Social-Network-Driven Retail Transformation
Fourth Annual E-Commerce Survey

Cisco Internet Business Solutions Group (IBSG)
June 2009

About the Survey

- Purpose

  Identify key trends, changes in consumer behavior, and new enabling technologies

- Methodology

  Identified foundational and innovative capabilities expected on e-commerce websites

  Tested 65 websites, including retailers, pure players, manufacturers, and comparison sites

- Geographies covered

  North America, Europe, and Emerging Markets

Source: Cisco IBSG, 2009

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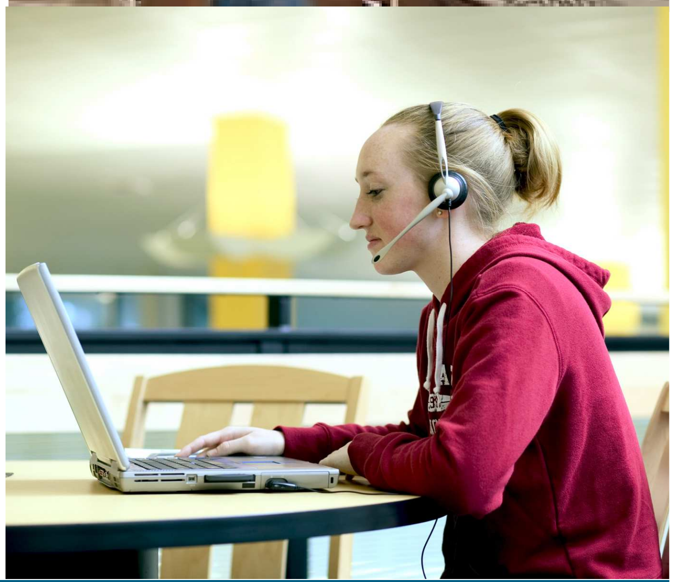


Executive Summary

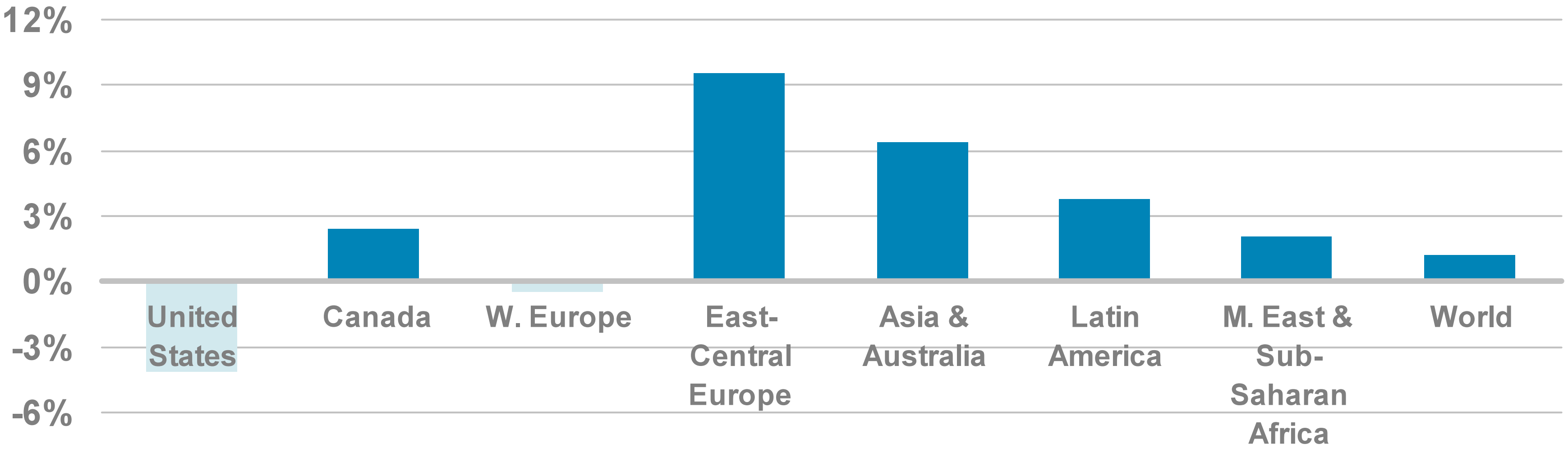
- Social networks are ushering in the era of social shopping
- Comparison sites drive price competition and increase the need for retailers to include certain website capabilities on their own websites
- The online experience increasingly impacts the in-store experience
- The trend toward mobile commerce (m-commerce) is growing, with consumers able to connect with peers, review, and transact directly from their smartphones, even in competing real estate
- The next retail channel will be the "home sofa," through interactive television (iTV) and console games

