Global E-Commerce

Advanced Multichannel Expectations in Highly Developed Markets

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Executive Summary

- Many retailers are “going global” to capture a larger share of the $1.4 trillion e-commerce market
- Leading-edge multichannel experiences are becoming the norm in highly developed markets around the globe
- To compete, retailers will need to understand customers’ needs and expectations in each market, and deliver highly advanced multichannel experiences

Source: Cisco IBSG, 2011

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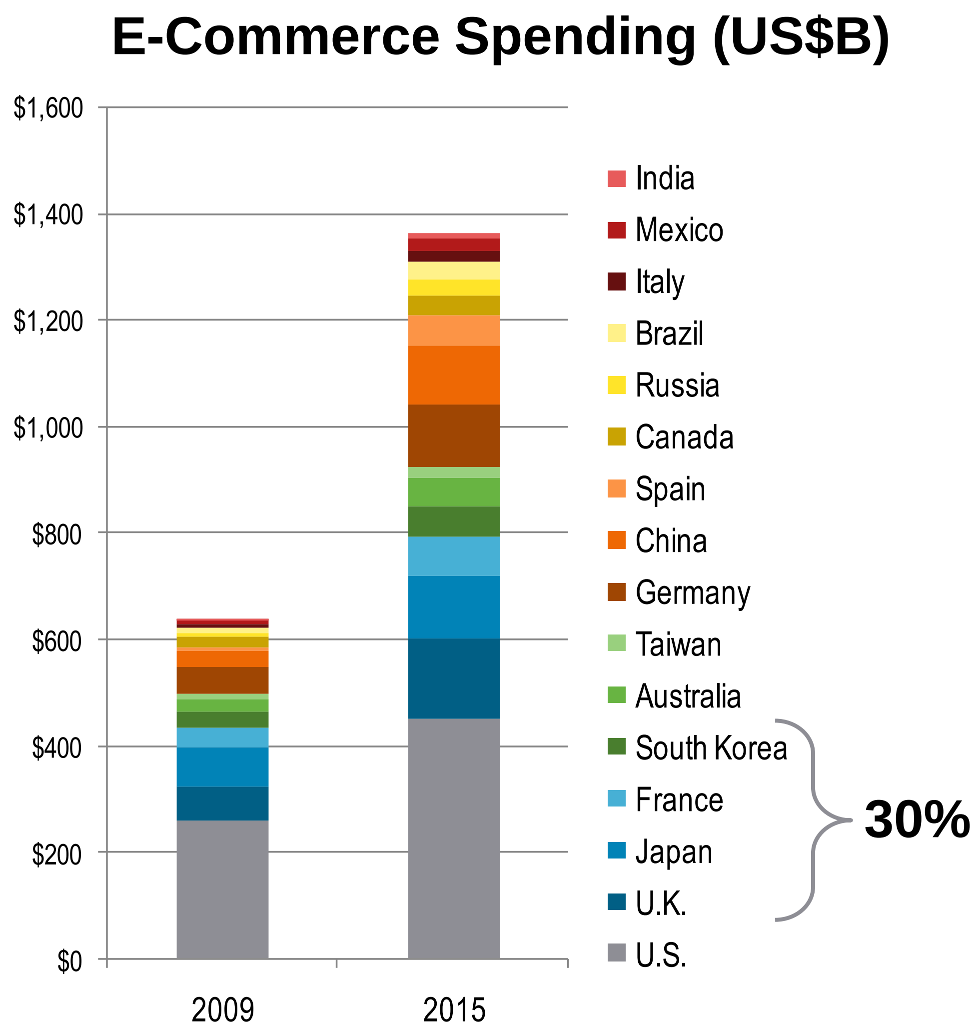
Global E-Commerce Background and Challenges

