, Soltan sun care, etc.

Annex 4 - Inventory

1. Inventory Defined

Like most retailers who are embarking on product expansion, efficient inventory management are quintessentially its lifeblood and its future survival and the engine for revenue generation (Journal of Management Accountant). In supply chain management, inventory includes a vast spectrum of material that is being transferred, stored, consumed, produced, packaged or sold in business. Inventory is a catalogue of goods and materials, held in stock by a business.

According to the Chartered Institute of Management Accountants, inventories are stock(s) of any products or resources used to generate sales after taking into account costs associated with bringing it to its present condition[7] (Financial Reporting Standards ("FRS") No. 23).

G.J.Van Ryzin (2001) of Columbia Business School defined inventory as the difference between cumulative supply and cumulative demand. As shown below and mathematically expressed, inventory is:-

Inventory = Cumulative Supply - Cumulative Demand

i.e. $I(t) = S[0, t] - D[0, t]$ *where* S [0, t] denote the cumulative supply up to time, t and D [0, t] denote the cumulative demand up to t.

Thus, it follows that positive inventory are stocks waiting for production orders, where $I[t] > 0$. Conversely, negative stock or *back-order* occurs where order consumers without receiving products i.e. demand exceed supply or negative inventory, $I[t] < 0$.

2. The Existence of Inventory

Click and Mortar or traditional retailers keep supply of inventory primarily to (1) maintain independence of operations (2) meet variation in products demanded (3) allow flexibility in production scheduling (4) essentially provide a safeguard for any variation in raw material delivery time (5) take advantage of economic purchase order size and maintain, replenish and reorder stocks. Jacobs & Chase (2006) argued that firm(s) and retailer(s) have inventory system(s) that controls and monitors levels of inventories such that a certain amount of inventory is required for the next immediate period. Policies are set to determine what inventory level should be maintained, replenished and reordered. Accordingly, the central tenets for retailers holding on to inventory include:-

a) *Time* – time lags in supply (at each level to end-user) requires buffer for inventory;

[7] FRS No 20 states that inventory cost is valued at the lower of costs and Net Realisable Value after taking into consideration all costs associated with bringing it to its present condition.

b) *Uncertainty in lead time* - variations in demand, supply and movements of goods;

c) *Economies of scale*- reduction of cost-per unit over fixed costs such as bulk buying, discounts, storing, movements and others;

d) *Buffer Stock* – for unanticipated expansion in demand. Retailers will minimize the holding cost of buffer stock; *Smooth production*- Inventory held for smooth production and avid delivery delays; and

e) *Desired ratio to sales*. A higher inventory leads to higher growth. Accordingly, inventory holding will be determined by the expected sale in the following year.

3. Inventory Stock-Out Cost

Inventory stock-out costs are costs associated with having insufficient inventory to satisfy demand. In finished goods, these constitute (1) lost profit of customer orders that cannot be filled (2) loss of clients who go elsewhere (3) additional costs to satisfy order like sub-contracting, overtime and (4) additional transportation costs to satisfy demand.

4. Optimal Stock Level

As seen in previous section 3, the cost of inventory holding is significant and for many retailers, the search for cost minimisation will free-up cash or working capital, needed for production activities. A study conducted by Matz, Curry, Franks and Khan (1982) revealed that inventories covers one third of a firm's total assets in its balance sheet. These inventories appear in the balance sheet at their historical values, but their realisation (mark-to-market) depends on present economic conditions and future business environment. Thus, due to the sizeable impact of inventories on the financial statements, minimising costs necessitates optimal stock holding.

Optimal inventories level involves the minimisation of the value of stocks held by traditional retailers and to conserve cash. It also ensures the business has the right stock at the right quantities to allow production to be carried out efficiently. Reductions in inventory costs can also lower the asset base of an operation, thus providing a higher return on assets.

2.3.4 Economic Order Quantity Model

In 1952, W.J Baumol's formula for Optimal Cash Transactions based on the mathematics of optimisation led to the birth of Economic Order Quantity ("EOQ") Model. The method suggests that Optimal Stock Holding may lead to cost minimisation. It is premised on the fact that the maximum inventory level is the level of the EOQ[8] plus Buffer stocks needed for sales and production.