Source: Cisco IBSG, 2009

State of Global E-Retail

2008: Gloomy Year for Retail in U.S. and Europe

Retail Sales Growth, 2008 vs. 2007

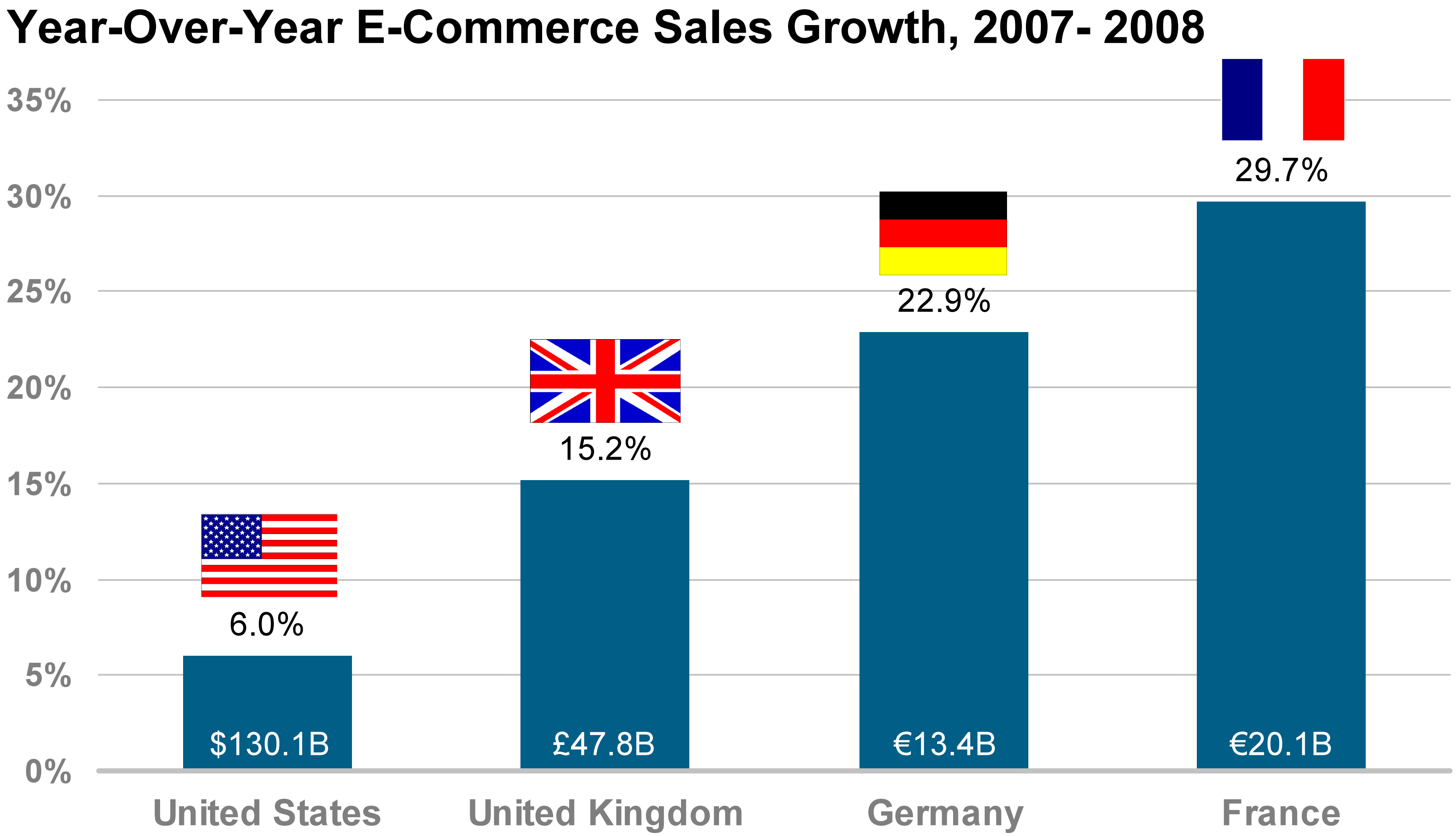


Year Marked by Failures of Major Retailers

circuit city
mervyns
LINENS-N-THINGS
dream big, pay little
WOOLWORTHS GROUP PLC
K·B toys
RITZ CAMERA & IMAGE
fortunoff
the source

Source: The Economist Intelligence Unit, 2009

E-Commerce was Resilient in Some Key Geographies



Source: comScore, 2009; IMRG Capgemini, 2009; TNS Infratest, 2008; FEVAD, 2009

E-Commerce Has Passed 20% Tipping Point in Many Categories

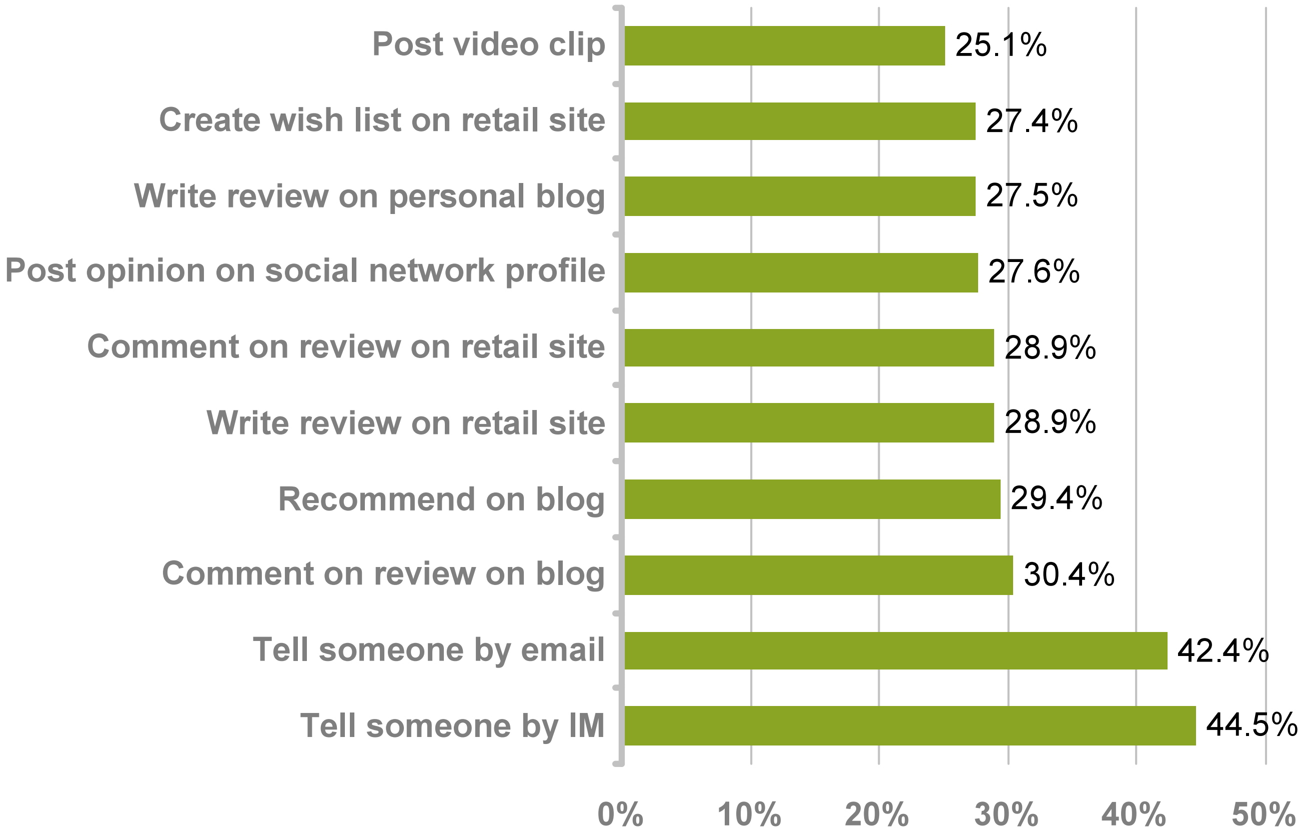
U.S. E-Commerce Estimated % of Category Sales, 2007	
Computer products	45%
Event tickets	27%
Books	24%
Music/video	24%
Gift cards/certificates	21%
Toys/video games	19%
Baby products	19%
Consumer electronics	18%

