



Fourth Annual Cisco IBSG E-Commerce Survey

Social-Network-Driven Retail Transformation

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Global E-Commerce Is Still Growing, Despite the Economy

While global economic turbulence sent shock waves through most industries, e-commerce continued to grow in size and influence during the past year. No longer an emerging alternative retail channel, e-commerce has become a key influence on core business models, accounting for 20 percent or more of total sales in several key categories, including books, music, video, and computer products.¹ While its growth has slowed, e-commerce continues to perform better than traditional retail channels.

Overall retail sales declined in 2008 by up to 4 percent in the developed world,² but e-commerce continued to grow—ranging from an estimated 6 percent increase in the United States to 30 percent in France.³ Growth is expected to continue at a “moderate” pace of around 9 percent in developed nations, and up to 15 to 28 percent in emerging nations,⁴ the latter spurred by double-digit growth in mobile adoption.⁵

In the midst of this volatile economic climate, the Cisco Internet Business Solutions Group (IBSG) conducted its annual review of the online offerings of leading retailers. Previously confined to North American and European retailers, in this fourth year the survey included emerging-market retailers as well as several consumer goods manufacturers and shopping comparison websites. This year’s research yielded key insights into how retailers should consider maximizing their online sales through social networking and mobile channels.

Assessment Methodology

Cisco IBSG reviewed 65 e-commerce sites representing 37 top retailers, 20 pure players, three manufacturers, and five comparison sites. The review covered sites based in North America (27 sites), Europe (24 sites), and emerging markets (14 sites). The questionnaire tested nine main hypotheses, using 57 attributes pertaining to the sites’ foundational and innovative capabilities.

Foundational capabilities include, for instance, the ability to research products, save research results, buy products, and other basic services. These are the “must-haves” a retailer should deliver to meet consumer needs.

Innovative capabilities include features such as personalization, loyalty programs, mobile and multichannel support, and social shopping features. We raised the bar for basic capabilities this year compared to last year’s survey. For example, the ability to save research results on a retailer’s website was considered an innovative feature last year, but now is regarded as a basic function.

1. Morgan Stanley, 2009.

2. The Economist Intelligence Unit, 2009.

3. comScore, February 2009; IMRG Capgemini, March 2009; TNS Infratest, November 2008; FEVAD, January 2009.

4. JP Morgan, January 2009.

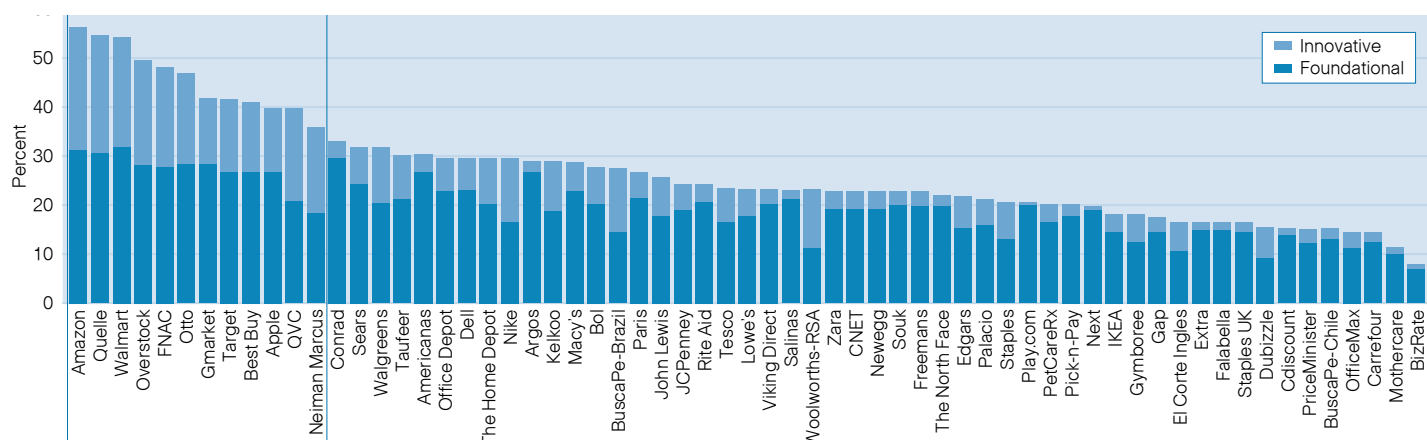
5. ITU World Telecommunication/ICT Indicators Database, 2007.