E-Commerce 2015: $1.4T, Still High Percentage in Developed, Non-U.S. Markets



Source: Cisco IBSG, 2010

- Global e-commerce, including travel, will reach $1.36T by 2015—13.5% CAGR over six years
- This study focuses primarily on highly developed e-commerce and technology markets in Europe and Asia
  - Generally, high penetration of broadband and mobile, sophisticated delivery infrastructure
  - Example: U.K., Japan, France, and S. Korea will still represent almost 30% of the global e-commerce market in 2015

Retailers are Going Global To Participate in this E-Commerce Gold Rush

- All types of retailers—whether brick and click, pure play, marketplace, or manufacturer brand site—are expanding their global online presence
- Expansion may be through new country websites or simply global shipping, currency conversion, and/or translations of their current site

Source: Cisco IBSG, 2011

Demographic, Lifestyle, and Technology Differences Impact Retail Expectations

Difference	Examples	Retail Impact
Population density	▪ U.K. 8x and Korea 15x denser than U.S.	▪ Fast shipping possible ▪ Can't leave packages at door ▪ Need for available, less-expensive, alternative retail spaces
Small homes and refrigerators, long hours	▪ U.S. homes 2.8x size of those in U.K., 2.3x vs. Japan ▪ Koreans spend 25% more hours working and commuting than Americans	▪ Need for frequent, flexible online grocery
Higher degree of government-mandated infrastructure	▪ Widespread broadband, early 3G mobile and Near Field Communication capabilities	▪ Common use of mobile shopping and payments, leading-edge retail experiences

Sources: U.S. Census Bureau, International Database; Association of Home Appliance Manufacturers; Organisation for Economic Co-operation and Development (OECD) Stat; Morgan Stanley; Forrester Research, Inc., 2010; OECD iLibrary, August 2011; Apartmentherapy.com, 2010; Dailymail.com, September 2010; Statistical Survey Department, Japan Statistics Bureau, Ministry of Internal Affairs and Communications, 2008

Challenge: International Knowledge Gap in E-Commerce Operations

- Retailers need to understand differences in shopping behaviors and expectations
- However, executives often lack knowledge about international multichannel “norms”
  - Multichannel initiatives often housed in HQ e-commerce or digital divisions
  - Online specialists may have little or no store or international experience
  - May assume they can just export existing ways of doing business
- Understanding international norms and expectations can be the difference between success and failure

Source: Cisco IBSG, 2011

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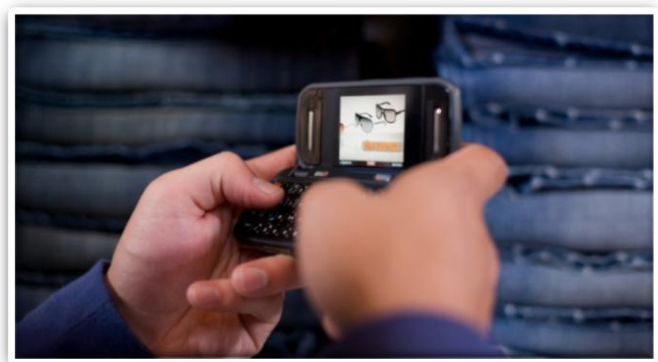
Current Multichannel Expectations in Developed Markets

New Retail Entrants Will Need To Meet Current Multichannel Expectations

Innovations that are commonplace today…

- Fast e-commerce delivery and order customization
- Non-store pickup options
- Established online grocery
- Widespread mobile shopping and payments
- Technology-enhanced store experiences
- Non-traditional storefronts



Source: Cisco IBSG, 2011

In Many Small Geographies, Consumers Expect Fast Delivery at Good Prices

- Small geographies enable packages to be delivered more quickly
- United Kingdom and Asia have highly developed delivery infrastructures
- In areas where packages can't be left at door because of housing density or rainy climate, delivery options include short delivery windows, including evenings

United Kingdom

- Common choice of 1- to 2-hour home delivery windows, including evenings
- **Asda** home shopping service covers 97% of U.K. and delivers until 10 p.m.
- **City Sprint's** same-day delivery network serves 80% of mainland U.K., 365 days/year, including evenings. **Asos**, popular apparel site, charges £5.95 for next-day through City Sprint
- **Argos**, #2 e-commerce provider and catalog store, uses Shutl service for London deliveries. Choice of 90 minutes after order placed or a 1-hour window from 9 a.m.—9 p.m. for £4.95