- While e-commerce is only 4% to 6% of all retail sales, it has become a significant channel for some categories
- Retailers in these areas must now consider e-commerce as both mainstream and highly influential—a must-have way to reach customers

Source: Morgan Stanley, 2009: Cisco IBSG, 2009

More Shoppers Are Turning to Online "Friends" for Advice

Methods Used by Adult Internet Users Worldwide To Share Opinions About Products and Services, 2008



Visits to social shopping sites:

February 2008 vs. February 2007

244%

Etsy

kaboodle

Crowdstorm

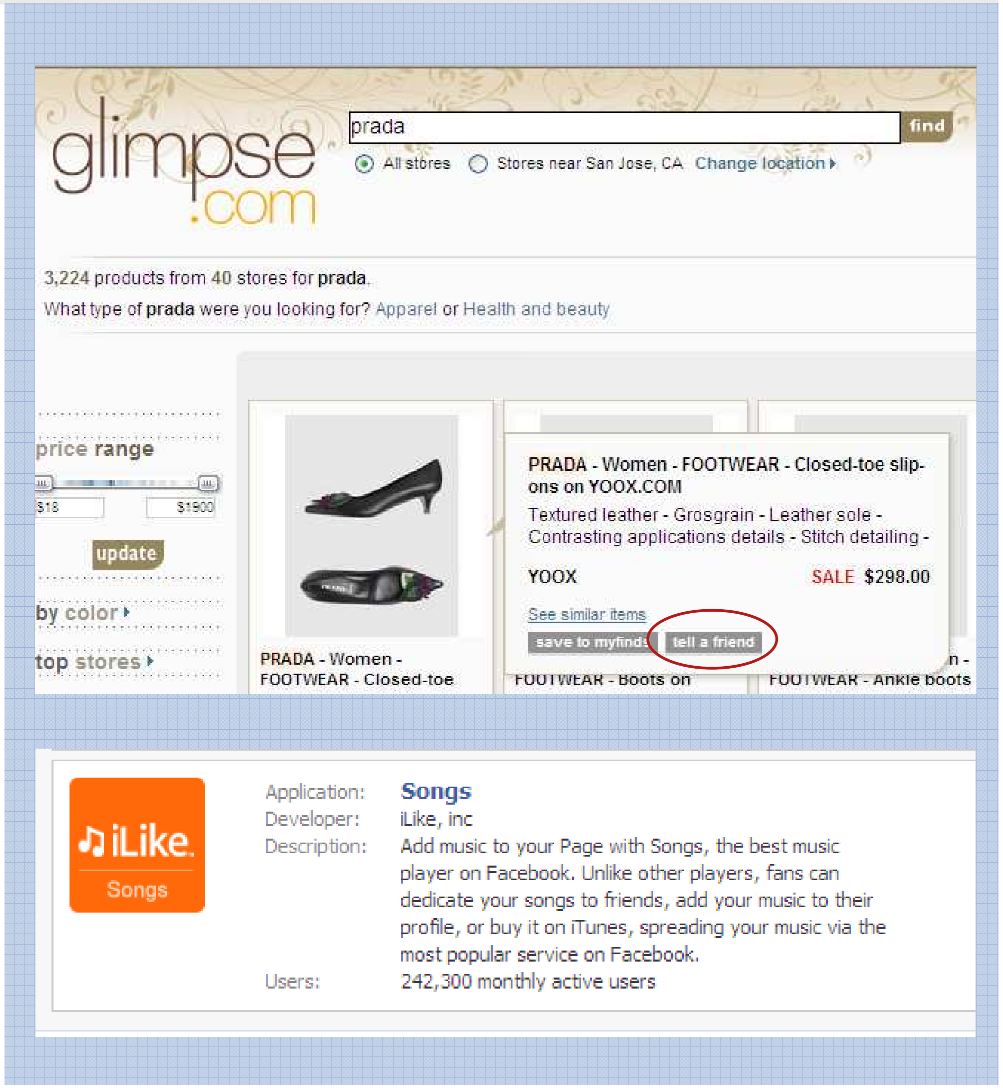
Sources: Universal McCann, 2008; Hitwise Intelligence, 2008, cited by Chief Marketer.com/Channels/online/enews_031908

Social Networks Are Biggest New Retail Influencer and Direct Channel

- 40% of e-retailers maintain a social network page; 59% of top U.S. retailers have a fan page on Facebook
- Facebook's Platform allows:

  Consumers to post items, share with friends, click through to purchase

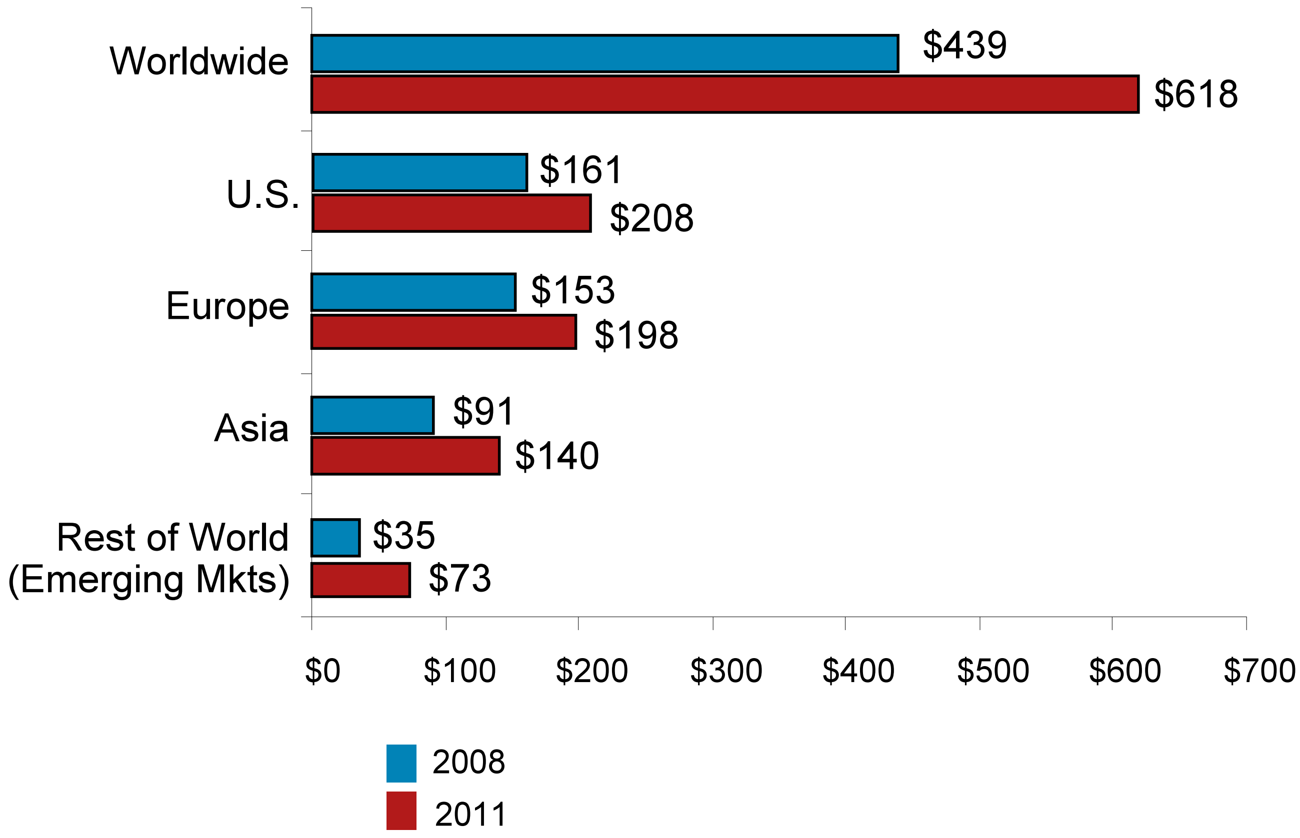
  Retailer to keep 100% of revenue
- Global mobile Web 2.0 revenue will quadruple to $22.4B in 2008-2013



Sources: Juniper Research, 2008; eMarketer, 2008; www.csestrategies.com, May 31, 2007; VentureBeat, 2008; Internet Retailer Survey, 2008; Rosetta, 2008

Fastest Future E-Commerce Growth Will Be in Asia Pacific and Emerging Markets

Global E-Commerce Forecast, 2008-2011 (US$ Billions)



CAGR, 2008-2011

Worldwide	12.1%
U.S.	8.9%
Europe	9.1%
Asia	15.5%
Rest of World (Emerging Mkts)	27.9%

Source: JP Morgan, 2009 (excludes travel)

