Third Annual Cisco IBSG E-commerce Survey: Mobile Emerges as Growth Channel for Retail

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Online Channel More Vital than Ever for Retailers

Online commerce is seeing rapid growth in the United States and Europe, with year-over-year increases of 21 percent[1] and 37 percent,[2] respectively. Retailers cannot afford to ignore e-commerce sales because the sums are huge and continuing to grow. U.S. e-commerce spending approached $175 billion in 2007, and U.S. consumers are projected to spend $300 billion by 2011.[3] In Europe, consumers spent an estimated $197 billion in 2007, and strong growth is forecast through 2011, when online sales will surge to $406 billion.[4]

The Cisco Internet Business Solutions Group (IBSG) conducts an annual review of the online offerings of leading retailers. Previously confined to North America, this year's survey was expanded to include the offerings of leading European retailers. This year's research yielded four main insights retailers should consider to maximize their online sales:

Become a trusted destination site for shoppers: By executing well on the basics of e-commerce, retailers can gain the trust—and repeat business—of shoppers who want a fast, reliable, and hassle-free experience. One-third of online retailers are already achieving this.

Provide a valued experience and better service with interactive technologies and social networking: Leading e-retailers are using new technologies to make visits to their e-commerce sites a unique, satisfying online experience. These technologies include visualization tools to help shoppers "try on" clothes, instant messaging for providing personalized help, and social networking to enable online interaction with peers, experts, and other sites. Fifty percent of e-retailers are providing these capabilities in a highly relevant way.

Deliver services on the mobile phone as part of an integrated shopping process across channels: Multichannel has morphed into a series of interconnected shopping processes across stores, catalogues, mobile devices, and the Internet. Most recently, shoppers have become interested in having their mobile phones incorporated into their shopping experiences. Shoppers increasingly expect to use their mobile phones to find stores, research products, make purchases, and service their accounts. We found that 15 percent of retailers are providing the capability to transact on a mobile device.

1. "U.S. eCommerce Forecast: 2008 to 2012," Sucharita Mulpuru, Forrester Research, January 18, 2008.
2. *eMarketer*, July 2007.
3. "U.S. eCommerce Forecast: 2008 to 2012," Sucharita Mulpuru, Forrester Research, January 18, 2008.
4. *eMarketer*, July 2007.

Introduce a small number of innovative capabilities on a regular basis: Shoppers are expecting new and more useful capabilities all the time. Leading retailers focus on a small number of the most relevant and valuable features to their shoppers and execute extremely well. The leaders in our review have each implemented up to five significant, leading-edge capabilities in the past 12 months.

Assessment Methodology and Criteria: Changing Shopper Expectations Spark Survey Redesign

IBSG reviewed the e-commerce sites of 45 top retailers in the United States and Europe, playing the role of the shopper. Both pure plays and "clicks and bricks" retailers were included in the survey, which analyzed tested sites against 57 distinct attributes that focused on two main areas: **foundational** and **emerging** capabilities.

The foundational section covers what shoppers expect: a simple, intuitive interface; detailed product descriptions; good availability; fast, smooth transactions; and notifications at critical stages, such as when the product shipped, and if there are any delays.[5] This year, the survey added tougher criteria, in line with shoppers' heightened expectations around convenient delivery and return options, as well as improved access to help.

In 2007, e-commerce continued to outpace total retail sales by a wide margin. In the United States, online sales grew by 21 percent in 2007, reaching almost $175 billion,[6] while total retail sales increased only 4 percent.[7] In Europe, 2007 online sales increased 37 percent. This impressive growth is occurring as total retail sales are falling.[8] Part of the story behind such rapid growth is that many new shoppers are making online purchases for the first time. In fact, 31 percent of shoppers have been buying online for less than a year.[9]

The rise of e-commerce is not limited to the United States and Europe. All regions, including Asia Pacific and Latin America, saw more people shop online. More than 875 million people—85 percent of the world's online population—have bought a product online This is an increase of 40 percent over the last two years, and further proof that online shopping is not the exclusive preserve of the young and affluent. Ninety-three percent of online Europeans and 92 percent of online Americans have done the same. Equally important, online shopping is now an ingrained behavior for global online consumers; 50 percent have made a purchase online in the past month.[10]

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5. Sterling Commerce/Deloitte, August, 2007.