Argos City Sprint www.citysprint.co.uk ASDA shutl asos discover fashion online

Sources: Cisco IBSG, 2011; Mobile Marketing, August 2011; CitySprint, June 2011; Greenwich Meantime, April 2011

Asia Pacific Is Known for Its Speed Plus Order Customization

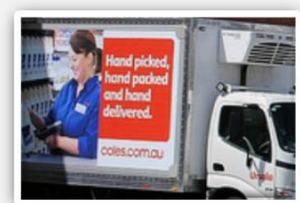
- Large and small retailers in Asia deliver customized food orders 10x/day, 2 hours after order is placed
- Speed is also becoming the norm in larger geographies such as Australia

Korea

- **Samsung**, **Tesco Homeplus**, and **E-Mart** deliver 10x/day, 2 hours after order. 23% of Homeplus orders delivered after 7 p.m. in 2009
- **Homeplus** 2-hour Delivery Memo service allows consumers to specify food preparation
- **Lotte Mart** expanding same-day delivery to most of nation

Australia

- **Woolworths** grocery home delivery: 1-day notice, 2-hour windows, A$13
- **Big W** general merchandise: order by 1 p.m., ships same day
- **Coles** delivers groceries to cities plus remote service in 1-day, 3-hour windows



Sources: Cisco IBSG, 2011; Company websites

Pickup in Store or Other Convenient Locations Is Common

- Customers' need for convenience and issues with home delivery have also made store and other location pickup options commonplace

United Kingdom

- **Argos**, **Asda**, **Tesco**, **Sainsbury's,** and **M&S** all have "click and collect" options. **Argos** Check and Reserve allows customers to reserve product online for immediate store payment and pickup; accounts for 33% of sales (mobile 4%)
- Deliveries to High Street stores in pilot
- **Tesco** piloting drive-through trial with special parking area where staff delivers to the car

France

- Most e-commerce retailers provide delivery to post office and neighborhood stores in Paris for weekday or weekend pickup
- Several Paris organic/specialty grocers offer produce deliveries to home or office plus pickup at small neighborhood stores

Source: Cisco IBSG, 2011; Food and Drink Innovations, 08/2010; Wordpress, 09/2011; blog.salmon.com, 09/2011

Example: Japanese Pick Up and Pay for Merchandise at Convenience Stores

- Japanese consumers can pick up online orders in-store, or can pay for and pick up orders in neighborhood convenience stores

Japan

- One-third of Japanese visit a convenience store 2–3 times/week and 17% visit daily
- Kombini, convenience store, or ATM payments represent 25% of Japanese e-commerce transactions
- 7-11, with 12,000 locations, also has its own e-money platform, Nanaco
- PayNearMe is testing service in U.S. with 7-11

Australia

- **Coles** offers grocery service Click and Collect in-store on same day if ordered by 11 a.m.
- Coles piloting pickup at **Coles Express** petrol stations
- **Big W** has option to pick up at post office or work

Sources: Cisco IBSG, 2011; Paymentsviews.com, September 2010; PowerRetail, May 2011

Online Grocery Is More Established and Continuing To Grow Quickly

- Online grocery developed much earlier in more densely populated countries than the U.S., where it is only 2% of total CPG sales and expected to hit 4% by 2014
- United Kingdom
  - Online was 3–4% of grocery in 2010, forecasted 6–12%+ in 2014
  - In addition to home delivery, Tesco provides store drive-through and Sainsbury’s has pickup at convenience stores
  - Asda Take Home Today allows orders of any good stocked by a supercenter to be picked up from any local store
- Japan
  - Offered by Ito-Yokado (7-11), Walmart, Amazon, Rakuten in partnership with supermarkets
  - 30% of Japanese have purchased grocery or CPG items online; seniors are biggest online grocery shoppers
- Australia
  - Still at only 1% of grocery but provided by major players Coles and Woolworths as well as many grocery pure plays
  - Available in urban centers and remote areas