Growth Will Be Driven by “M-Commerce” as Mobile Leapfrogs Landline

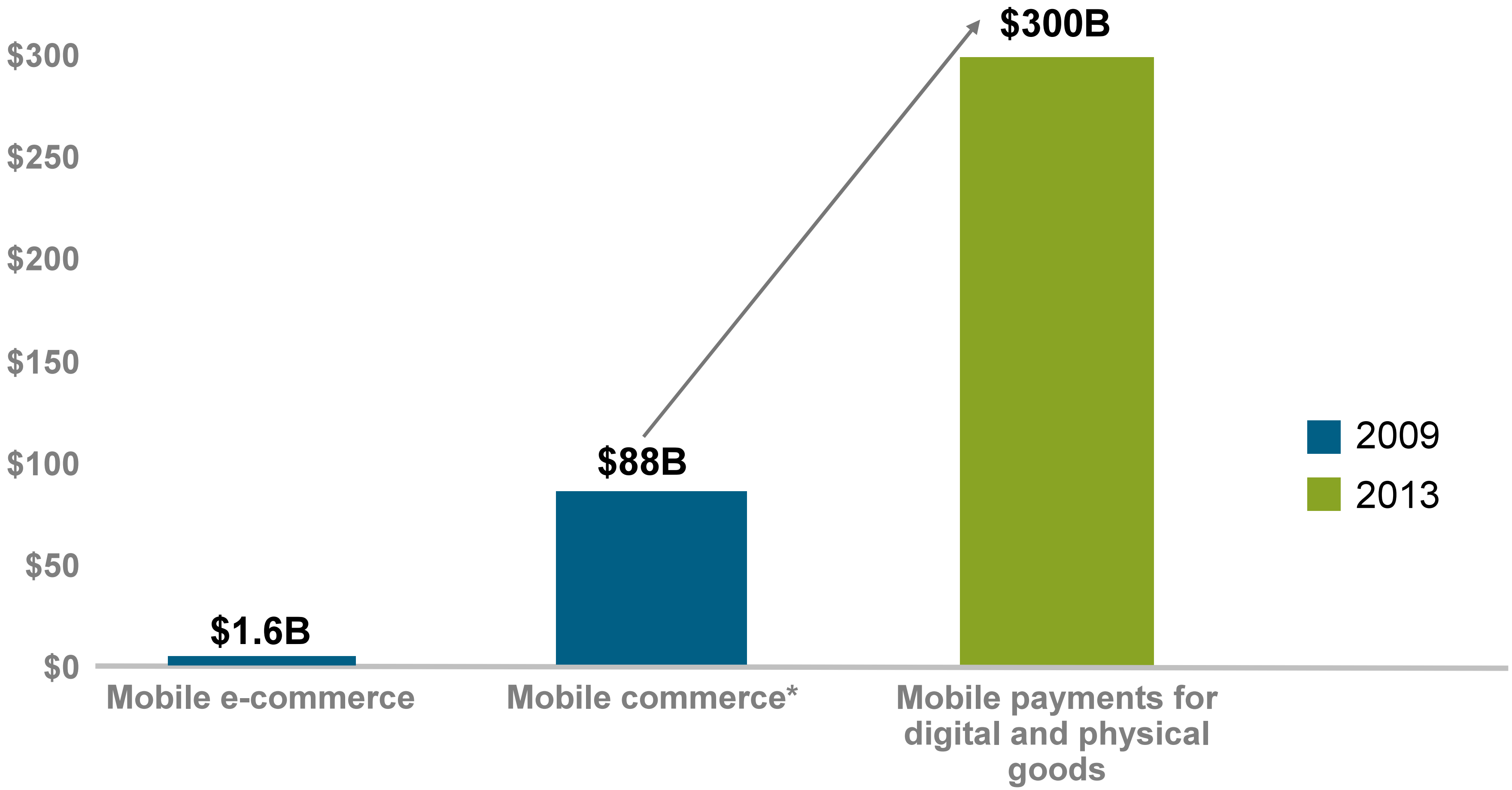
Mobile Cellular Subscribers

	CAGR, 2002-2007	Per 100 inhabitants, 2007
Brazil	28.2%	63
China	21.6%	41
India	78.2%	20
Mexico	20.8%	62
Russia	56.1%	115
South Africa	25.3%	87
UAE	26.1%	176
U.K.	7.9%	118
U.S.	12.5%	86

