FROM THE LAB

G. BRUCE FRIESEN

TO PORTAL OR NOT TO PORTAL
Is Your Client Ready?

Should your client become an Internet portal? This may seem like an odd strategic response by a traditional client company facing new Internet-based competition.

For one thing, your client will be aiming at a rapidly moving target. Internet portals keep evolving as the Internet matures; best practices become outdated with frightening speed. For another, there is strongly branded competition. America Online (AOL), the leading Internet service provider (ISP), already enjoying alliances with such leading retailers as Wal-Mart, has recently added Time Warner's cable systems and media content to its existing portal services.

Many consultants would say, "What do my clients know about portals? You want them to challenge the market leader? Give me a break!" But at least one brick-and-mortar firm *is* making an Internet portal–building strategy pay real dividends. In this column, I will explore the logic behind Kmart Inc.'s portal initiative and explain how your clients might also benefit from this practical application of "brick 'n click" hybridization in the online marketplace.

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The Phenomenon Observed . . . and Explained

Kmart launched BlueLight.com on December 15, 1999. This consortium (Kmart plus venture capitalist Softbank, infrastructure provider MimEcom, ISP Spinway.com, affinity marketer StockPower, Martha Stewart Omnimedia, and search engine Yahoo!) promised to turn online retailing upside down. And in many respects, it has.

BlueLight.com was the first e-merchant to offer customers free, unlimited Internet access service, and it has been a huge hit. BlueLight.com released sign-up software through selected Kmart stores on February 1, 2000. Six weeks later, 1 million subscribers had signed up (40% first-timers; 40% also held AOL accounts). By November 2000, 5 million subscribers had signed up, making BlueLight.com one of the fastest-growing ISPs ever. (AOL needed ten years to reach 3 million.) But this is only a hint of things to come. BlueLight.com CEO Mark Goldstein wants 25 million subscribers within two years.[1]

Just what *is* BlueLight.com up to? It seems that management has decided that this venture should attract its own Internet subscribers and turn *them* into online shoppers, rather than battle *existing* online retailers or an alliance of Wal-Mart and AOL for business. To understand why this strategy has such promise requires some background on the dynamics of a maturing Internet.

Inside the Internet

Perhaps the best way to visualize the companies that comprise the Internet is as a four-layer cake. The top, or content, layer is home to e-merchants and data vendors; below it is a portal layer—home to ISPs, search engines, kernels, and vortals; below that is a software and support layer—home to software and service vendors; and on the very bottom is a hardware layer—home to equipment makers and communications firms. Technology and services from all these layers must mesh smoothly to enable Internet users to surf websites.

Level 4: Hardware

Vendors of network components provide server computers and switches that host sites and move data. Vendors of peripheral devices (personal digital assistants, cell-phones, PCs) provide the tools used for Internet surfing. Cable and telephone companies install and maintain the cables and switches that tie the components and devices together.

Level 3: Software

Software and service vendors enable the Internet hardware to work properly via website design, speech recognition, visitor tracking, data licensing, security, site management, privacy, network availability, and advertising display management, among others.

Level 2: Portals

Portal providers supply "infomediary" services such as access accounts, search engines, content aggregation (for users), and user aggregation (for merchants and vendors).

The first portals were little more than basic ISPs that leased computer servers and bought wholesale telephone service for resale to subscribers. Some ISPs (like AOL) offered more than just Internet access—hosting chat rooms and e-mail services that enabled subscribers to interact while online—hoping to charge a higher rate for these premium services.

A second wave of more sophisticated multiservice portals emerged as the free-standing search engine firms like Yahoo! saw ISPs with chat rooms and e-mail services attract a growing share of Internet usage and expanded their own services to include chat rooms and direct links to specific information content. (The ISPs soon responded by adding search engines to *their* sites.)

A third wave of more specialized portals later appeared as Internet usage kept expanding. Sites like Asian Avenue became community kernels. (A kernel tailors its content and services to appeal to a specific demographic profile, hoping to aggregate users of interest to its advertisers.) There are now kernels appealing to every professional, social, religious, ethnic, or other interest group imaginable.

