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
1 Global E-Commerce Background and Challenges
E-Commerce 2015: $1.4T, Still High Percentage in Developed, Non-U.S. Markets

- 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

E-Commerce Spending (US$B)

Source: Cisco IBSG, 2010
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

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

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

<table>
<thead>
<tr>
<th>Asia Pacific</th>
<th>Europe</th>
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<tbody>
<tr>
<td>Buys more phones than any region on earth</td>
<td>Mobile commerce will double annually through 2013</td>
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<tr>
<td>85% of Japanese mobile subscribers have data plans</td>
<td>Consumers expecting to use their mobile for Christmas shopping: France 82%, Germany 52%, U.K. 66%</td>
</tr>
<tr>
<td>20% of e-commerce sales via mobile in Japan in 2009 (1.5% in U.S.), growing 10% annually</td>
<td>Tesco offering “shelf level” location capabilities</td>
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<tr>
<td>Asia-Pacific consumers</td>
<td>Apps integrated with more sophisticated loyalty programs</td>
</tr>
<tr>
<td>– Compare prices: 4.5%</td>
<td></td>
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<tr>
<td>– Get coupons: 28% (~75% in Japan)</td>
<td></td>
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<tr>
<td>– Use mobile info/reviews: 35.9%</td>
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</tbody>
</table>

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)

<table>
<thead>
<tr>
<th>Region</th>
<th>2009</th>
<th>2010</th>
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</thead>
<tbody>
<tr>
<td>Asia Pacific</td>
<td>41.9</td>
<td>62.8</td>
</tr>
<tr>
<td>EMEA</td>
<td>16.8</td>
<td>27.1</td>
</tr>
<tr>
<td>Latin America</td>
<td>5.1</td>
<td>8</td>
</tr>
<tr>
<td>Western Europe</td>
<td>4.5</td>
<td>7.1</td>
</tr>
<tr>
<td>North America</td>
<td>1.9</td>
<td>3.5</td>
</tr>
</tbody>
</table>

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.

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

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

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