6. "U.S. eCommerce Forecast: 2008 to 2012," Sucharita Mulpuru, Forrester Research, January 18, 2008.

7. U.S. Census Bureau, February 2008.

8. Consumer spending in the Euro area (EA15) fell in Q407 for the first time since 2001, according to a Mach 2008 Eurostat report. In the United States, retail sales fell by 0.6 percent in February 2008, according to the U.S. Census Bureau.

9. *eMarketer*, July 2007.

10. "Over 875 Million Consumers Have Shopped Online." Nielsen, January 28, 2008.

While shoppers have always demanded foundational excellence, expectations for emerging capabilities have shifted rapidly from last year, catching retailers off-guard. Social networking sites and advanced technologies have redefined the online experience and created a new standard for consumers of all ages. This year our emerging section added assessments covering peer and expert communities, personalization, advanced visualization, real-time availability, and mobility.

The leaders in our review delivered flawless execution on the foundational capabilities, making it exceptionally easy to shop, and also offered the inspiring elements of new technologies.

Figure 1. The Top 10 E-retailers Are Evenly Divided Between North America and Europe
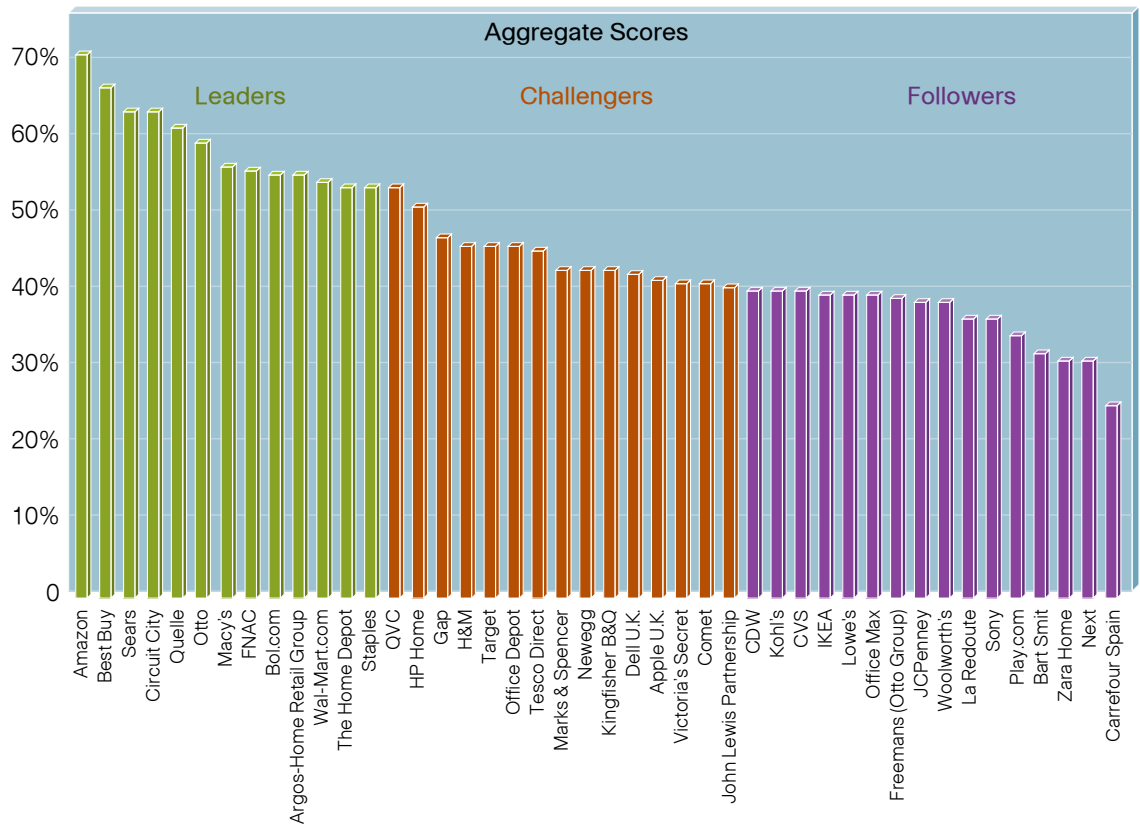
Source: Cisco IBSG, 2008

The leaders are:

Amazon has built on its strengths in overall execution and personalization by adding several new features and capabilities, including a good mobile shopping solution, peer reviews, and social networking offerings, both within the site and with links to Facebook.