The latest, or fourth, wave of portals is now emerging. Sites like The Knot, aimed at engaged couples planning their weddings, are called vortals—short for vertical portal.[2] A vortal uses a specific experience or event to create a community. This active psychological cue enhances the potential for exchange among site visitors and increases the appeal of site advertising, too.

Level 1: Content

The topmost layer is home to both data vendors and e-merchants. Data vendors like Reuters supply information (e.g., news summaries) to Internet users.

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E-merchants typically offer *more* than information, such as services (e.g., banking) or goods in either digital format (e.g., downloadable software) or physical format (e.g., home-delivered groceries).

There are three types of e-merchants—bricks, clicks, and hybrids. The *bricks* usually sport a robust physical infrastructure, solid brand names, and large workforces but are neophytes online. Their practical challenge is to try to use the technology they have just purchased for better logistics, data management, or customer support.

The *clicks* usually sport robust online purchasing or sales capabilities, less well known brand names, and relatively small workforces and are Internet veterans. Their practical challenge is to add delivery infrastructure to their superior data-management capabilities. While it is great to be able to *sell* to anyone anywhere, *delivering* to anyone anywhere at a profit is another story.

The *hybrids* typically sport a mixture of online and offline capabilities. Some have been built from scratch while others are the product of mergers or acquisitions. Their practical challenge is to *integrate* and focus all of these capabilities on the same customer at the same time—not a simple task due to the wide gap in culture and attitudes between those who understand online retailing and those who practice traditional offline retailing.

The Games Companies Play

The Internet features ample opportunity for collaboration and competition among companies along layers (*intra*layer), across layers (*inter*layer), and even in both directions at once.

One intralayer game is the tussle between brick, click, and hybrid e-merchants. For example, in the book business, there are clicks like Amazon.com, hybrids like Barnes & Noble (with its dot.com subsidiary), and neighborhood brick booksellers with simple home pages. It is not yet clear which specific mix of technology and touch will win over the book buyer.

There are interlayer games in which dominant players on one layer launch services on other layers to extend their franchises. Portal building features heavily in these contests. For example, AT&T is using cable subsidiaries to offer a high-speed ISP. Microsoft has its own ISP, known as The Microsoft Network (MSN). And AOL and Time Warner have merged in large part to combine AOL's ISP with Time Warner's cable infrastructure and media content.

Lastly, there are sophisticated two-way games (with inter- *and* intralayer elements) in which companies stymied by rivals on one layer maneuver around them by attacking on a second layer. This is where we find BlueLight.com, using

its portal-building strategy (with free ISP and Yahoo! alliance) to help Kmart steal a march on larger arch rival Wal-Mart.

But Why a Free ISP?

Four trends appear to have led BlueLight.com CEO Mark Goldstein to launch a free ISP.

- The growth in size of the online population available to e-merchants is leveling off. Fully 76% of all U.S. homes with PCs already have Internet access. The holdouts tend to have lower incomes and can't justify the cost of a paid ISP.[3]
- The face of the online community is changing as it matures. People with annual household incomes between $25,000 and $49,000 were one-quarter of those going online before 1996 and one-third of those doing so after 1998. Homemakers, clerical and service workers, or retirees made up less than one-quarter of the new arrivals in 1995, but almost one-half in 1999.[4]
- Maturation of the Internet is occurring *without* comprehensive inclusion. Fully one-half of all U.S. adults do not have Internet access, and 57% of this half of the population (or about one-quarter of all U.S. adults) apparently *don't want* access because it is too expensive, not interesting, or too confusing. These people are typically over 50 years old, less likely to be employed, and live in households earning less than $50,000 per annum.[5]
- While "free" ISPs have been available for some time, they have limited presence, attracting just 4 million total subscribers through December 1999. The reasons for this failure are straightforward. A lack of subscription fees forces free ISPs to rely on advertising revenue, which in turn requires them to collect personal data to target ads at subscribers. Many subscribers, concerned about their privacy, balk at such requests and abandon these services.[6]

What are the implications for BlueLight.com? While some customers in the Kmart demographic were already online, many were not. BlueLight.com thus would have some unpalatable options: to battle established e-merchants for upscale customers or muscle into AOL's still-growing subscriber base—an unlikely prospect, given its alliance with Wal-Mart. But what about trying to change the rules of the game? BlueLight.com could try attracting more Kmart shoppers to the Internet and then teach *them* to shop online.

