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ALL THE CLUES OF ONLINE PRIVATE SALES CLUBS

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Abstract

If there is anything that can help promote consumers enter the world of e-commerce, it is undoubtedly private sales, a niche market that has attracted followers at an incredible rate, even those who were initially reluctant to shop on the Internet.

What caused this explosive growth? What supports this business model? Could it be exported to B2B? We talk with the players in this sector and ask them for all the answers.

What are online private sale clubs and how did they come about?

The concept of online private sales has existed for just 10 years, when in 2001 Jacques Antoine Granjon, taking advantage of his experience in liquidating stock for large firms, founded vente-privee.com¹ in Paris. With it was born a new concept that has revolutionized e-commerce and spawned more companies that have also proven their ability to operate in this field, such as Showroomprive.com² in 2006.

In Spain, the first company launched was [Privalia](http://Privalia.com),³ which was established in Barcelona, also in 2006, by Lucas Carné and José Manuel Villanueva, and, as in the French case, it opened the door for other companies in the sector in our country.

Private sales already existed in the physical world, where firms liquidated stock through professionals who organized sales at a lower price to a small number of buyers, normally notified by word of mouth. That is the concept that has been replicated by the online

¹ Established in 2001, vente-privee.com is the creator and world leader of the online private sale concept. Access to the website is limited to its 12.3 million members. Registering with vente-privee.com is free and does not involve any sort of obligation to buy. Sales have a limited duration of 2 to 4 days and they are organized in close collaboration with over 1,200 major international brands from every sector: prêt-à-porter, fashion accessories, decoration, toys, sporting goods and high-tech, among others. This privileged collaboration with the brands allows it to offer items with discounts of up to 70% off the supplier's recommended retail price. With 1322 employees in seven countries, vente-privee.com had €969 million in sales in 2010: a 15% increase compared to 2009.

² Showroomprive.com has a workforce of over 200 people that is continuously growing, with aggregate storage capacity of 25,000 square meters at three locations in Paris. The French company was established in 2006 and has increased its revenues by 250% in just 4 years. Its success among consumers is clearly seen in its growth by an average of over 200,000 members a month. Showroomprive.com receives some 90 sale proposals a month from different brands, distributed into between 3 and 4 sales a day for a total of 1,500 sales a year. The products offered include womenswear, menswear and childrenswear, accessories and complements, decoration and products for the home, cosmetics and beauty, sporting goods, audiovisual material and high-tech and perfumery.

³ [Privalia](http://Privalia.com) is a private club that organizes single-brand one-off sales, only for leading brands, on the Internet at exceptional prices and exclusively for its members. Established in Barcelona in 2006, it currently has over 6 million customers around the world, leading in each of the markets in which it operates (Spain, Italy, Brazil and Mexico), making it a reference for the sector. [Privalia](http://Privalia.com) has increased revenues by 141% in 2010 to €168.43 million.

companies, where they sell stock from important brands with major discounts only to club members, who can access the offers for a limited time only.

Consumers have accepted this concept quickly, as it provides access to the most prestigious firms with attractive discounts that sometimes reach 70%, illustrated by the spectacular growth figures for these companies.

Relations with the brands

According to Showroomprive.com manager Philippe Limes, relations with the brands is the key to this business model. "If relations with the brands are healthy, we will have very good stock, very good product offers that will interest the consumer, and good prices, if we have sufficient volume", says Limes.

The Showroomprive.com manager indicated that establishing good relations requires, on the one hand, understanding the interests of the brands, which are looking to eliminate stocks as quickly as possible, with the least visibility possible, since "they are not interested in associating a high-prestige product with low prices". That is why the shopping clubs are closed and not freely accessible.

On the other hand, it is essential to respect the image of those brands, so the sales are accompanied with trailers, a variety of creative features... These are ways of representing the firm that must be completely connected to the brand image.

Privalia Corporate Marketing Manager Ferran Guell says that they offer the brands a long-term professional relationship, respecting the distribution channel. "We have always felt that we have two types of clients: the firms and our members". That is why they have built up relations with the leading brands in different product categories and "we have earned their trust based on the efforts and dedication of a team that is obsessed with doing things right".