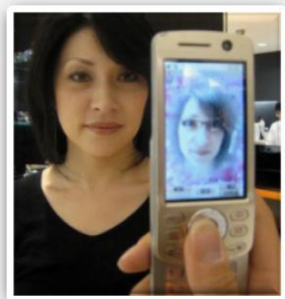
Sources: Just-food.com, 02/10; IDG, 06/11; McKinsey, 01/10; Nielsen 05/11; Australian Government Productivity Commission, 11/11

Mobile Shopping Is More Pervasive Outside the United States

- While much of the innovation in smartphone mobile shopping is centered in the U.S. and Europe, Asia leads the world in m-commerce with a pervasive "mobile phone" culture

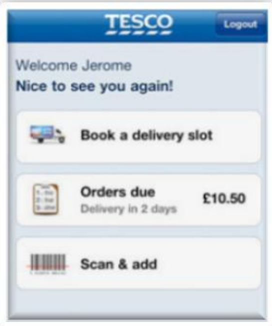
Asia Pacific

- Buys more phones than any region on earth
- 85% of Japanese mobile subscribers have data plans
- 20% of e-commerce sales via mobile in Japan in 2009 (1.5% in U.S.), growing 10% annually
- Asia-Pacific consumers
  - Compare prices: 4.5%
  - Get coupons: 28% (~75% in Japan)
  - Use mobile info/reviews: 35.9%



Europe

- Mobile commerce will double annually through 2013
- Consumers expecting to use their mobile for Christmas shopping: France 82%, Germany 52%, U.K. 66%
- **Tesco** offering "shelf level" location capabilities
- Apps integrated with more sophisticated loyalty programs

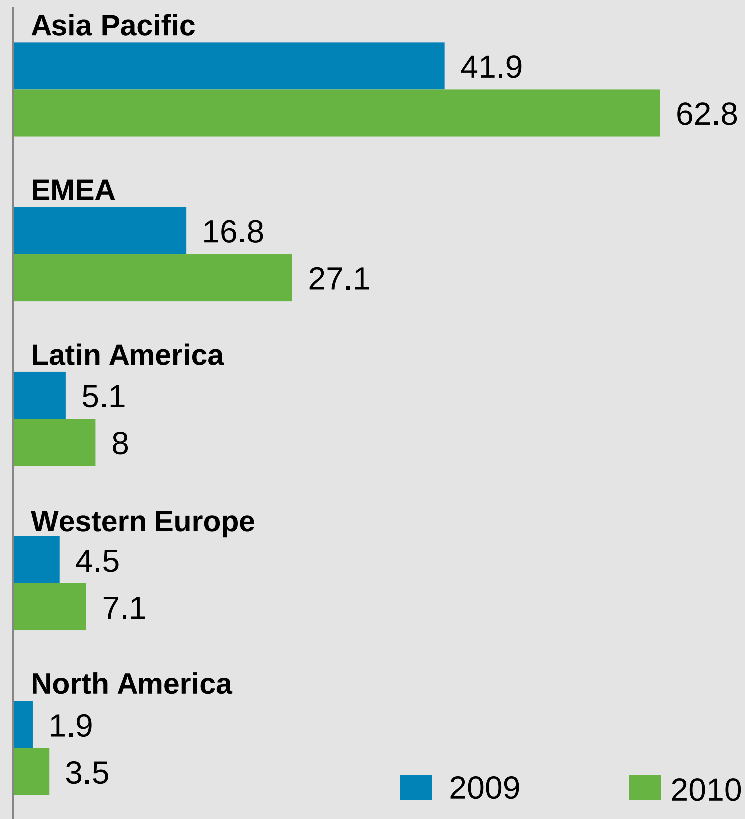


Sources: Mobile Marketing Association, 2010; Digital Marketing Yearbook 2010; Asia Digital Marketing Association; Ministry of Internal Affairs and Communications, 2010