Best Buy excels in the fundamentals, including reliable delivery, and has added more interactivity, with user reviews/ratings and click-to-chat functionality.

Sears wins high marks for multichannel execution, product views, and descriptions, and advanced capabilities like its Virtual Model visualization tool.

Circuit City has added blogs and social networking to its shopping touchpoints and strong fundamental performance.

Quelle boasts clear navigation, excellent search, thorough product information, easy delivery and returns, and a good mobile shopping experience, offering both wireless access protocol (WAP) and short message service (SMS, also known as text messaging).

The top 10 leaders were split evenly between U.S. and European retailers, with similar e-commerce maturity and capabilities on both sides of the Atlantic. Neither American nor European leaders, however, can afford to rest on their laurels. We were struck by how little distance there is between leaders and followers in this study. Those who are in the middle of the pack can quickly vault to the top by improving their overall execution, incorporating new ideas and technologies, and anticipating developing trends. In addition, the majority of the poorer-performing e-retailers were European; they have a significant opportunity to improve their offering by getting many of the foundational capabilities right.

As we review the study's main findings below, we focus on the main things retailers must do to reach the top—or to remain there.

A Trusted Site Starts with a Solid Foundation

Trusted e-retailers establish lasting and profitable relationships with their shoppers, while e-retailers that fail to establish trust can find it hard to earn a loyal following. In fact, they can find themselves shut out entirely as shoppers return time and again to their mainstays. In a recent study of U.K. online shoppers, 48 percent browsed between 10 and 20 sites before making an online purchase, but 84 percent buy regularly from five or fewer sites.[11]

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11. " UK Shoppers Stick to Trusted Sites." Avail Intelligence, February 25, 2008.

Figure 2. 2007 Leaders Incorporate New Features with Strong Execution of the Fundamentals

2007 Leaders		
amazon.com	**68%**	Overwhelming leader in personalization; lots of new features/capabilities; extremely strong execution despite lack of physical stores. Good mobile shopping solution and development of links to peer communities.
BEST BUY	**64%**	Strong execution year after year with Web 2.0 enhancements, greater focus on user feedback, interaction, and integration with geek squad services.
Sears	**61%**	Many advanced capabilities including visualization and avatars; high on "coolness" factor with good execution and multichannel integration.
circuit city	**61%**	Facilitating communities and user connection via CityCenter; bravely allows uncensored shopper communication. Using these capabilities as a shopper listening and service channel.
QUELLE. www.quelle.de	**60%**	Easy site to shop, good search and helpful suggestions; thorough product information and multiple ways to find it; easy delivery and returns. Good mobile shopping services.

Source: Cisco IBSG, 2008

When asked which e-commerce features are most important, shoppers said they want ample product information, the assurance that the retailer received their order, and that it will arrive on time, with multiple options for shopper service and a choice of shipping options.[12] We have called these foundational capabilities. Shoppers want interactivity and an engaging online experience, but without flawless execution of the basics, it is not enough. Shoppers will defect to more reliable, if less flashy, competitors. Unfortunately, too many retailers, including some in our study, continue to suffer from poor execution of the basics. Our findings include the following:

· There is a large gulf between the execution of the foundational leaders and that of the average retailer. The average foundational score—which includes the basic elements of the shopper's online experience, from site layout and content, to transactions and returns—was under 50 percent. The top 10 average was 67 percent, while the foundational winner, Amazon, scored 74 percent.

· For too many retailers, checkout is cumbersome and time-consuming. Checkout in two to three clicks should be standard for all retailers. We found, however, that 25 percent of retailers force shoppers to go through five or more "clicks" to complete their transactions.