The time factor and discounts

Another one of the keys offered by Fernando Maudo, general manager of vente-privee.com Spain, is that the campaigns are based on time, quality and price, and from the point of view of the consumer, they become mini-shopping events that, for the 2 to 4 days that the campaign lasts, can fill their shopping carts with prestigious items from national and international brands at a more competitive price. "The projection of vente-privee.com is a universe of pleasure, whim, life through rose-colored glasses for users who enjoy shopping with the brands they adore at an attractive, affordable price, without losing the charm of the brand images", says Maudo.

One major point in their favor is the limited nature of the offers, which make consumers want to enter the sale as soon as possible to avoid missing out on the opportunity to get the products they want. "The first day represents a large portion of the total revenues generated, and at 7:00 am, which is when the shop opens, we have a very high point of sale, because our members wake up early to be the first ones in and not be left without the products from their favorite brands", say Privalia sources. The Latino character is very much given to impulse buying, and this business model fits in perfectly with that nature.

Another special characteristic of this type of e-commerce is that Internet users who access these websites become part of a sale club. This feeling of exclusiveness and belonging is another important point for the consumer, and the fact that our subscriptions are based on the recommendation of a friend or family member who has already joined provides greater trust in the product than direct subscription.

In addition to these factors that are specific to the business model, there are others related to e-commerce in general, such as greater convenience and available time for shopping 24 hours a day.

The sector in Spain

Spain is behind the curve in both e-commerce in general and in online private sales. However, it is important to recognize the merit of the companies in this sector, which have, to a great extent, helped expand and normalize online sales, as a number of consumers, attracted by the good offers found in these clubs, are no longer afraid to shop on the Internet.

In the beginning, they only bought airline tickets and travel, and gradually electronics and fashion have gained ground. In fact, consulting firm DBK data indicate that of the €5.8 billion in sales by e-commerce in Spain in 2009, €195 million were to Internet fashion sales, doubling the figure from the previous year, and 70% of that came from private sales. "This means that despite the major growth of the fashion and accessories sector on the Internet, it still represents a very small percentage of e-commerce as a whole (3.3%), so there is still a lot of room for growth", says sources at vente-privee.com.

The Privalia corporate marketing manager also believes that it is a very attractive market due to the great potential that it represents. The online fashion market is growing by over 20% a year in countries in southern Europe such as Spain and Italy, while in other more mature markets, such as the United Kingdom, France or Germany, the growth rate is lower. "A German buys four pairs of pants intending to return three because he is a mature shopper and knows how to do it", say Showroomprive.com sources. Spanish Internet users are gradually making online shopping a part of their daily life, although there is still a long way to go to catch up to their European neighbors, meaning that there are opportunities there.

All sources agree that the products demanded most in Spain are prêt-à-porter fashion and accessories, although sporting goods and decoration also have their share.

Could it be replicated in B2B?

It is clear that the business model has caught on quickly with consumers, but could this highly successful model be replicated for the B2B sector? Are there any lessons that could be learned by companies in online business-to-business sales?

Spanish firms are still very reluctant to buy or sell on the Internet. According to data from the Spanish Statistics Institute (INE), although over 97% of all companies with 10 or more

employees have an Internet connection, in 2009 only 13.1% made sales through e-commerce and 24.1% shopped on the Internet.

Although companies are becoming familiar with the virtual or online shop concept and some are beginning to create their own, the B2B sales platforms, such as the electronic marketplaces, are still a minority option with a very long road ahead of them to become a common-use tool. Some of these marketplaces may have certain points in common with private sales, although none follow the guidelines of these closed sale clubs exactly.

For example, the world of auctions shares the limitation of time that an article is available and of the units for sale, but the mechanics are very different. "The big difference is that in private sales the first one to get there has more opportunities, while in the auctions the last one to arrive may take home the prize", says Ferran Guell. In addition, in online sale clubs price is not a factor that a user has to worry about and bid on, adds Maudo.