Mobile Payments Have Been Available in Asia Since Early 2000s

- Government and business cooperation key elements of countries' capabilities
- Contactless payment capability in S. Korea since 2002, Japan since 2004 (trials in U.S. today)
- Mobile payments expected to double to $3.5B in Asia Pacific (2009–2015)
- NFC-capable handsets 2x in Europe, 5x in Asia Pacific vs. U.S. in 2011
  - 60 million Japanese phones with Sony's FeliCa chip
  - Pay for transit ticketing, building access, pay-per-view movies, vending, and shopping in nearly every store

Mobile Payment Users Worldwide by Region (millions)



Sources: eMarketer, Inc., June 2010; ABI Research, Allied Business Intelligence, Inc., 2010; Cisco IBSG, 2009; Frost & Sullivan, 2010; Mobile Payment Magazine, 2010; In-Stat, an NPD Group Company, 2011

Established Technology Base Means More Advanced Retail Experience Pilots

Actively piloting innovations for tomorrow…

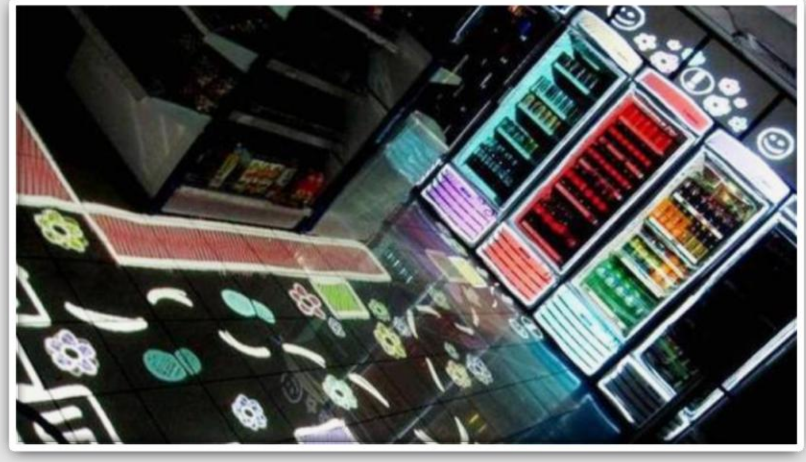
- 3D video mapping of exteriors and interiors
- Interactive and augmented reality windows, interior experience
- Innovative tablets
- Pop-up or alternate format stores
- Mobile payments and shopping

Source: Cisco IBSG, 2011

3D Video Mapping Being Used To Change Retail Look, Inside and Out

- 3D video mapping uses projectors to alter the look of exteriors and interiors for promotions and special events

H&M Flagship Opening, Amsterdam



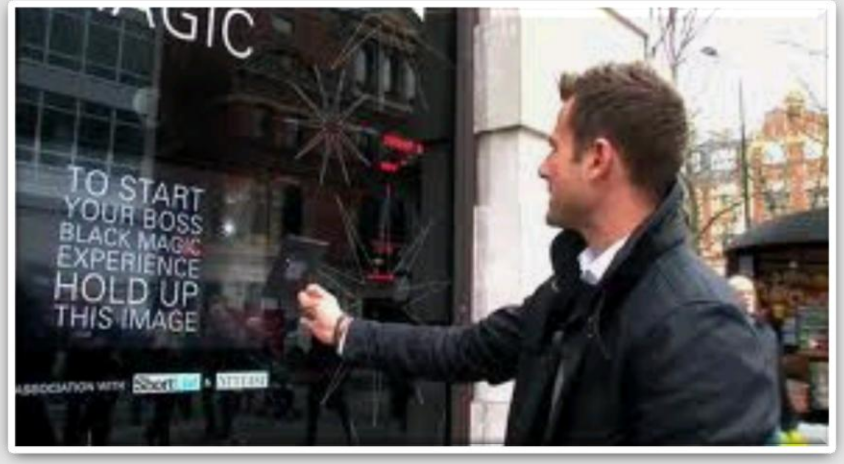
Coca-Cola Happiness Store, Rio de Janeiro