12. Ibid.

- Getting help can still be difficult. Only 50 percent of retailers provide multiple methods such as e-mail, phone, or click-to-chat for shopper support. The majority provides support only for processing orders and delivery queries, and less than 25 percent provide product advice.

- Reliable, shopper-friendly delivery has improved. Ninety-three percent of our orders were correctly delivered on time, with 67 percent of retailers allowing shoppers to select specific delivery slots and 71 percent permitting different delivery addresses, making it more likely that shoppers receive their products on the first delivery.

- Returning products has gotten easier. Seventy-eight percent of retailers provide some form of free return by post, courier, or in-store, and 11 percent actually offer free returns via all methods. Sixty percent provide all return packaging and paperwork with the original delivery to make it exceptionally easy for the shopper.

- Retailers that struggle with foundational capabilities must redouble their efforts to provide a reliable, fast, and easy online shopping experience, even if this means postponing the addition of new features. E-commerce is no longer new and shoppers are rightly impatient about poor performance. European retailers have a harder time getting the basics right; seven of the bottom 10 performers are European.

For some weak performers, selling online appears to be an afterthought, or even worse, the retailer's poor online experience was intended to encourage shoppers to visit the store rather than buying online. Retailers should consider whether they are truly dedicated to selling online, and whether e-commerce fits their business model and operational goals. If not, they run the risk of alienating shoppers with halfhearted e-commerce efforts. These retailers should instead use the Web to build a brand image, to provide information, and to deploy interactive tools that can help shoppers make the most of their visit to the store.

Retailers' takeaway: Deliver foundational excellence—intuitive search, good product descriptions and images, good availability, secure and easy checkout, reliable and flexible delivery—before adding new capabilities.

Online Behavior Has Changed: Social Networking and Interactive Technologies Becoming Must-haves for Leaders

In last year's study, we highlighted the emergence of social networking, with an emphasis on attracting young consumers. Social networking has now reached the mainstream, as consumers 35 and over have been joining social networking sites in droves. The leaders are now incorporating the best, most relevant aspects of social networking and interactivity on their e-commerce sites. Unfortunately, most retailers have yet to grasp the social networking opportunity. Our results show that only:

- 17 percent provided the capability to connect to communities of interest.

- 52 percent provided shopper reviews for products.

- 50 percent had advanced visualization tools and provided multimedia (such as video) on their sites.
- Only half offered real-time shopper support through multiple channels, such as click-to-chat or immediate phone access.

Figure 3. Emerging Capabilities Leaders Continue to Innovate and Raise Standards

2007 Emerging Capabilities		
BEST BUY	**56%**	Guided selling tools; seamless links to partner sites; focus on services; interactive site with ability to see shopper reviews.
Sears	**54%**	Focus on educating shoppers through a number of home and personal management tools; solicit shopper content.
amazon.com	**53%**	Personalized shopping experience based on your browsing/purchasing history; shopper reviews, blogs, and input; new features like Askville, Kindle, Unbox (video downloads).
fnac.com	**48%**	High degree of personalization, interaction guides for product selection, excellent product descriptions and visualizations, reviews, and full mobile offering.
circuit city	**46%**	Unfiltered shopper feedback in CityCenter; guided selling tools and access to product expertise; more than 130,000 shopper reviews.

Source: Cisco IBSG, 2008

Many of the top performers in our survey, however, have found ways of building these capabilities into their sites so that shoppers see them as a natural and useful extension of the shopping experience. Some of the best examples from our survey include:

Circuit City's CityCenter puts shoppers in touch: Circuit City has added blogging and social networking to its e-commerce site. "CityCenter Community" enables shoppers to post profiles, blogs, pictures, and videos, and share opinions about Circuit City products. CityCenter also takes an innovative approach to shopper support by encouraging shoppers to assist one another. CircuitCity moderators answer support questions on the discussion forums, ensuring that shoppers get the right answers. Circuit City scans its message boards for common problems, and provides helpful videos showing shoppers how to solve them. For example, one video showed how to transfer iTunes from one computer to another. The site also provides an excellent "listening" opportunity for Circuit City to gain valuable insights about consumer preferences and their favorite— and less favored—products, while fostering an emotional attachment to Circuit City through relationships with other shoppers.