They also share with the electronics marketplaces the fact that they are closed, with access granted by subscription only, although there is no entry-by-recommendation formula due to the very nature of the business world. "About 50% of our members are recommended by a friend. That would be very difficult to replicate in a business setting", Ferran Guell indicates.

However, "exclusivity is something that is attractive to both businesses and individuals", say sources at Showroomprive.com. In fact, among businesses, exclusivity can make the difference vis-à-vis the competition.

For manufacturers, it would represent an outlet for stock; for buyers, an opportunity to get better prices than in other channels. Philippe Limes says that the key issue that this possible line of business needs to focus on is on the supplyside. "I think that before even thinking about the end user it is important to secure the supply. That is where the online sale potential lies, and with a good offer and potential, it really doesn't matter if it is B2C or B2B". Guell sums it up in that "an exceptional offer attracts clients, and having many clients makes it easier to get an exceptional offer".

The main stumbling block according to Privalia would be that purchases tend to be planned in the business world, making it less explosive than B2C, and the products acquired tend to be commodities, which lessens the impact of the brand of the product acquired. Nevertheless, they believe that it could have its place "in sectors with a high volume of potential clients with frequent supply needs for a wide variety of products, in medium-high price ranges that make it worthwhile to be on the lookout for good deals".

Aid from the public sector

The public bodies are taking steps to assist the development of e-commerce. One example is Plan Avanza, which has helped implement new technologies in Spanish businesses, especially SMEs, which have more entry difficulties, and it continues today through Plan Avanza2.

"Plan Avanza is excellent", the Showroomprive.com manager says, "and the first stage of familiarizing Spaniards with the Internet, making it commonplace, has been achieved, but it is necessary to continue along that path and the rest of the steps in the purchase will be developed naturally".

But is there any other initiative that can be undertaken to promote e-commerce? Sources from vente-privee.com say that all measures that seek to improve the broadband levels for Spanish Internet users are essential, as are those related to electronic payments in terms of

security and those that represent greater clarity and transparency in e-commerce, because “that is beneficial to all of us”.

Privalia sources also mention another two important issues for the development of electronic commerce in order to bring it up to the level of other European countries. On the one hand, they say that all policies that support entrepreneurial initiatives on the Internet will help the evolution of e-commerce, as the online offer will attract more buyers. On the other hand, they indicate that it is still necessary to support “initiatives that aim to create confidence among Internet users, which will help the sector to continue enjoying good growth rates”.

Trends and future of private sales

Private sales have performed very well. A sign that their present and future are also bright is the commitment of major e-commerce businesses around the world to this sector. In October 2010, Amazon bought the Spanish [BuyVip](#), which in three years attracted 5 million members and established a presence in seven European countries.

One of the trends that is already evident is the creation of private sale clubs in specific sectors other than fashion and accessories. Furniture, travel and cosmetic products now have their own private sale sites and are also attracting followers.

Social networks have proven to be great e-commerce allies, since these environments, which bring together up to 600 million people from around the world, as is the case of Facebook, and manage to get their users to spend more time in them, make them ideal places for generating purchases. Privalia saw that potential early on. “Our social media strategy has enabled us not only to generate more profit for the company and our partner brands, but also to get a lot closer to the needs of our followers and members. In May 2010, we made the move into the Social Shopping era in Spain with the launch of Fan Shop, our Privalia shop on Facebook, where we offer our fans special launches that are exclusive to this channel, as well as the possibility of gaining exclusive and early access to certain campaigns”.

Cell phones have also become a new channel with thousands of possibilities, as the shopping potential of a device that is always with the customer at all times, everywhere, and with models that are ever more suited to Internet use, is enormous, and it is a market that has yet to be taken advantage of. A number of companies have already adapted their websites or created applications to access their offers from a cell phone.

“The online shopping market has gotten under way and the digital society is evolving so quickly that not long from now we will see new changes in shopping trends and an ever greater growth of online commerce”, concludes Fernando Maudó. And the changes are really taking place at a dizzying speed, but in general they are leading towards extending the Internet to all areas, which is helping to drive e-commerce in general and private sales as an important part of that sector.