Source: Mr. Beam Agency, the Netherlands

Interactive Exterior Windows Are Stopping Traffic, Offering 24/7 Shopping

- Exterior windows enabled by augmented reality or interactive digital touch screens draw in customers and turn physical stores into always-on websites

HUGO BOSS, London



- Augmented reality Christmas window promotion, 2010
- Created crowds of onlookers who needed to come inside for the scannable promotion

SingTel, Singapore

- Exterior glass walls have embedded interactive digital touch screens for product browsing and payment
- Creates 24/7 shopping at a physical location

Sources: Total Immersion 12/09; Trendswatching, 09/11

Augmented Reality Is Bringing Virtual Experience into the Physical Interior

- Augmented reality digitally enables customers' convenience, personalization, sharing, product education, and fun

Shiseido Flagship, Tokyo

- Entire first floor offers A/R makeup simulator kiosks with actual testers upstairs
- Allows customers to try many different products without actual application

Diesel Magic Mirror, Milan, Madrid, Tokyo, NYC

- Shows 360-degree view, plus denim personalization

Sources: Trendswatching, September 2011; Trendhunter, July 2009

Retailers Are Piloting Customized, Entertaining Tablet Experiences

Sainsbury's, U.K.

- Shopping carts with built-in iPad holder and speakers
- Use for marketing, personal shopping list, entertainment, and shopper insights

SK Telecom, China

- Synced to customers' smartphones to offer position-relevant information in real time

Miele Showroom, Netherlands

- Customers use store tablets for personalized store tours
- Tablet delivers product information when passing connected digital signage
- Provides store paths and product information

Sources: Mobile Commerce Daily, September 2011; Springwise, September 2011; Gabriel Logan, April 2011

And, Retailers Are Expanding the Definition of a Storefront

- Japan's FamilyMart created mobile convenience stores from trucks to service areas hit by the earthquake/tsunami
- H&M opened a temporary container store in The Hague's Scheveningen seaside resort this summer
- Amazon has introduced pickup lockers in U.K. shopping centers, accessible by PIN number

Source: International Business Times, September 2011

Mobile Innovation Driving Convenience in Shopping and Payment

Tesco Homeplus, South Korea

Subway mobile shopping app scans QR codes on product pictures with home delivery in two hours

John Lewis, United Kingdom

Comprehensive in-store mobile strategy, including free Wi-Fi, smartphone apps, price comparison, and staff specifically tasked as "digital champions"

Retailer Consortium, United Kingdom

Simply Tap / Mobile Money Network: Trial by 30+ retailers using smartphones to identify product and make one-step immediate purchase

Summer Olympic Games, London 2012

Apple, Visa, and Nokia will heavily promote NFC mobile commerce capabilities; Visa application will turn smartphones into NFC payment device

Sources: Marketing Week, October 2011; Mobile Commerce News, November 2011

3 The Way Forward

U.S. Retailers Should Expect To Step Up to a More Advanced Landscape

- Cannot expect simply to export current ways of doing multichannel business to these highly developed markets
- Need to meet existing consumer expectations and speed of innovation—for e-commerce logistics, online grocery, mobility, in-store experiences, or pop-up stores
- The first issue will be acquiring knowledge and talent
  – Add local talent and expect learning curve for expatriates
  – At headquarters, hire young, enthusiastic Millennials to "figure it out," while providing experienced retail oversight
  – Need significant level of coordination across globe, functions
- Long-term benefit: can import new best practices, talent, retailing capabilities, and spirit of innovation back to U.S.