In addition, the team carried out comprehensive secondary research to validate or challenge our survey questions and analyses.

Leaders Have Strong Foundational and Innovative Features

The overall survey results show that the top players are not only on par with their foundational capabilities, but also spend significant effort on innovation. While foundational capabilities are strong across most of the sites we examined, it is innovative capabilities that lift the “top 12” sites above the rest.

Figure 1. Overall Survey Results Show 12 Sites Leading the Pack



Source: Cisco IBSG, 2009

Amazon continues to lead for the third year in a row, followed by Walmart, which advanced seven positions since last year. “Most improved players” are Target and Apple, which advanced 16 and 11 places, respectively.

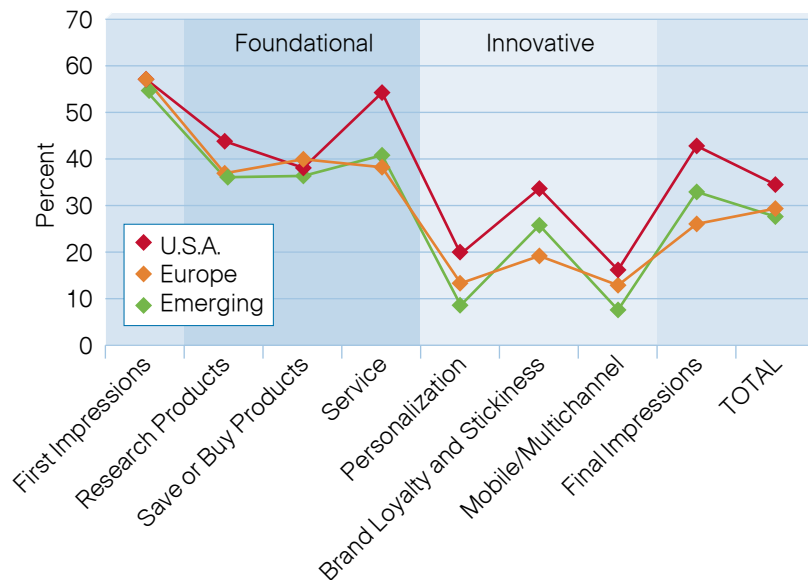
Figure 2. Year-Over-Year Survey Rankings

2009 Rank	Companies	2008 Rank	Movement
1	Amazon	1	–
2	Walmart	9	+7
3	Quelle	4	+1
4	FNAC	11	+7
5	Overstock	N/A	N/A
6	Otto	8	+2
7	Gmarket	N/A	N/A
8	Target	24	+16
9	Apple	20	+11
10	Best Buy	2	–8
11	QVC	14	+3
12	Neiman Marcus	N/A	N/A

Source: Cisco IBSG, 2009

Further analysis by region shows that the North American e-commerce market is leading on almost all capabilities surveyed (see Figure 3). North American retailers display particular strength with their service capabilities, and are also significantly ahead of other geographies in personalization and features designed to build brand loyalty and “stickiness.”

Figure 3. North American E-Commerce Sites Lead Other Geographies



Source: Cisco IBSG, 2009

Social Shopping: More Consumers Are Seeking and Sharing Advice With Online “Friends”

Ever since villagers began meeting each other at the local bazaar or marketplace, shopping has been a highly social activity. One of the most interesting trends observed in this year’s research is the emergence of “social shopping” as an alternative retail channel.

Consumers are embracing technology faster than most retailers, and are driving retailers to enhance their support of social shopping. Today, social shoppers use a broad array of new online tools to give and receive advice and opinions about products and services. No longer limited to email or instant messaging, social shoppers write reviews, comment on those reviews, post blogs, and even create and post videos—if not on the retailer’s site, then on a variety of comparison sites.

Examples from our survey of retailers that support this sort of customer-generated information and advice include South Korea's Gmarket and French retailer FNAC.



Gmarket has seeded retail “webzines”—separate web communities of customers—with user-generated reviews, comments, and shopping guides. These webzines also offer unique category events and retailer promotions. The company offers redeemable Gmarket cash as an incentive to contribute reviews and guides.



Hoping to boost customer loyalty, FNAC is replacing its in-house solution for customer-generated content with Bazaarvoice's Ratings & Reviews service. It also plans to use online customer content in its retail store merchandising.

