

Selling becomes sociable

E-commerce is becoming more social and more connected to the offline world.



A valiant explorer of the commerce-technology frontier

THOSE who cherish privacy will recoil in horror, but for digital exhibitionists it is a dream. At Swipely, a web start-up, users can now publish their purchases. Whenever they swipe their credit or debit card (hence the service's name), the transaction is listed on the site—to be discussed by other users. "Turn purchases into conversations" is the firm's mantra.

Swipely is among the latest entrants in the growing field of social commerce. Firms in this market combine e-commerce with social networks and other online group activities. They aim to transform shopping both online and off. Angus Davis, Swipely's boss, points out that the internet has already disrupted the content industry. Commerce will be next, he says.

The first generation of e-commerce sites, which hit the web in the late 1990s, were essentially digitised mail-order catalogues. Websites like Epinions collected user reviews and recommendations, but they did not sell anything—and many collapsed during the dotcom crash. Only Amazon brought together selling and social feedback, to great effect. By means of collective filtering, it made suggestions based on other buyers' purchases.

The second generation of e-commerce firms is quite different. Few emerged from Silicon Valley. Indeed, they tend to have offline roots, and sometimes seek to drive customers to actual shops. Many make their money from flash sales—brief offers of steep discounts on products—that are advertised to registered members.

The pioneer of flash sales, Vente Privée, grew out of the French apparel industry (the name means "private sale"). Even today, its centre of gravity is offline, says Jacques-Antoine Granjon, Vente Privée's boss, who founded the firm in 2001 along with seven partners. Hundreds of designers, photographers and hairstylists organise its online sales events. After a slow start, Vente Privée has been growing quickly. Its five local sites in Europe have more than 12m members and are expected to bring in about €800m (\$1 billion) in revenues this year.

Vente Privée's success has inspired others. The best known is Gilt Groupe, which emulates the sample sales of luxury retailers in New York, where it is based. Gilt is smaller than Vente Privée. It has only 2.5m members and expects to turn over between \$400m and \$500m in revenues this year. Gilt wants to become a platform for all sorts of social commerce, says Susan Lyne, its boss. It recently launched several local sites in America, offering "deals of the day".

Gilt Groupe is straying into the territory of another clutch of city-based e-commerce sites, which facilitate collective buying. Every day these sites offer the service of a local business—a restaurant meal, a spa-treatment, the rental of an expensive car—at a discount of up to 90% (they generally keep half of the sale price). But a deal is struck only if a minimum number of members pounce. Buyers thus have an interest in spreading the word, which they do mostly on social networks.

Until they drop

Many such sites have sprung up. The most successful is Groupon (a combination of the words "group" and "coupon", which buyers print out to pay for their service). Although the firm launched only in late 2008, it already operates some 230 local websites in 29 countries and boasts 15m subscribers. Flush with money from investors, it has embarked on a global land-grab, buying Groupon clones in other countries, such as Germany's CityDeal.

Groupon is more about people than technology. It grew out of The Point, a Chicago-based website that offers tools to organise collective action. The firm employs a worldwide sales force of nearly 2,000 to identify interesting local merchants and 150 writers to describe the offers. It wants to be the company that finally allows small businesses to participate in e-commerce, explains Rob Solomon, its president.

Yet it may be a third generation of social-shopping sites that really deserves the label, says Sucharita Mulpuru of Forrester Research. The latest batch of firms try to build their business on top of the "social graph": the network of friends spun on social networks. They make use of virtual currencies and the growing popularity of smart-phones, which can track consumers' location.

ModCloth, which sells clothing from independent designers, has an active forum on Facebook and lets customers vote on which products the site should stock. Lockerz, another upstart, pays members "pointz" if they watch videos with advertisements, invite friends and do things with them. They can then use this currency to obtain discounts. Similarly, Shopkick rewards consumers for offline activities such as visiting stores and scanning products with their smart-phones.

For the new generation of e-commerce firms, the offline world is as important as the online one. Swipely is a good example. By uploading transaction data, the start-up makes it easy for customers to tell their friends how they are spending their money in the real world, something they probably would not do if they had to type all the data in. At the same time, customers can keep those transactions secret that they do not want to share.

Will making shopping more social really disrupt commerce as much as Mr Davis expects? It is hard to predict whether the second and third generations of e-commerce sites will continue their rapid growth. Consumers may tire of flash sales, as they did of online auctions. Even collective buying may have its limits. One of Groupon's biggest problems is that tens of thousands of local firms want to be featured, but each of its sites offers only one deal per day. The outfit has started to personalise some of its sites, meaning that different users will see different deals depending on things like age, sex and interests. But if personalisation goes too far, and users see only the sort of things they already knew they wanted, this kind of shopping could become less fun.

Whatever the fate of individual firms and sales models, e-commerce is bound to become more social, predicts Sonali de Rycker of Accel Partners, a venture-capital firm. Retailing has several persistent problems: the high cost of attracting visitors, the low probability that they become buyers and the difficulty of getting them to come back. Sociable e-commerce offers potential solutions to all of them. So expect your favourite site to add social features, whereas many of the pioneers will end up with arrows in their backs, as innovators often do.

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