Source: Cisco IBSG, 2011

New Capabilities Will Be Required Across All Retail Functions

Examples

Real Estate, Store Operations	Supply Chain	IT
▪ Rethink required store sizes with ability to extend aisles virtually ▪ Develop creative options for pop-up and semi-permanent alternative locations	▪ Deliver speed plus store and alternate pickups at reasonable costs ▪ Use network inventory planning to optimize choices – Depots – Drop ship – Store assembly ▪ Develop pickup partnerships	▪ Create global vs. local architectures ▪ Place emphasis on – Network – Mobile – Virtualization – Customer data – Speed – Interactivity – Collaboration

Source: Cisco IBSG, 2011

How Cisco Can Help: Strategy and Innovation

Strategies

- Identify geographic growth and expansion opportunities
- Profile local markets
  - Baseline success factors
  - Best practices
  - Competitive assessments
  - Innovations

Co-Innovation

- Big Idea brainstorming
  - New business models
  - Technology-enabled solutions/partnerships
- Proof–of-concept/pilots
- Detailed economic models
- Global scaling

Source: Cisco IBSG, 2011

How Cisco Can Help: Mobility and Video

Mobile

- In-store Wi-Fi
  - Customer guest access
  - Associate productivity devices
  - Self-service devices
- Enterprise tablets
- Security
- Quality: bandwidth, coverage, reliability

Video

- Self-service, guided selling
- Digital media marketing/advertising
- Remote expertise
- Video analytics/shopper behaviors
- Associate collaboration
- Video content search and content delivery

Source: Cisco IBSG, 2011

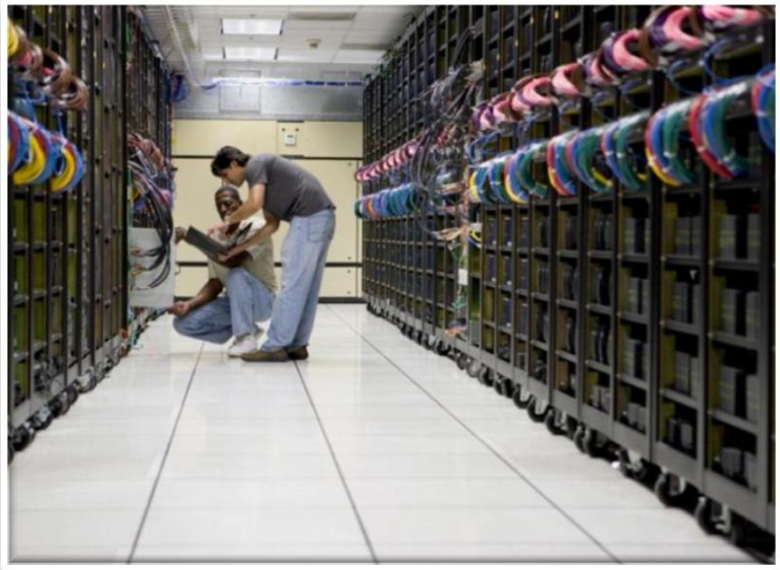
How Cisco Can Help: Collaboration, Data Center, and Architectures

Collaboration

- Global and local operations
  - Inter- and intra-company
- Integrated conferencing
  - TelePresence/video conferencing
  - Web conferencing
  - Store/office/mobile
- Unified/IP communications
- Enterprise social media (portal/video/IM)

Data Center & Architectures

- Global/local architectures
- Server/storage virtualization
- Unified computing/automation
- Application acceleration
- Smart network management
- Cloud computing



Source: Cisco IBSG, 2011

First Steps To Take Now

- Understand your local market
  - Underlying demographic and technology differences
  - Consumer multichannel expectations
  - Competitive landscape
  - Baseline and leading-edge design
- Invest in the talent and operational model required
  - E-commerce and advanced multichannel design
  - Local versus global management
  - Real estate, supply chain, store operations, merchandising, and store design changes
- Design IT platform, architectures, and capabilities
  - Global versus local capabilities
  - Scale and speed requirements, including data center locations
  - Mobility, video, and collaboration in-store and online
  - Baseline versus advanced

Source: Cisco IBSG, 2011

CISCO