The accelerated demand for Web 2.0 capabilities is fueling a consumer-technology-driven transformation of retail. Inconspicuous and often underrated social networking sites are emerging as new retail channels offering millions of “friends” transactional capabilities and direct access to manufacturers. These sites answer the fundamental need of consumers to consult family and friends regarding purchases, often making them an automatic and preferred shopping stop. Ninety-three percent of respondents to a 2008 survey said they are likely to start their shopping process on a website that offers social navigation.⁶ In fact, visits to U.S. social shopping sites grew by 244 percent during the year ending February 2008.⁷

The 2009 Cisco IBSG survey looked at retailers' support for various social shopping activities with questions that included:

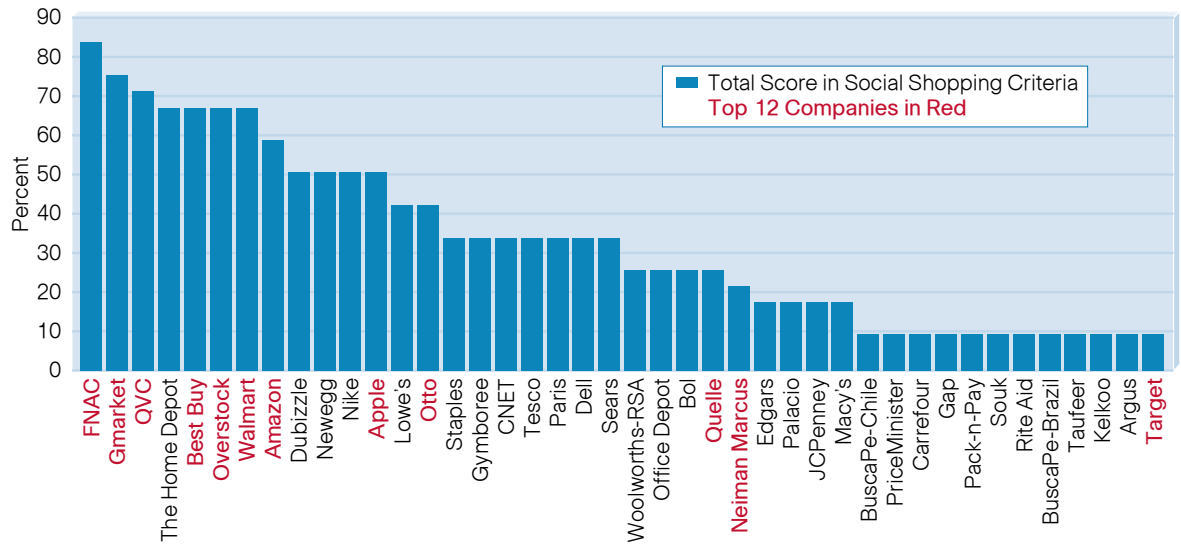
- Does the site highlight customer events?
- Can customers add content to the site?
- Does the site use social media to communicate with customers?
- Does the site promote collaboration and communities of interest among customers?

Forty-two of the 65 sites surveyed offer at least one of these social shopping capabilities, including all of the top 12 companies (see Figure 4).

6. The Social Shopping Survey, the e-tailing group, February 2008.

7. Hitwise Intelligence, 2008, cited by ChiefMarketer.com/Channels/online/enews_031908/

Figure 4. Leaders Are Paying Attention to Social Shopping



Source: Cisco IBSG, 2009

Facebook, Twitter, and YouTube: A Consumer-Driven Direct Channel

Another aspect of social shopping is the use of social networking sites such as Facebook and Twitter—not just as marketing tools, but as a direct sales channel. According to a 2008 survey, 41 percent of the top 500 e-retailers maintain a social networking page, with the most on Facebook (32 percent), followed by MySpace (27 percent) and YouTube (26 percent).⁸ A 2008 survey found 59 percent of top U. S. retailers have a fan page on Facebook.⁹ While having a fan page is not particularly innovative, several leading-edge retailers are actually starting to sell on these sites, using applications such as Facebook's Platform, which allows consumers to post items on their sites, share with friends, and click through to purchase. What's more, the retailers keep 100 percent of the revenue from these transactions.

Here are examples of retailers in our survey that use social networking sites effectively:



Dell Computer has links on its website to all major social networking sites. The company claims to have made \$1 million using Twitter.¹⁰



Lowe's Facebook page features creative home improvement ideas and "how-to" videos to help customers get started on home projects. Users can upload their own projects and photos as well. The company also posts videos on YouTube.