> *An Internet strategy that stops at the door of the Internet division is likely doomed to failure.*

What better way to bring bargain-conscious Kmart shoppers online than with a free ISP offered through Kmart itself? This played to BlueLight.com strengths: an ample marketing budget, the Yahoo! partnership, and the Kmart affiliation (with 2,200 stores visited by about 30 million prospective subscribers per week). But while the concept was sound, execution would be tricky. It wasn't enough to ask Kmart store management to distribute free software. Many shoppers would not own home computers. And even more important, many store personnel would not be conversant with Internet shopping. How could they push what they didn't know?

BlueLight.com had to develop a multifaceted campaign to bring a large retailer, its staff, and its customers all online. First, the gap between brick and click cultures had to be closed. Second, supporting computer products and sales incentives had to be rolled out. Third, the BlueLight.com site had to be designed with the shoppers expected to visit it in mind.

Closing the "Divide"

Bridging the culture gap was a two-way effort. On the brick side, it began in the CEO's office. Then-CEO Floyd Hall's support was pushed downward to the ranks as Kmart's communications team distributed information and free gifts (e.g., mouse pads) bearing the BlueLight.com logo to store managers and staff. Kmart also held a BlueLight.com Day at headquarters for staff to learn about the BlueLight.com mission while Yahoo! representatives taught them about the Internet.

Economic incentives were employed to reinforce the message. Goldstein granted stock options to Kmart employees working directly with BlueLight.com, and Kmart management in turn established a bonus program for its managers and others who had to support BlueLight.com activities such as signing up free ISP subscribers in the stores and handling local returns of online purchases.

On the click side, Goldstein pushed his team to use Kmart cash cards and to buy products at Kmart stores every pay period—requiring them to bring him receipts as proof of purchase. He also designated Tuesdays as "Kmart Day," requiring employees to come to work in Kmart clothes.

Supporting the ISP

Not previously known as a computer vendor, Kmart agreed that pushing a basic home computer in its stores would be vital to the free ISP initiative. It struck a deal with offshore maker LG International to build such a machine under the BlueLight.com brand. This package, with

a Lexmark printer and preinstalled Internet software, was priced at just $650.

To ensure that the ISP received in-store attention, Kmart also agreed to add it to the list of items included in the chain's store bonus scheme. ISP sign-up disks promptly appeared everywhere—jewelry counters and checkout stands included—not just in electronics.[7]

Building a Site for Kmart Customers

BlueLight.com had a complex design challenge. It had to appeal to new shoppers arriving via the free ISP *and* to seasoned Internet shoppers arriving via the Yahoo! partnership—a complicated blend of sophisticated services and ease-of-use requirements. Integrator Fort Point Partners took BlueLight.com through a three-phase process to achieve these objectives.

In phase one, consultant and client spent 12 weeks translating complex concepts into prototype screens that an average Kmart customer could use. Phase two saw Fort Point pull together multiple vendors, including Sun Microsystems, Cisco, and Epiphany, to build out the website. Phase three targeted performance improvement: raising the percentage of browsing customers who completed their purchases, lowering the percentage abandoning shopping carts before check-out, and boosting purchase basket size.[8]

While the jury is still out, it seems that BlueLight.com is on its way to establishing itself as a viable business. Certainly the free ISP continues to attract attention.

In Conclusion

Your brick-and-mortar clients still trying to launch an Internet site or expressing concern about the failures of their existing sites may well find that they are putting the cart before the horse. It may be easier for them to teach their established customers to shop online rather than to convince savvy online shoppers to switch to them from other e-merchants. And if these customers are not already online, it may be necessary to help them get there first. There are *still* tens of millions of prospective customers who do not shop online. The first companies to reach them are going to strike gold in a most unexpected place. ■

LESSONS FOR CONSULTANTS

BlueLight.com offers some lessons for consultants to take to clients large and small.