Amazon tailors tools to meet shopper needs: Amazon is using social networking capabilities in a multitude of highly intuitive ways. It allows shoppers to create and post profiles, create networks of friends and family to share favorites and wish lists, develop discussion forums based on product "tags," and purchase from direct links in Facebook book review networks.

Amazon provides the best and most extensive offering of product reviews. Amazon's member-driven system for rating reviewers merits special attention. By providing ratings and rankings for reviewers based upon the number of reviews and how helpful members find them, Amazon has been able to develop a cadre of quasi-professional reviewers, in addition to reviews from average consumers, that has helped the retailer improve the quality and quantity of peer reviews. Amazon has turned its shopper reviews into a major competitive advantage—it has become the destination for consumers conducting product research.

Retailers' takeaway: Integrate social networking and interactivity in a relevant and consistent way throughout your e-commerce site, and even make these features the focus of your value proposition.

Beware of the "Frankenstein" approach: do not graft on blogs or communities that do not serve a compelling shopper purpose or fit with the brand. If shoppers do not see the relevance, they will not participate, and the retailer will gain nothing but a reputation for not understanding the online environment.

Figure 4. Circuit City's CityCenter Provides Social Networking to Shoppers, Enabling Them to Build Community Around Circuit City

Source: http://www.circuitcity.com
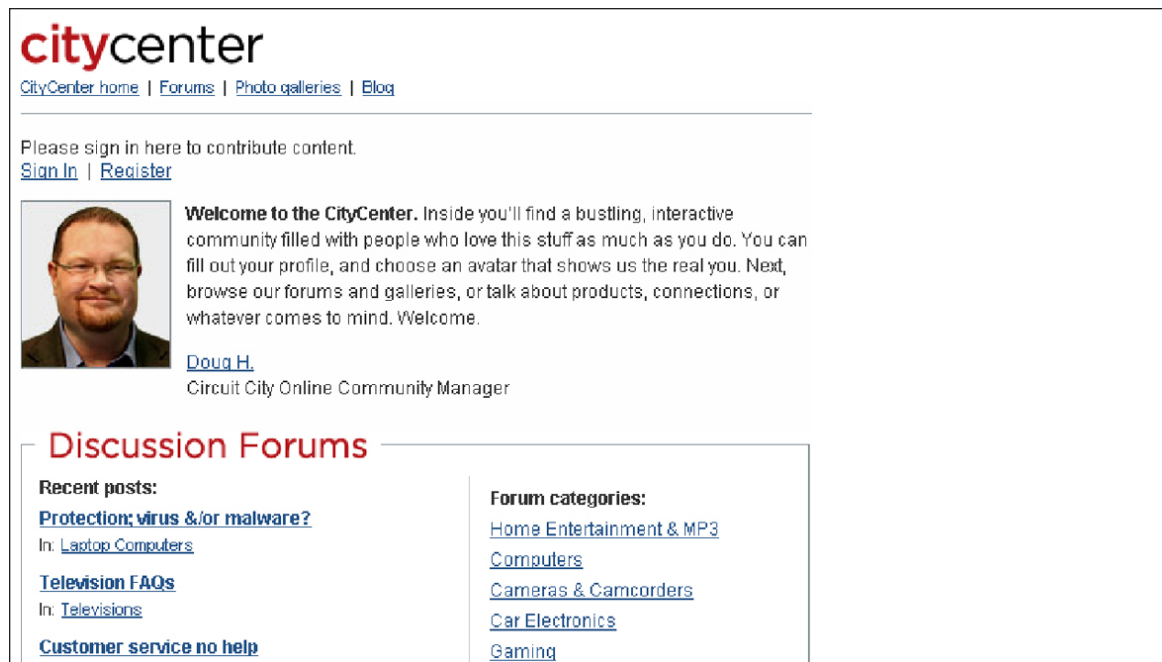
Mobility Will Play a Key Role in the Shopping Experience