8. Internet Retailer Survey, September 2008.

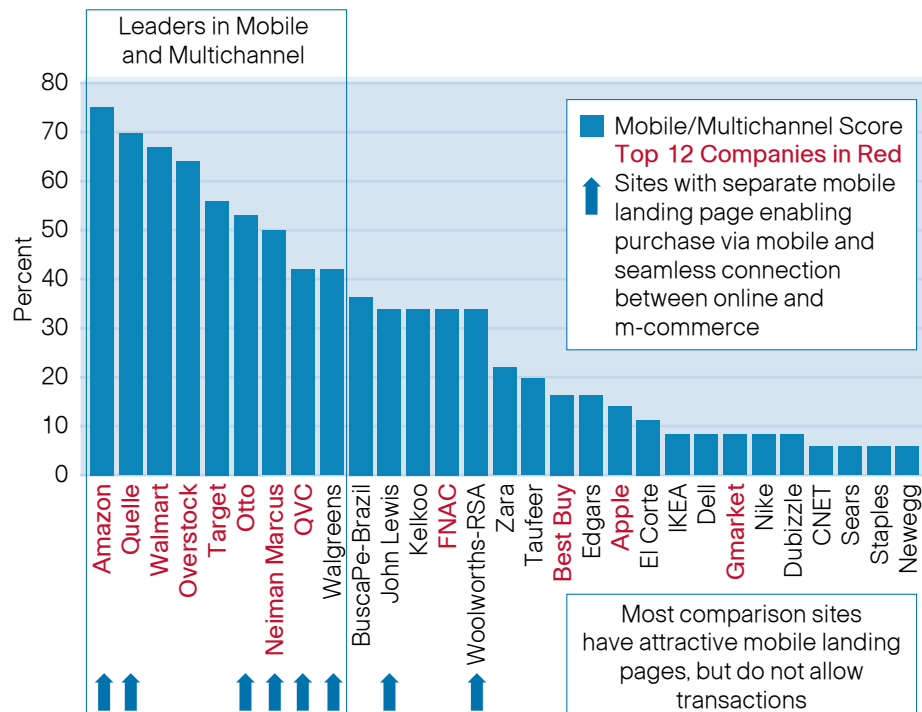
9. Rosetta, January 2009.

10. Econsultancy, March 2009.

Mobile Commerce: Are You a “Host” or “Guest” to Your Customer?

Last year’s survey identified mobile commerce—or m-commerce—as an important trend to watch. This year, 12 percent of retailers surveyed offer both a special mobile landing page and the ability to purchase on their mobile phones—double last year’s number. While less than a third of this year’s sites support mobile or multichannel capabilities, all of the top 12 companies are among those that do (see Figure 5).

Figure 5. Mobile / Multichannel Capabilities Are Still Emerging, but Important for Leaders



Source: Cisco IBSG, 2009

These retailers realize that today’s smart, powerful, and converged mobile devices are erasing the lines that separate shopping channels. Consumers can use their phones to do price comparisons, look up product information, ask their friends for opinions, and even purchase a competitor’s product, all while looking at an item in a store or sitting in a park. Consumers are no longer guests in a retail store or website—retailers are becoming guests in the consumer’s private environment. Innovative retailers are using m-commerce as the bridge between online and in-store, with capabilities such as bar-code scanning for mobile reviews and price comparisons, and in-store mobile coupons.

Here are some examples of sites that scored significantly better than average on the survey's multichannel criteria:



Amazon is paying particular attention to the multichannel opportunity, where it is leading in mobile and investigating new channels such as TiVo and others.



Walmart scores high on multichannel, with reformatted pages for the iPhone. It is also investigating other emerging channels.