- If your client is like most companies, it is using some variation on a "build it and they will come" Internet strategy. How can you test this assertion? Study the points of physical contact between client and customer: retail outlets, sales force call reports, marketing materials, or delivery channels. Chances are that you will see few resources devoted to building site traffic *outside the Internet medium itself.*

While advertising might carry an Internet address, there will probably be little visible promotion of online shopping—no kiosks stocked with ISP sign-up disks or information about specials or online price breaks. If asked, store support staff may note that online marketing happens *online,* and they don't know much about it because they don't work in the online division. (As for sales staff, in the bar after work they may tell you that they won't encourage customers to place orders online because that means working *themselves* out of jobs!)

The assumption that customers know how to reach a site limits potential traffic to savvy shoppers who have already found their own way online. It does nothing to encourage those who do not have access to get that access. Nor does it encourage those who have access but don't shop online to do so. And if your client's market segment is not an early adopter of technology, it won't find much business online.

- When your client begins to think outside the existing box, it should realize that it is probably easier to teach *current* in-store customers to shop online than to convince seasoned online customers to change established site preferences.

While some people truly cannot afford home computers and Internet access, most don't shop online because they lack experience with, or don't trust, this new technology. *They don't have site preferences to change.* While a small client might not have the financial clout to launch an in-house ISP or offer house-brand PCs to customers, it certainly can address its trust problems with online shopping.

Every business has a core of loyal customers. Each employee who comes into contact with these loyal customers—from sales floor or catalogue operations, to cash register, to loading dock—has opportunities every day to promote online shopping. But they *cannot* do so unless they are given knowledge of the company's Internet initiatives or training in how to use its website, and they *will not* do so without incentive. (Fear of working oneself out of a job is a disincentive!) An Internet strategy that stops at the door of the Internet division is likely doomed to failure; one that makes use of the existing physical business has a greater chance of success.

Notes

1. Various figures in this paragraph are quoted from Greg Sandoval, BlueLight.com Signs on 1 Million Customers (*CNET News.com,* Mar. 22, 2000); Miguel Helft, Clicks-and-Mortar Superstores (TheStandard.com, Apr. 10, 2000); Bruce Upbin, Free for All (*Forbes Online,* May 1, 2000); Attention Kmart Bashers (*Fortune,* Nov. 13, 2000, pp. 213–222); Big Three Re-launch Sites in Time for Holidays (*Department Store News: Retailing Today,* Nov. 20, 2000, p. 25+).
2. The vortal label arises from the fact that these sites can collapse traditional vertical value-chains by *simultaneously* hosting links to retailers, wholesalers, manufacturers, and suppliers. The practical effect is to put every company in a value-chain in front of *the same* end customers. For more on this phenomenon, see D. Quinn Mills & G. Bruce Friesen, Emerging Business Realities: Organizing for Value in a Wired World (Part Two) (*Consulting to Management* 11, no. 1, May 2000, pp. 3–5).
3. Bruce Upbin, Free for All (*Forbes Online,* May 1, 2000).
4. Louis Trager, The Rest of America, Online (*Inter@active Week,* Apr. 7, 2000).
5. Most People Without Access to Internet Don't Want It (*Wall Street Journal,* Sept. 22, 2000, p. B2); cites data from a Pew Research Center for the People and Press survey of 12,751 people taken from March to June 2000.
6. Paul Davidson, Untapped Market: 33 Million Have Yet to Go Online (*USA Today Online,* Dec. 16, 1999).
7. Details from Miguel Helft, Clicks-and-Mortar Superstores (*TheStandard.com,* April 10, 2000); and Janis Mara, It's All Net (*AdWeek Online,* May 5, 2000).
8. Making Bluelight Special (*Computer Reseller News,* Sept. 11, 2000, p. 80).

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