

IR NEWSLINK CEO SPOTLIGHT

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Internet Retailer Sponsored CEO Spotlight

Internet Retailing's New Look Infrastructure

Demandware's Stephan Schambach is changing the way Internet retailers modify their web sites by delivering software as a service. Demandware's model provides the merchandising department more control and flexibility in operating the web site, reduces upfront hardware and software costs, and ultimately, boosts sales and profit margins.

When it comes to making changes to their operating platform on demand, such as A/B testing, refining the search engine, or the addition of a last minute promotion, Internet retailers have never had much flexibility. Code must either be written in house by the IT department or by the outsourcing firm hosting the retailer's platform. In most cases, the lag time between the germination of the idea and implementation is lengthy, resulting in not only frustration for the Internet retailer, but delays that can mean lost revenues.

Without a doubt, it would be more efficient to allow changes to the operating platform to be made at the merchandising level as needed. That is the vision of Stephan Schambach, president and CEO of Demandware Inc. Having spent his entire professional career in e-commerce, Schambach understands the frustration the merchandising departments within most Internet retailing organizations feel over the lack of flexibility their operating platforms provide for responding to changing market conditions.

Determined to remake the business model by which Internet retailers manage their operating platforms, Schambach founded Demandware in 2004. The company's mission is to position software as a service, rather than as a separate entity within an Internet retailer's business, to create a more balanced approach between marketing and IT, and deliver retailers increased operating efficiencies. The result is a user friendly software platform that hosts the retailer's web site and enables merchandising and marketing personnel to implement changes to a site without having to write new code or rewrite existing code.

Demandware's model delivers the retailer a hosted software service featuring a suite of tools to modify a web site in real time. All installation, upgrades, and scaling are performed by Demandware for the retailer, thus creating an evergreen application and eliminating the need to migrate to new versions. Demandware provides training on how to operate the modules within its e-commerce solution. Users with an understanding of web design can be quickly trained to implement changes to the retailer's web site using Demandware.

The payoff for the retailer is a new found nimbleness that allows them to capitalize on fresh merchandising ideas that can deliver a substantial lift in sales sooner, and improve overall margins by reducing the retailer's upfront investment in software and hardware.

“When I first got into e-commerce in 1994, I saw that growth was going to come through merchandising and marketing, but the initial business model was built around the delivery platform,” recalls Schambach. “That limited the flexibility and control the merchandising department had over the site. Now that e-commerce is taking off, retailers are recognizing that the Internet is a major sales channel and that control of this channel needs to be in the hands of the merchandising department, not IT.”

With the success of the recent holiday shopping season—total sales of nearly \$30 billion—fresh in the minds of Internet retailing executives, Schambach predicts that 2006 will be the year in which brick and mortar and multi-channel retailers that have only dabbled in Internet retailing fully integrate their offline merchandising and marketing expertise into the online channel.

For these retailers, frequent A/B testing, constant refinement to guided searches, and on-demand promotions are expected to become key parts of their arsenal. In addition, retailers can use Demandware to personalize their web sites by creating pages that allow customers to post product ratings and comparisons, and forward information from a retailer's site to a friend. Retailers can even use Demandware to create customized promotions, such as a gift finder or specialty shop items, to drive traffic to specific pages.

Through its software as a service strategy, Demandware has positioned itself to meet the needs of these retailers by creating a suite of menu-driven applications that can be accessed and implemented as needed by non-IT experts after a brief training period.

“Internet retailers are feeling pressure to empower their merchandising department to continue growing,” says Schambach. “The intent behind our software service is to provide merchandising experts with the ability to make changes to the site as desired, even if they aren't code writers.”

Demandware delivers drag-and-drop functionality. After receiving training from Demandware, users need only know how to navigate the web, follow a menu, point and click to create new promotions, launch an A/B test or refine and upgrade other parts of a site. “It's what I like to call e-commerce 2.0,” says Schambach. “Users can efficiently make changes based on how those changes will increase revenues.”

Implementing an A/B test is as simple as accessing the Demandware Studio application and using the menu to select the parameters of the offers to be tested. Once the retailer has established the test offers and created and uploaded the test pages, users consult an easy-to-read diagram depicting traffic flow within the site. To establish links to the pages where the retailer wants its competing offers to appear, the user simply points and clicks to reroute traffic from designated entry points to the A/B test pages.

The final step is designating the amount of traffic entering the site from each entry point that is to be routed to the test pages. Once completed, the user instructs the application to reload the test pages onto the site with the click of a mouse. Real time analytics within the application deliver results the retailer can act on to quickly determine which offer generates more revenue.

The same user friendly principles are integrated into Demandware's Guided Search and promotional applications. In the case of guided search, Internet retailers can refine the site's search capabilities based on abandonment rates after a consumer conducts a search. By creating a new product sub category, such as LCDTV vs. TV, the new search parameters deliver the most relevant merchandise. The sooner customers zero in on the products

for which they are shopping, the sooner they can move to the checkout lane, rather than having to click around the site to find the information they desire. In many cases, search refinements can generate a 20% to 30% lift in sales.

“Internet retailers are going to be doing a lot more experimentation with offers and search capabilities, and if they don’t have the flexibility to implement changes to their sites as needed, and the analytics to make sense of the results on a daily basis, they are not necessarily going to have the right focus to compete with other sites for customers,” explains Schambach. “Demandware provides the tools to create a dynamic merchandising environment.”

As Internet retailing matures, Schambach foresees a marketplace utilizing greater technical sophistication, such as rich Internet media and video that allows consumers to see what a blouse or a pair of pants might look like on someone of their physical stature as they walk, sit or conduct other common movements.

Other likely advancements will be chat rooms that enable customers to exchange product reviews. While this feature is currently available on a limited basis, it is expensive and difficult to implement.

“The merchandising tools used by Internet retailers are going to become more sophisticated, especially for apparel retailers who will need to create a comparable experience to trying on a garment in store,” says Schambach. “But understanding which tools will maximize revenues before they are deployed across the entire site is critical.”

Having the flexibility to test pricing, promotions, special offers, and search capabilities, and altering the parameters of those tests within hours of putting them on their web site without chewing up scarce financial, technical, and human resources, is what Internet retailers expect from their software platform. And that is what Demandware delivers with software as a service.

“Spending a lot to maintain a home grown platform or giving up control over the resources put into the platform by an outsourcing firm no longer makes a lot of sense in today’s dynamic online merchandising environment,” says Schambach. “Integrating analytics, search, and rich Internet tools into a scalable software service that delivers control over merchandising to the retailer is the future of Internet retailing.”