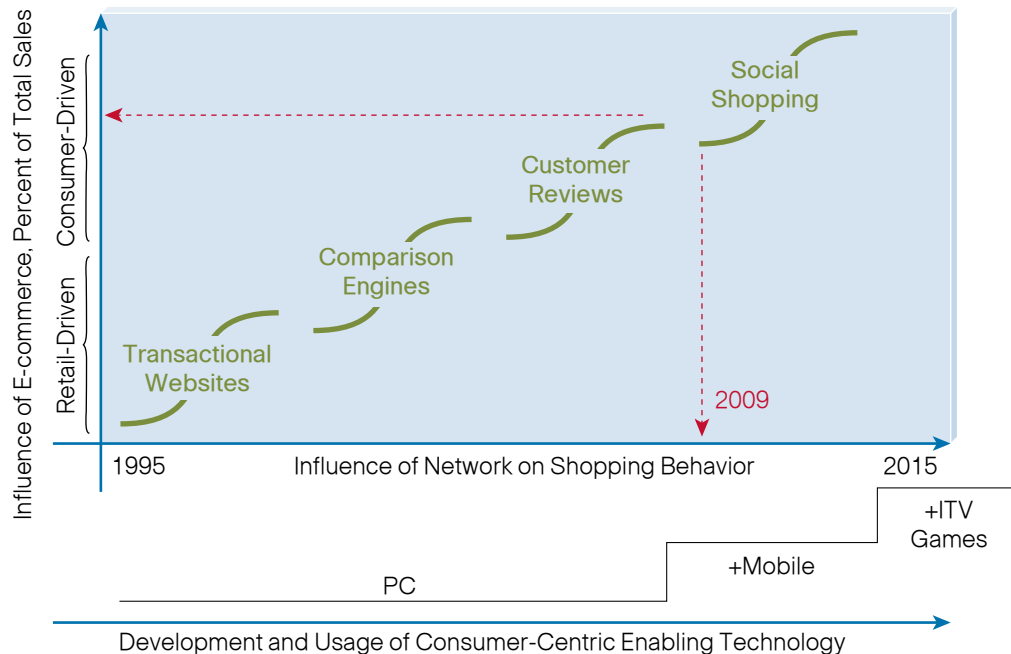
Quelle—traditionally one of the largest German mail-order companies—scores above average in the mobile arena, with a very good mobile interface reformatted for multiple mobile devices.

In a Networked World, Consumers Are Taking More Control Every Day

Consumers often embrace technology faster than most retailers—if it makes their lives easier. This adoption is resulting in a consumer-technology-driven retail transformation.

E-commerce has evolved dramatically since its emergence in the mid-1990s as a retail-driven, transaction-focused channel, completely separate from a merchant's "real" stores. Figure 6 summarizes the waves of e-commerce development as new technology has enabled a more customer-centric focus.

Figure 6. As Technology Adoption Increases, So Does the Influence of the Network on Shopping Behavior



Source: Cisco IBSG, 2009

The percentage of web and web-influenced retail sales is growing dramatically due to rapid introduction of new waves of web technologies and the increasing importance of mobile devices. For years, the influence of the web on overall retail sales was only transactional. Since the introduction of comparison sites, Web 2.0 technologies, and mobile capabilities, this influence is growing rapidly. In 2008, 62 percent of all shoppers in the United Kingdom consulted communities before buying.¹¹ We are now entering the era of social shopping, requiring fundamental changes in the way retailers deal with both their online and brick-and-mortar retail strategies.

In the volatile economic climate of 2009, retailers need multiple channels and tools to attract the widest range of consumers. Retailers who master multichannel integration and social networking will create a portfolio that increases customer loyalty and diversifies economic risk.

Looking to the Future

While social shopping and mobile commerce are the major trends of today, interactive TV and game consoles will be the new channels of tomorrow.

U.S. TVs have now gone digital, and all U.S. homes will have some iTV by 2010. Thirty-eight percent of households have video on demand (VoD) and 30 percent have a digital video recorder (DVR), making them more accessible to targeted ads and direct sales. Many large advertisers are already piloting interactive ads as well as direct sales; today, for example, you can use TiVo to order from Amazon or Domino's Pizza, or to receive coupons from Walgreens.¹²

Game consoles already let users download movies and games through the Internet, and the first clickable ads have begun to emerge. In fact, global video game advertising is predicted to reach \$2.3 billion by 2012.¹³ It is only a matter of time before shopping sites fully discover this channel's potential.

Retailers must learn to take advantage of the social networking and mobile phone channels now, and also start pilot tests with iTV and game consoles. Once they have established a presence in all of these areas, they should develop the ability to support their customers' journeys across these channels, treating them as customer "touch-points." After all, while retailers may think in terms of "channels," customers do not.

11. Quidco, July 2008.

12. eMarketer, April 2009; Yahoo! press release, August 2008; ITV Alliance; www.zatznotfunny.com; www.brandweek.com, April 2007; PricewaterhouseCoopers, Global Entertainment and Media Outlook: 2008-2012; www.gigaom.com, October 13, 2008.

13. Ibid.

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.

For further information about IBSG, visit <http://www.cisco.com/go/ibsg>



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