



Case Study

Vann's, Inc.

Missoula, Montana

Rod Standley, Director of Multi-Channel Marketing and Merchandising

Vann's, Inc. demonstrates the ability to evolve from a regional retailer of appliances and consumer electronics to a major Internet retailer. Vann's formula for success in this highly competitive market is (1) to define its market niche (high-end products and customer service) to avoid direct competition with low-cost providers, and (2) to maintain prominent listings on Web searches through Web site design, strategic bidding for key words, and an active affiliates program. Vann's success in e-commerce encouraged the company to make significant changes in personnel and inventory and warehouse management.

Profile

Vann's, Inc. is Montana's largest independent appliance and consumer electronics retailer. Vann's has six retail locations in Montana (Missoula, Billings, Bozeman, Hamilton, Helena, and Kalispell) and a national distribution facility in Lolo, Montana (a suburb of Missoula). Vann's specializes in high-end consumer electronics including home appliances, computers, audio equipment, video equipment, GPS, gaming systems, and furniture for theater seating. Vann's receives approximately 55 percent of its revenue from online sales and phone orders, and 15 of the company's 200 employees work in multi-channel marketing and merchandising. Rod Standley, Director of Multi-Channel Marketing and Merchandising, attributes the company's e-commerce success in the highly competitive appliance and electronics markets to the promotion of service after the sale. Consumer services provided to Internet customers by the company include multiple shipping options including free ground shipping, real time inventory status, shipping notification with tracking information, and hassle free returns and exchanges. In addition, Vann's offers links to numerous articles that provide information on new products, technologies, brand comparisons, and helpful suggestions for using the appliances. The Consumer Electronics Daily News selected Vann's, Inc. for its 2007 West Coast Dynamic Growth Award for solid mid-term growth, innovative business practices, and community involvement.

History

Vann's was started in 1961 by Pete Vann when he purchased the Missoula, Montana appliance store where he was employed. Vann's expanded in terms of product lines and market areas, adding five new Montana retail outlets by the mid 1990s. In 1996, the employees of Vann's became part owners of the company (Associates), and in 1998 the company initiated an e-commerce component. Online sales now constitute the majority of Vann's sales, and in 2005 a state-of-the-art national distribution center was opened to meet the increased demand created by online customers. Yet, Vann's continues to promote its humble beginnings and small town location because it believes that these characteristics increase consumers' trust in the business.

Business Location

The headquarters for Vann's, Inc is located in Missoula, Montana, a small metropolitan area (2000 population 57,053) in the western part of the state. Missoula is a university town (University of Montana), a regional retail and service center, and a popular tourist destination because of the availability of recreational activities and art galleries and museums.

Role of e-Commerce

Marketing and selling over the Internet is a critical component of Vann's business strategy. Vann's was an early adopter of e-commerce and their current model for reaching potential customers, transacting orders, and providing customer service developed through trial and error and learning from previous mistakes. Standley noted that starting an e-commerce venture today would be much easier than in 1998

Year online: 1998

Area Population: 57,053

Web site: www.vanns.com



because the business could begin the process much higher on the learning curve. In addition, there currently exist many services and service providers to facilitate the development of an e-commerce presence.

Vann's, Inc. has developed an extensive Web site that includes company history and information, product descriptions, customer testimonials, information on employment opportunities and the company's affiliate program, and product return and service policies. In terms of e-commerce, the most impressive aspect of the Web site is the detailed information available for each product. Most major items available at Vann's (e.g. appliances, audio and video equipment, computers) have a page on the Web site dedicated to each of the following: product features, product details and specifications, reviews by Vann's consumers, comparisons to alternative products offered at Vann's, and accessories available for the product.

Vann's Web site design reflects the company's focus on providing information and customer service as the keys to competing in e-commerce. Standley admitted that Vann's cannot compete on the Internet as the low-cost provider of appliances and consumer electronics products targeted at the mass market. Vann's faces relatively high shipping costs because of its Montana location and the wholesale purchasing costs of its inventory are relatively high due to Vann's small size. Thus, in order to compete with the big box retailers (e.g. Circuit City, Best Buy) and high volume e-commerce businesses (e.g., Crutchfields, Amazon), Vann's adopted an e-commerce business strategy that has two principal components. First, Vann's is a specialty retailer and tries to carry products that are higher quality than what is offered by the national retailers. To complement this strategy, the Vann's Web site provides in-depth information and consumer education regarding products offered. Standley noted that purchasers of higher-end consumer electronics often conduct extensive research on the item of interest, thus the Web site's product information is appreciated by the potential customer.