The potential of the mobile phone as a retail channel can be expressed in sheer numbers. Globally, there are 1.3 billion Internet users, and 3.3 billion mobile subscribers. In the United States and Europe combined, there are more than twice as many mobile subscribers (1.2 billion) as Internet users (546 million).[13] Despite the enormous size of the opportunity, mobile commerce is still in its infancy as a retail channel in the United States and Europe. We expect mobile commerce, however, to follow an adoption pattern similar to that of Web 2.0. Gen Y-ers are using their mobile phones to buy music and videos, post photos to social networking sites, access location-based services, send peer-to-peer payments, and access e-commerce offerings aimed primarily at young consumers. With the increasing availability of high-bandwidth mobile Web access from both 3G and WiMAX networks, and a new generation of mobile devices such as the iPhone, fast-following boomers may soon be using their mobile phones to buy gifts for their grandchildren, instead of just talking to them.

Early adopters are already finding ways to factor the mobile phone into multichannel service delivery. At the simplest end of the mobile offering, retailers are using SMS to communicate promotions, stock availability, and delivery updates. The more advanced are offering mobile Web browsing and a few Web transactions. Our survey found:

- 42 percent of retailers surveyed provide the ability to view product information on a mobile device through reformatted Web pages or specific mobile pages.

- 15 percent provide the ability to transact.

- 10 percent are using SMS to provide any type of information or answer shopper questions.

- 6 percent—including Quelle, Otto, and Amazon—offer Webpages designed specifically for mobile devices. These pages provide faster responses than reformatted Web pages.

Good examples from our survey include:

SMS: Argos, a U.K. general merchandiser, provides the ability to check stock quantities via SMS, and Tesco is trialing shopper service feedback and real-time delivery updates for grocery home shopping.

Cutting-edge shopper services via both SMS and mobile Web: Quelle.de and Otto. de are providing information, service, and ordering via SMS, and have taken this further to offer a full range of shopping capabilities specifically configured to the mobile interface, allowing people to browse, obtain help, and order products directly from their mobile devices. These capabilities incorporate specific mobile design requirements. They start the shopper's journey with a central search field, make user input simple,

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13. "Internet Trends," Mary Meeker, Morgan Stanley, March 18, 2008.

allow users to distinguish selected items easily, and offer one-click checkout. These mobile sites show only essential information; they do not repeat navigation, and put basic browsing control on each page.

Retailers proactively manage the mobile interface: Retailers that do not have a dedicated mobile offering run the risk of alienating shoppers if they simply allow shoppers to access their e-retail sites. These sites take too long to load, do not allow shoppers to search or view products, and have no transactional capability. Retailers that have yet to launch a dedicated mobile site, or that have no plans to do so, should proactively communicate this to shoppers. Two companies in our study did this in notable ways. Office Depot's mobile site has a store locator that enables shoppers to find the closest location. CVS uses a simple page customized for the mobile Web that tells shoppers that the retailer does not yet have a mobile offering. Such proactive strategies are more honest and respectful than letting shoppers suffer through a slow, pointless download.

Retailers' takeaway: Do not let shoppers access your repaginated e-commerce site with their mobile devices—it can be a horrendous experience. Specifically design your mobile landing page using good mobile usability guidelines, and if you don't have the capabilities yet, set up a "holding message."

Figure 5. Quelle and Otto Offer Fully Configured Mobile-friendly Sites, Using WAP and SMS

Leaders Keep Innovating to Stay Ahead of the Pack

Retailers should keep track of how some of the leaders are using new technologies, and where they are placing their bets for the future. All of the leaders have implemented at least five new and highly relevant capabilities in the last 12 months, such as peer reviews, advanced visualization, virtual models, click-to-chat/talk, mobile Web and SMS capabilities, real-time availability, widgets, and virtual assistants. The leading retailers are choosing to focus on emerging technologies that truly differentiate their shoppers' experience and offer intuitive value to customers:

- Amazon's use of tagging technologies and its service integration with Facebook provide clues about how to take advantage of social networking.

- Sears' use of virtualization and avatars with its Virtual Model could point the direction for even more advanced personalization and visual tools.

- Quelle's SMS and mobile offering is a model for product information, availability, and ordering.

- IKEA's virtual assistant has improved considerably since it was first launched, answering shopper queries better and taking shoppers to relevant pages.