In EOQ building, it is assumed that (a) Inventory (Q) is delivered in one lot according to an ordering schedule; (b) Demand for the product is constant; (c) Inventories are smooth and uniform throughout the period; (d) Lead time (time from ordering to receipt) is constant; (e) Price per unit is constant; (f) The firm has a linear cost function; (g) Buffer stock exist to meet the requirement of the unexpected surge in demand; (h) the model assumes that inventory cost is based on average inventory; and (i) Ordering and set-up are constant.

The Model

This model assumes that all the inventories are used up before the next order quantity arrives, then the minimum value of inventory is 0, the maximum is Q. Therefore, it follows that

- Average inventory is Q/2;
- Annual carrying costs is the average inventory x unit stocking costs, or Q/2xC (this is represents the total cost associated with carrying the goods in the warehouse;
- Number of orders equals – Annual Consumption (D) divided Q- Order quantity
- Annual holding cost- No of Orders x Ordering Cost or (D/Q) x S – represents the total cost associated with procuring the inventory;

Total costs associated with inventory handling is the sum of carrying and stocking costs, or

$$TSC = \frac{Q \times C}{2} + \frac{D \times S}{Q}$$

- This equation indicates that the total annual carrying cost are increasing with Q, wherever total annual ordering costs are decreasing as the value of Q increases.
- Total costs are a minimum when the carrying costs and purchase costs are equal, or

$$\frac{QC}{2} = \frac{DS}{Q}$$

Rearranging and making Q, the subject:-

$$Q = EOQ = \sqrt{\frac{2DS}{C}}$$

[8] According to Ayub, Mehar and Ahsanuddin (2007), it has been observed that the EOQ model was not related to closing inventories in the balance sheet of a firm. Inventories in the balance sheets are not necessarily average inventory. However, the magnitude of the inventory in the balance sheet depends on the length and variation of the inventory cycle.

This is the economic order quantity or the quantity to purchase to make inventory-related costs a minimum. Mathematically, using calculus and differentiating the cost equation with respect to Q;

$$\frac{d\,(TSC)}{dQ} = \frac{C}{2} - \frac{DS}{Q^2}$$

EOQ in Diagram 13 page 38 illustrates the relationship between inventory carrying costs, inventory ordering costs and total costs. The inventory carrying costs increase linearly with Q, the ordering costs decline with Q, and the total cost exhibits a minimum.

Annex 5 – Boots.com Current Scenarios

1. e-Retailing Industry

Beginning 2001, the period witness internet ventures disappointment and folding, investors bailing out and e-commerce being downplayed in media. In 2002, profitability was at its lowest but picking up in 2004 as the illusions shatters.

2. Internet Technology

The price competition resulting from lowered customer search costs increases rivalry among existing competitors, reduces switching costs of customers, and thereby shifts bargaining power to customers. On the other hand, the internet reduces menu cost—the cost of administering multiple prices for a number of different products or services—and, in part, facilitates price discrimination (Bakos and Brynjolfsson, 1997).

The Internet creates new substitution threats by enabling new approaches to meeting customer needs and performing business functions (Porter 2001). World Wide Web (WWW) technology itself has produced new promotion venues. The Internet also facilitates an electronic integration of the supply chain activities, achieving efficient distribution and delivery. It also facilitates partnerships or strategic alliances by networking partners or allies.

On the Internet, consumers can easily collect and search information about products or services without travelling to stores to inspect products and compare prices at virtually no cost. Because consumers can easily compare prices and find close substitutes, companies are forced to lower prices. Companies cannot achieve competitive advantage simply by exploiting consumers' search costs, as they did in the physical market. An alternative is for companies to make consumers' product comparison more difficult by differentiating their products from others.

Economic rationality suggests that the proliferation of internet could lead to competitive outcomes. The explosive growth of the Internet promises a new age of perfectly competitive markets. With perfect information about prices and products at their fingertips, consumers can quickly and easily find the best deals.