Second, Vann's philosophy is that consumer service is their base product. The company's goal is to develop an efficient, consumer friendly e-commerce system that gives the consumer the option to talk to a sales representative when needed. The Web site is designed to anticipate what the consumer wants (e.g., buy online but pick up in one of the stores). Vann's also provides e-mail communications with each customer regarding orders received, orders processed, shipping date and shipper, and tracking number to follow the shipping. Every customer gets a survey card or e-mail requesting information on what Vann's is doing well and what

problems or difficulties the individual experienced with the buying process or service on the product. In summary, Vann's goal is to develop a trust among customers who previously made purchases at one of the company's retail locations or online so that these individuals will be repeat customers even if Vann's is not the lowest cost source for an item. Vann's targets customers that believe that "where you buy" is as important as "what price you pay."

Standley noted that an informative Web site and customer service are critical for attracting and keeping customers, but first Vann's Web site must be highly visible when consumers undertake their product searches. Vann's goal is to be on the first page of a consumer's search for a product that the company offers. Natural search engine optimization (SEO) is used as a marketing strategy for increasing the Web site's visibility. Vann's designed its Web site with key words, an index page, bullets of specific information, and product and educational information so as to make the Web site "search engine friendly." Vann's uses analytics software acquired from Omniture (www.Omniture.com) that identifies key words used by consumers in their searches for specific products. The Omniture software also enables Vann's to identify the pages used by a visitor to the company's Web site and where in the search process a potential customer leaves the Web site. This information is used by Vann's marketing team to redesign the Web site to increase the likelihood that a visitor to the site will complete a purchase.

Standley stated that the Omniture analytics software package for SEO costs \$2,000 to \$3,000 a month, and this purchase is warranted because the selection of "correct" key words is critical to getting a favorable listing on Yahoo or Google at a reasonable cost. Vann's purchases words from Yahoo and Google, and the more Vann's bids for words, the closer they move to the top of the listing page if those words are used in a consumer's search. Thus, Standley suggested that a company wants to focus its marketing dollars on words that potential consumers are using when conducting their searches. For smaller businesses, however, the word selection should be such that the business is not bidding against the large, nationwide retailers because even high bids for these words (from the small business' perspective) are not likely to result in first page listings. The smaller Internet businesses likely will get more favorable listings if they bid on words that identify their market niche rather than more generic terms.

An important component of Vann's e-commerce strategy is their Net Profits affiliates program. An affiliate is a business with a Web site that advertises Vann's products on the affiliate's site (e.g., www.hometheaterinabox.com). The

affiliates reach a different Internet market because they target buyers who are conducting a “deeper search” for a particular item in terms of price, information, or buying from a reviewed and trusted vendor. Customers of affiliates know that they are purchasing the product from Vann’s, but the affiliate offers the customer ready comparisons to other products and vendors. Vann’s provides a three percent commission plus bonus opportunities for members of its Net Profits program. Standley also noted that Vann’s markets some items on eBay and Amazon (eBay currently is used only on “open box” items). Vann’s compensation to Amazon for its listings is based on cost per acquisition, that is, Vann’s does not pay unless a sale is made. Alternatively, Vann’s pays eBay a fixed cost plus a percentage of the transaction’s value. Finally, Vann’s products also are reported on shopping engines or price engines (e.g. Shopzilla, Bizrate), and compensations for these listings generally are “cost per click.” Standley stated that payment arrangements with sponsored links may be cost per click (CPC) or cost per acquisition (CPA), and he recommended that any CPC arrangements be closely monitored with analytics programs.

- Companies selling on the Internet must take special precautions to reduce the chance for fraudulent transactions. Vann’s pays special attention to orders where the “ship to” and “bill to” addresses differ. An alternative method to reduce the cost of fraud is to send the order through a third-party provider who insures payment for a fee.

From *e-Commerce as a Strategy for Improving Business Vitality: Lessons Learned from Small Businesses* by Deborah M. Markley, David L. Barkley, and R. David Lamie

Challenges and Lessons for Rural Entrepreneurs

A number of lessons are suggested by Vann’s experience:

- Vann’s has made a major commitment to e-commerce. The company has invested more than \$500,000 in IT capital and services during the last nine years, and annual expenses associated with e-commerce related activities (personnel, software, capital replacement, and the cost of providing free shipping) equal approximately 18 percent of revenues.
- Standley stated that future company goals are to increase sales volume, profits, and customer satisfaction with the key for long-term growth being enhanced customer satisfaction. Standley provided three keys or critical components to enhancing customers’ satisfaction with their e-commerce transactions: (1) Vann’s will provide a superior pre-buying experience, (2) the product will be delivered on time as promised, and (3) Internet customers will have quality service after the sale.
- Standley offered that the company’s transition to e-commerce was not without problems. Vann’s experienced growing pains as Internet sales increased more rapidly than expected. Standley suggested that a company needs to think a couple of steps ahead in terms of hiring people, available warehouse space, inventory management capabilities, and customer service as it transitions to e-commerce.

See related case studies and learn more about e-commerce at <http://srdc.msstate.edu/ecommerce>.