Other industries can also provide clues about where retailers should invest, and how they can implement new capabilities, especially when they are ahead of current retail leaders. For example, big banks in the United States and Europe—Bank of America, Wachovia, Citibank, Royal Bank of Scotland, Barclays, and others—have introduced mobile services that help shoppers manage their own accounts and transfer funds more easily. Instead of dialing the contact center, shoppers can now use their phones to service their own accounts or make routine transactions. This saves banks money by reducing service costs, and provides a value-added service for shoppers, who can access their accounts on the go without having to guess how much they have in their accounts or whether a check has been cashed.

While our current survey looked at core mobile capabilities of SMS and Web browsing, there is an extended range of mobile services that are ripe for retail innovation across all channels to offer shoppers a valuable, integrated shopping experience. Opportunities include mobile coupons, video, location-sensitive services, and bar-code scanning. For example, a recent Deloitte survey showed that 61 percent of consumers would like to use a service that enables them to scan the bar code of a product in the store and automatically receive price information from competing retailers.[14] Amazon Japan already offers this functionality, making any store a potential touchpoint for the online retailer. Amazon recently launched a similar service in the United States called

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14. "Mobile Commerce Slowly Taking Hold Among Retailers," Yian Q. Muy, *The Washington Post*, January 19, 2008.

TextBuyIT that allows shoppers to use SMS to compare prices and purchase items with their mobile phones. In fact, mobile price comparison and shopping applications could permanently reverse the relationship between the store and e-commerce. Today, 51 percent of U.S. shoppers research products online before they purchase in stores. For 42 percent of these online researchers, the reason they buy in the store is to "see and feel" the product before making a purchase.[15] Mobile comparison services overcome the "see and feel" hurdle. Will shoppers soon view stores as showrooms for products they buy with their mobile phones in real time, at a lower price?

Retailers' takeaway: Keep track of emerging technologies and what the innovators are doing. Decide on your e-retail innovation strategy—be a pioneer or follower. Continually refresh your development roadmap to include exploration and experimentation with new and emerging Web technologies.

In Summary

Our survey shows that shoppers' expectations have increased significantly from previous years, and the leaders have risen to the challenge. A third of e-retailers offer great service—a fast, reliable, and hassle-free experience for shoppers who simply want to "get in and out," as well as more informative, helpful interaction for shoppers who want to explore, receive advice, and experience social shopping. Some of the big names, however, are still missing the fundamentals—especially in Europe. All retailers should take the opportunity to get e-retailing right and take advantage of the significant growth in online sales that is expected to continue through the end of the decade.

The majority of innovation over the past year has focused on engaging and interacting with shoppers. Peer-based reviews and interaction are becoming a fundamental expectation. Few retailers, however, are allowing the unedited, self-policed, shopper-generated content that appears to drive increased sales, but can create significant operational and PR nightmares. Additionally, retailers continue to develop advanced visualization and video capabilities, which resonate with shoppers. Relevant combinations of these types of tools are helping the leaders become destination sites for shoppers, while helping to enhance loyalty.

Future innovation will continue to accelerate at breakneck speed, especially with mobile commerce, which is at the tipping point. New types of handsets, combined with better and cheaper mobile connectivity, will rapidly accelerate shopper interest in mobile commerce. Innovations that incorporate widely used technologies, such as SMS, will help "late adopters" buy with their mobile devices even if they lack the latest handsets. Retailers need to consider these capabilities now to make provision for them in their future platform builds. Our survey shows that e-retail leaders are choosing and focusing their innovations wisely, ensuring that they provide shoppers with a genuinely useful and enjoyable experience, and most important, directly drive loyalty and sales.

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15. "The Web's Impact on In-store Sales: U.S. Cross-channel Sales Forecast, 2006 to 2012," Tamara Mendelsohn, Forrester Research, May 7, 2007. Forrester estimates that $400 billion worth of sales made in the store— 16 percent of total U.S. retail sales—are influenced by Web-based research.

Notes

More Information

The Cisco Internet Business Solutions Group (IBSG), the global strategic consulting arm of Cisco, helps CXOs and public sector leaders transform their organizations—first by designing innovative business processes, and then by integrating advanced technologies into visionary roadmaps that address key CXO concerns.

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