Today, with Internet, retailers' profit margins will be competed away, as they are all forced to price at cost (Bakos (1997)). In a differentiated market, buyers look for product information, service information and other heterogeneity characteristics on top of price and seller information. (Diamond (1985)

3. Product Bundling

One possible competitive strategy is product bundling. Product bundling promotes the benefits of the whole package, thus keeping buyers from comparing individual items. For instance, Gateway started bundling its Internet services and computers in response to plunging computer prices (Sinha 2000).

AOL, recently merged with Time Warner, is strengthening its bundling strategy by adding interactive and on-demand television, music on computer, and email on mobile phone to its existing services. By adding more services to a bundle, the company could command a higher price for its bundling service.

4. Innovation

Another strategy is innovation or the introduction of niche products, which also counteracts the threat of product substitutes, new entrants into the market, and competition among existing firms. By using the direct access to consumers enabled by the Internet, companies can collect information, identify target consumers, and better introduce products or services to meet consumers' needs. Companies can also collect information on new products desired by small segments of the market.

By creating products that meet the needs of consumers in these niche markets, companies can command higher prices (Sinha 2000). Another strategy associated with niche products or innovation is customer-centric strategy. Compared to a product-centric strategy, which pushes products to consumers, customer-centric strategy pulls information from consumers to improve and customize products (Viehland 2000).

5. Product lines expansion

An expansion into related product lines can also be a good strategy. According to Porter (2001), the expansion into related product lines can exploit transfer of skills or sharing of activities such as promotion and distribution, which will lead to competitive advantage. Sharing can lower costs by achieving economies of scale and effectively utilizing company resources such as market information, managerial or technical expertise, and knowledge.

Annex 6 – Boots.com SWOT Analysis

Opportunities

For Boots.com internet penetration provides the platform for greater opportunities for online and internet shopping such as convenience, price comparison and efficiency. There will be opportunities to buy bulky item and therefore increases sales. The increased need for convenience from the consumer with the busy professional lifestyles trends. New technologies are now allowing expansion outside traditional brick and mortar format and are supporting home and convenience shopping. The ageing population within the United Kingdom provides the need for greater health provision. New policy that focuses on opportunities to gain income particular male customers and children are on the rise. The growth of internet retailing and space less market provide opportunities to exploit these opportunities through effective alignment with channel partners. Good and clear internal infrastructure like human resource enable Boots.com to build upon excellent staff relationship through consultative groups and collaborative working to achieve organisational goals

Threats

Boots.com suffers increasingly rapid demand and competition that is being penalised through traditional retail channel for example high street stores. The wave of competition is a major threat to Boots.com. Rapid modernisation of the market results in imbalance of the expenditure rising faster than income. The use of internet as price comparison tool (even if merely window shopping) may position increase pricing pressures of specialist retailers. The spate of saloons providing convenience element of busy working professional may be a threat

Strength

Boots.com strength lies in its parent long standing brand value. Its brand value is high and has been associated with oppurtunities for further growth and expansion. Boots.com is very much a specialist in Health and Beauty and has long capitalised this brand assets and brand equity. Boots products are much differentiated in terms of uniqueness, quality, perceived value and trust. Consumers have long associated boots product with value for money.

Weaknesses

Amongst notable weaknesses of boots.com include increasing market concentration internet security, low entry barriers and potential cannibalisation of channels.

Annex 7 – Porter 5 Forces

Other competitive advantages of e-Retail businesses over conventional ones include; goods storage costs are much lower, as goods can be ordered dynamically according to the orders received. It is easier to provide differentiated products on the website to test the market's demand than to put the physical ones onto the shelves. The e-Retail market is rapid-growing with alongside the new Internet technologies. However, e-Retail businesses themselves do have their own kind of rivalry issues: heavy investment means difficult to exit, and this encourages competitions between the businesses; as the technologies become more mature, more competitors join in.(e-retailers, 2007).