Source: ITU World Telecommunication/ICT Indicators Database, 2007

Still in Its Infancy, Mobile Shopping Is Poised To Explode in Next 3-4 Years

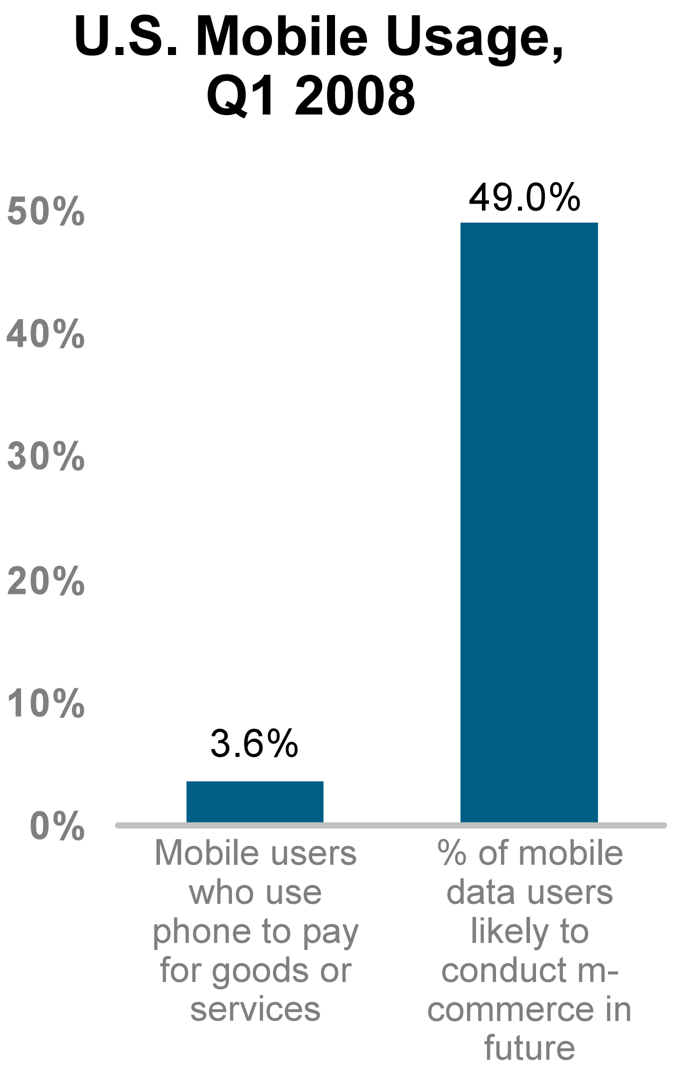
Global M-Commerce Revenue

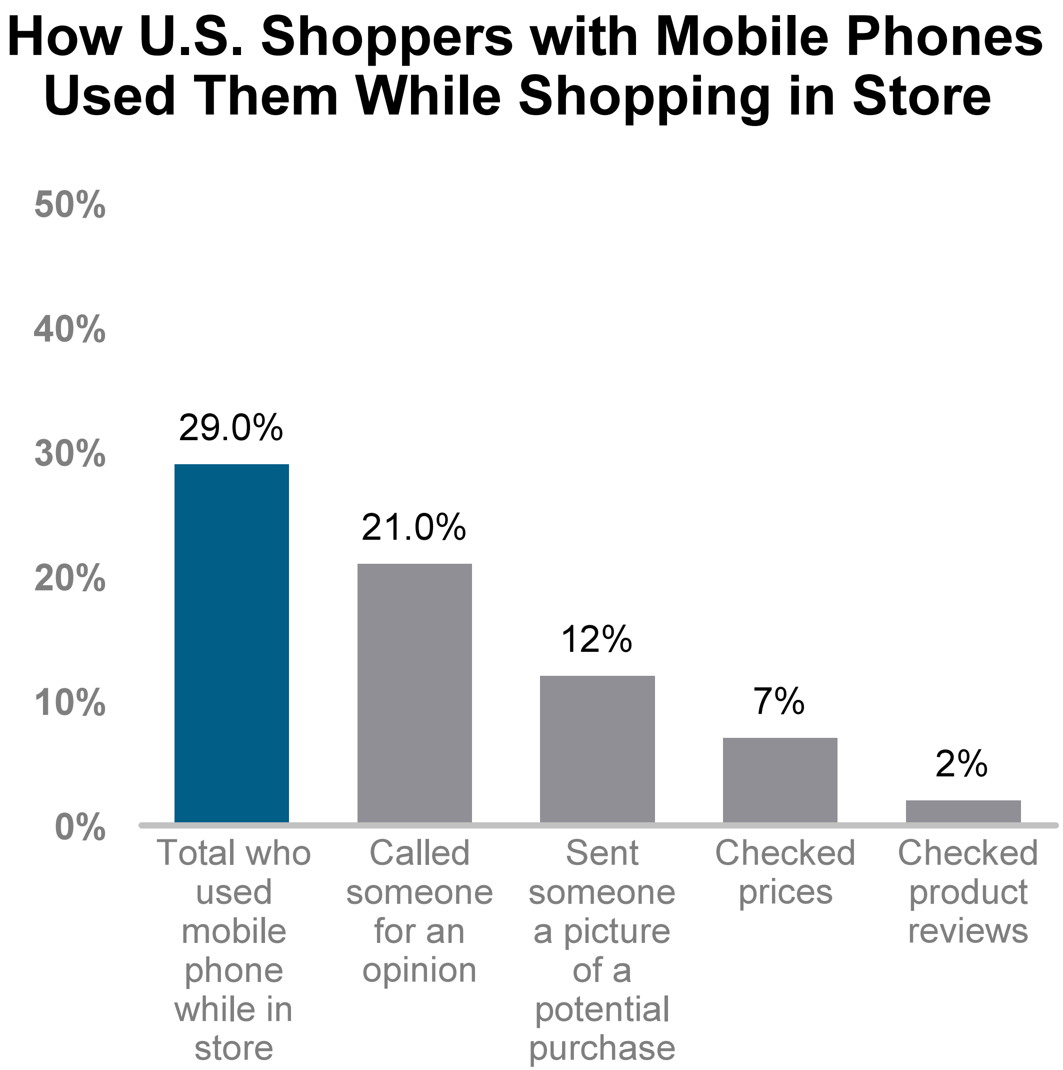


*Includes shopping, advertising, social networking, and games

Sources: ABI Research, 2009; Jupiter Research, 2008 and 2009

Already, Almost a Third of U.S. Shoppers Use Their Phones in Store





Sources: Nielsen Mobile, 2008; ForeSee, 2009

Next Retail Channel Will Be the Home Sofa

iTV and Console Games Piloting Ads and Direct Sales

- All U.S. homes will have some iTV by 2010

  Will make ad distribution and e-retail easier

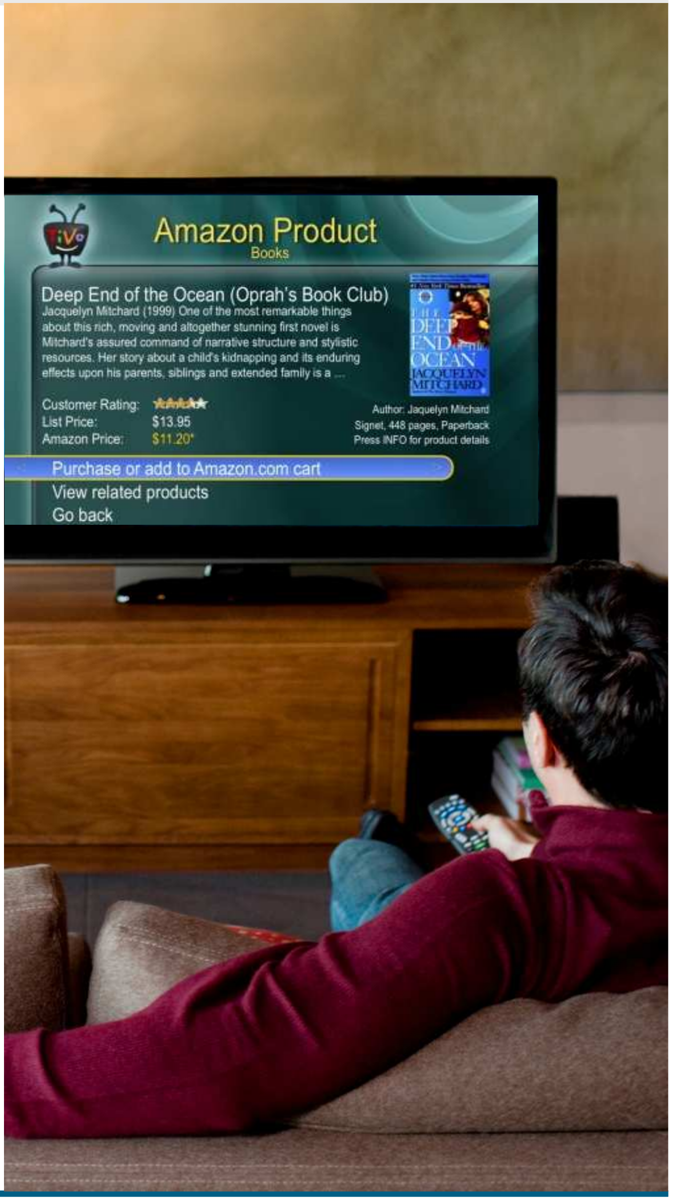
  Retail/CPG testing promotions, direct sales

