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## ARTICLES &amp; OPINIONS

## Outpost.com drops gerbils and wolves, touts free shipping

### Site sees gains, but competition applies pressure

by Debra Aho Williamson

The year is 1998. Web retailer **Outpost.com** runs flashy holiday TV spots showing gerbils being shot from a cannon and crazed wolves chasing a marching band.

The campaign created by Cliff Freeman & Partners, New York, gets plenty of attention, not all of it positive, and even grabs several Clio awards. But the problem is no one notices that Outpost, one of the oldest Web retailers, sells computer products.

Outpost plays in the rough-and-tumble world of online computer retailing, a category where the CEOs of rivals Beyond.com, Cozone.com and Value America have departed in the wake of poor results during the holidays.

Outpost made its management change in September, replacing founding President-CEO Darryl Peck with Bob Bowman, a turnaround specialist and former president of ITT Corp. (Mr. Peck remains chairman of the board.)

One month later, Mr. Bowman found the problem: Outpost had introduced free overnight shipping in April, but it had done a poor job of promoting the perk.

"We never made it clear to our customers how valuable [overnight shipping] is," Mr. Bowman said.

Nor did Outpost know just how effective free shipping is as a purchase driver since it had done no research.

Mr. Bowman quickly changed all that. Outpost added a data-mining group to analyze customers' site activity and commissioned market research before the 1999 holidays. Research showed that paying for shipping matters a lot to consumers.

### **TAPPING WEIRD EQUITY**

But Mr. Bowman still wanted to tap that weird equity built in 1998, despite having a '99 holiday budget about \$1 million smaller than the previous year.

"We didn't want to walk away from the equity we had in our gerbil ads," Mr. Bowman said. "People remembered them. Rather than try to ignore it and further confuse people, [we said,] 'OK, we did those gerbil ads. Shame on us.' "

So TV spots that aired during the just-completed holiday season in Boston, Seattle and Washington said as much. In one, actor Martin Mull called the ads "a cheap and tawdry stunt to get your attention."

The campaign hit the free-shipping message hard: "You could spend an additional \$70 for hidden shipping charges," one newspaper ad blared. "You do the math!"

The Web site didn't mince words, either. Returning visitors see a note on the home page saying, "You've probably returned to Outpost because you've checked out other online retailers and found that they don't offer Free Overnight Delivery, they have lousy selections of electronics, and their sites are complicated and dull."

**Outpost.com** created newspaper and online ads in-house. Partners & Simon, New York, created TV and radio ads. Pro Media, Natick, Mass., handled media.

### **AD DOLLARS LIMITED**

Outpost spent just \$4.5 million on offline media in November and December plus \$400,000 online--far less than most other online retailers shelled out.

"We didn't have the money nor the inclination to spend the money, to get breakthrough advertising," Mr. Bowman said, referring to online retailers that committed tens of millions to holiday campaigns. "We had a simple story to tell that everyone would get [free shipping] and so we gambled on that."

Outpost had up to 250,000 visitors a day in December, double November's traffic, according to internal figures. The site increased its conversion rate of visitors to buyers from 1.5% in November to 2.6% in December; and acquired 109,000 new customers.

Sales of \$43.2 million for the three months ended Nov. 30 were up 84% from the year-earlier period, and its Dec. 1 through 23 sales of about \$30 million were triple the previous year.

The momentum continues. In January, traffic has averaged 1.25 million visitors per week, Outpost said, and sales ranged from \$1 million to \$1.7 million a day.

## **TRAFFIC TRAILS COMPETITORS**

Despite its improvements, Outpost significantly trails some key competitors. It wasn't able to crack Media Metrix's list of top 25 e-commerce sites during the holiday season, although rival Buy.com was sixth, Egghead.com ranked 11th and Beyond came in 16th. And Outpost's customer total, an estimated 540,000 through the holiday season, is well below Beyond's 2 million fourth-quarter customer count.

Wall Street also isn't sold on the turnaround; the stock at late week traded below \$10, on the low end of its 52-week range of \$7.63 to \$27.63 a share; the market is down on money-loser e-tailers as a group.

But Outpost is committed to free shipping, which it offers as a result of a three-year deal it struck last year with air-freight carrier Airborne Express. Outpost houses its entire warehouse and fulfillment operation at Airborne's hub in Wilmington, Ohio. It writes off the cost as a marketing expense; Mr. Bowman said shipping costs are in the "mid-single digits" as a percent of revenue.

That translated into about \$4 million in shipping costs in November and December.

The company is such a firm believer in its shipping prowess that it has created a business unit to provide fulfillment services to other dot-com companies. Six have signed on already, although Mr. Bowman isn't ready to reveal names. He said he expects to add two customers a month through 2000.

"Unless you've struck [a] deal that is affordable, you can't afford free shipping [and] it will eat you up," Mr. Bowman said. "There's only so many planes, only so many runways, only so many warehouses."

Outpost continues to look ahead. The company's 2000 marketing plan calls for more emphasis on the fulfillment angle, telling consumers that, unlike other Web retailers, it didn't have trouble filling orders during the holidays. Outpost took out a *New York Times* spread earlier this month quoting customer testimonials.

The portion of its media buy that will get the most scrutiny going

forward is TV, Mr. Bowman said, mainly because of the inability to track its effectiveness closely. The company will continue to run radio, print and online advertising in the early part of the year.

### **NEW GIMMICK MAY BE NEEDED**

Though Outpost's free shipping gamble has clearly created momentum, it's not necessarily a long-term solution. The biggest risk is if other significant Web retailers start to offer it. Egghead and Value America both promote free delivery now. If free ground or air shipment becomes commonplace, Outpost could need a new gimmick.

"Our job as a company is to institutionalize the success of the holidays and build on it," Mr. Bowman said. "We've got to make December look like a ho-hum month."

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