Impacts of the Internet to retailing industries

Since the Internet became part of our daily life in the late 1990s, the development of the technology has enormously shortened the distance between people and provided niches for new forms of business. Successful examples such as Amazon.com and Dell have significant implications to the potentials for e-Retail businesses to take over the market shares of their traditional retailing competitors**.**

Supplier Power

In the case of Amazon.com, like its retailing competitors, its supplier companies are mainly publishers. Just as many readers, there are thousands of publishers in the world, thus they are not concentrated at all. Most publishers rely their income from the profit of book sales, hence the readers, i.e. the buyer industry, is an important customer of them. The 24-hour easily-accessible service of Amazon.com provides a broader range of potential buyers than its retailing competitors, which attracts suppliers more.

Buyer Power

Amazon.com started its business in the form of a website, and its customers are visitors and potential visitors to the Web site and its competitors' sites (Kyle, 2002). One of the advantages for the business to take the form of a website over conventional retailing approach is to minimise the running cost of renting and opening stores to sell books, and hence the books they sell can be priced lower than other non-website competitors to balance out the postal fee expenses**.**

Threats of Substitutes

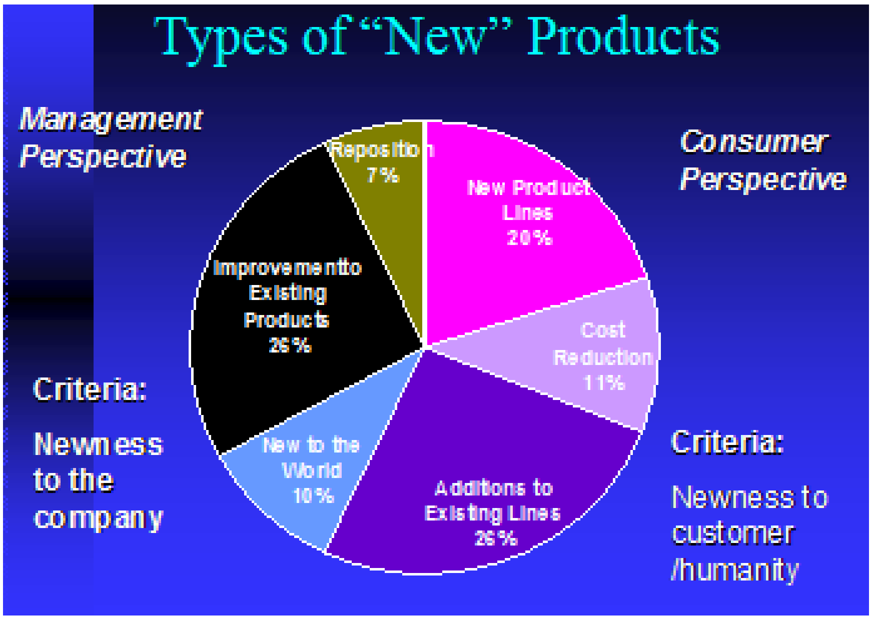
The way how e-Retail business works today creates a lot of substitute threats to conventional retailing players. Amazon.com itself started as a substitute of conventional bookstore – it provides other means and sources for the same products, services, or information (Kyle, 2002) as its retailing competitors provide.

Annex 8 – Extending Product line and Brands

New Product Introduction

According Joe Bob, there different types of 'New Products' like New Product Line, Cost Reduction, Addition to Existing Lines, New to the World, Improvement to Existing Products and Reposition as illustrated in the Diagram 29 . Line extension constitutes 26% in new products market share.

Diagram 50 – Types of New Products



Source: http://www.bloomu.edu

According to Heany (1983) in the product innovation spectrum (Table 20) constitute four types of innovation i.e. Product line extension, Product improvement, new products for the existing market and new products for the new market which is matured. In this section we would discuss from Boots.com's perspective for new product introduction i.e. through brand extension or line extension.

Table 23 – Product Innovation Spectrum

Is the Market for Product Established?	Is the Business Already Serving Market?	Do Customers Know Functions and Features?	What is the Design Effort?		Then Innovation is a
			Product?	Process?	
Yes	Yes	Yes	Minor	Nil	Style change
Yes	Yes	Yes	Minor	Minor	Product-line extension
Yes	Yes	Yes	Signif-icant	Minor	Product improvement
Yes	Yes	Yes	Major	Major	New product
Yes	No	Yes	Major	Major	Start-up business
No	No	No	Major	Major	Major innovation

Source: Heany (1983)

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