- Global video game advertising estimated at $2.3B by 2012

  Can connect through Internet with downloadable movies

  Clickable ads, shopping not far behind

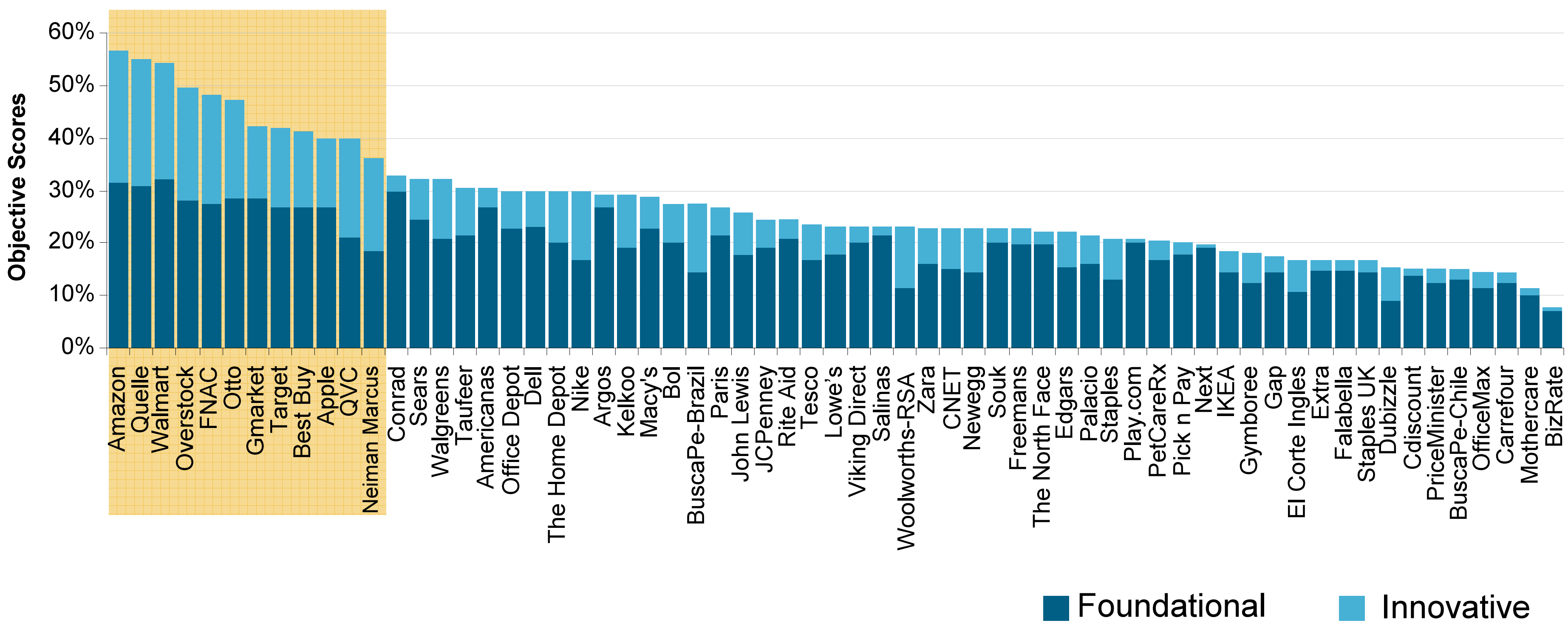
Sources: eMarketer, 2009; Yahoo press release 2008; ITV Alliance; www.zatznotfunny.com; www.brandweek.com, 2007; PricewaterhouseCoopers, 2008; www.gigaom.com, 2008



Results of Fourth Annual E-Commerce Survey

Twelve Companies Stand Out

Objective Scores Distribution



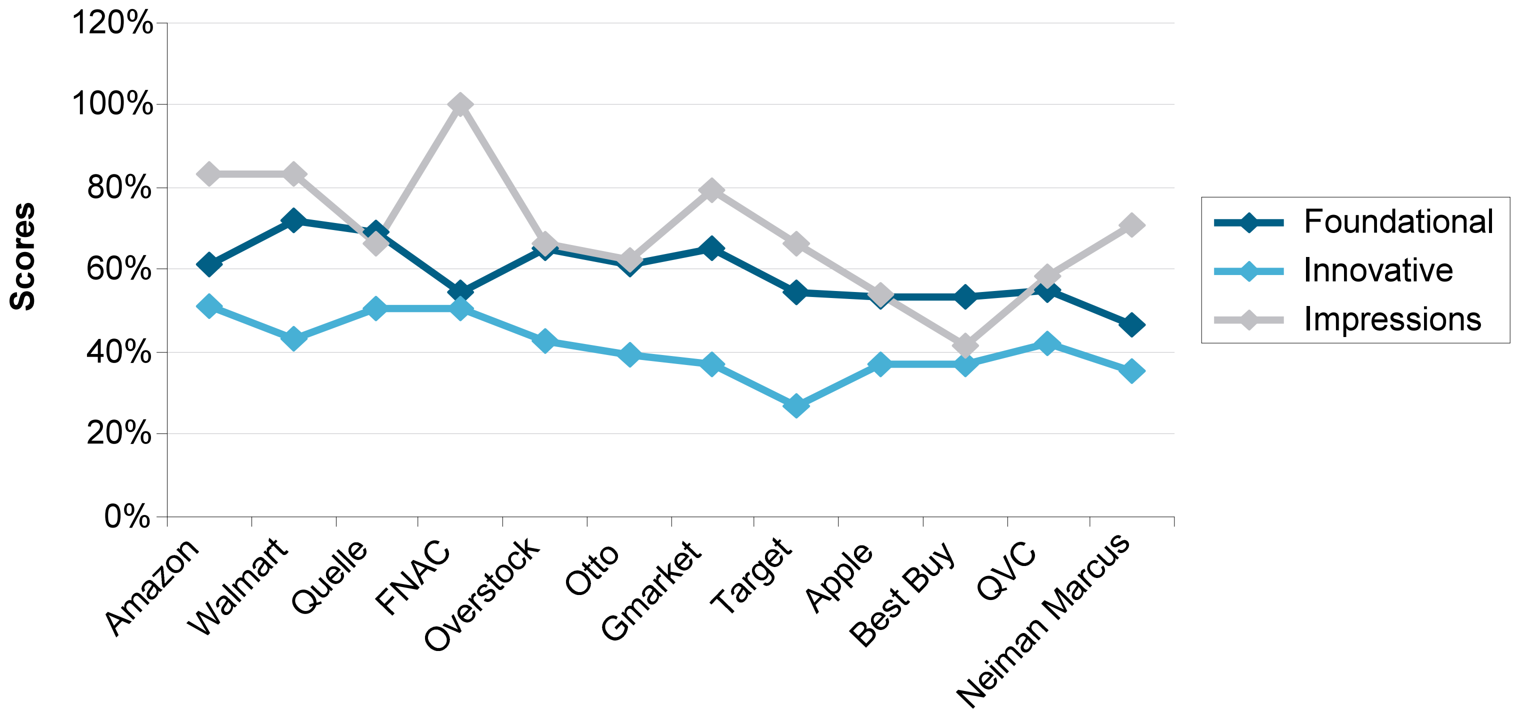
Foundational capabilities include ability to research products, save research results, buy products, and obtain basic services

Innovative capabilities include personalization, loyalty and stickiness, mobile, and multichannel

Source: Cisco IBSG, 2009

Top Players Score Well on Both Foundational and Innovative Capabilities

Average Capability Scores by Company (Top 12)



Foundational capabilities include ability to research products, save research results, buy products, and obtain basic services

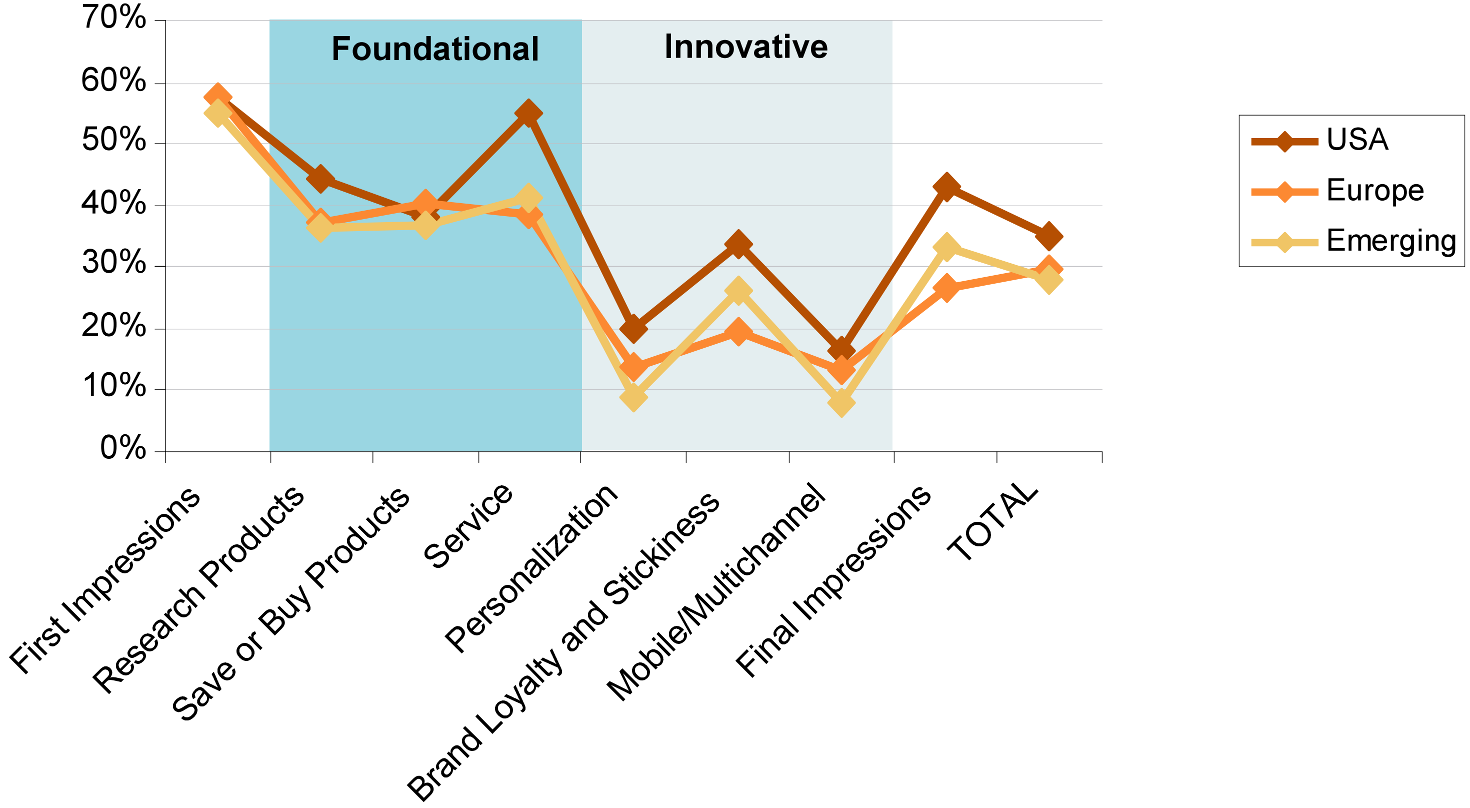
Innovative capabilities include personalization, loyalty and stickiness, mobile, and multichannel

Impressions are the subjective evaluation of the user's first and last impressions of the site

Source: Cisco IBSG, 2009

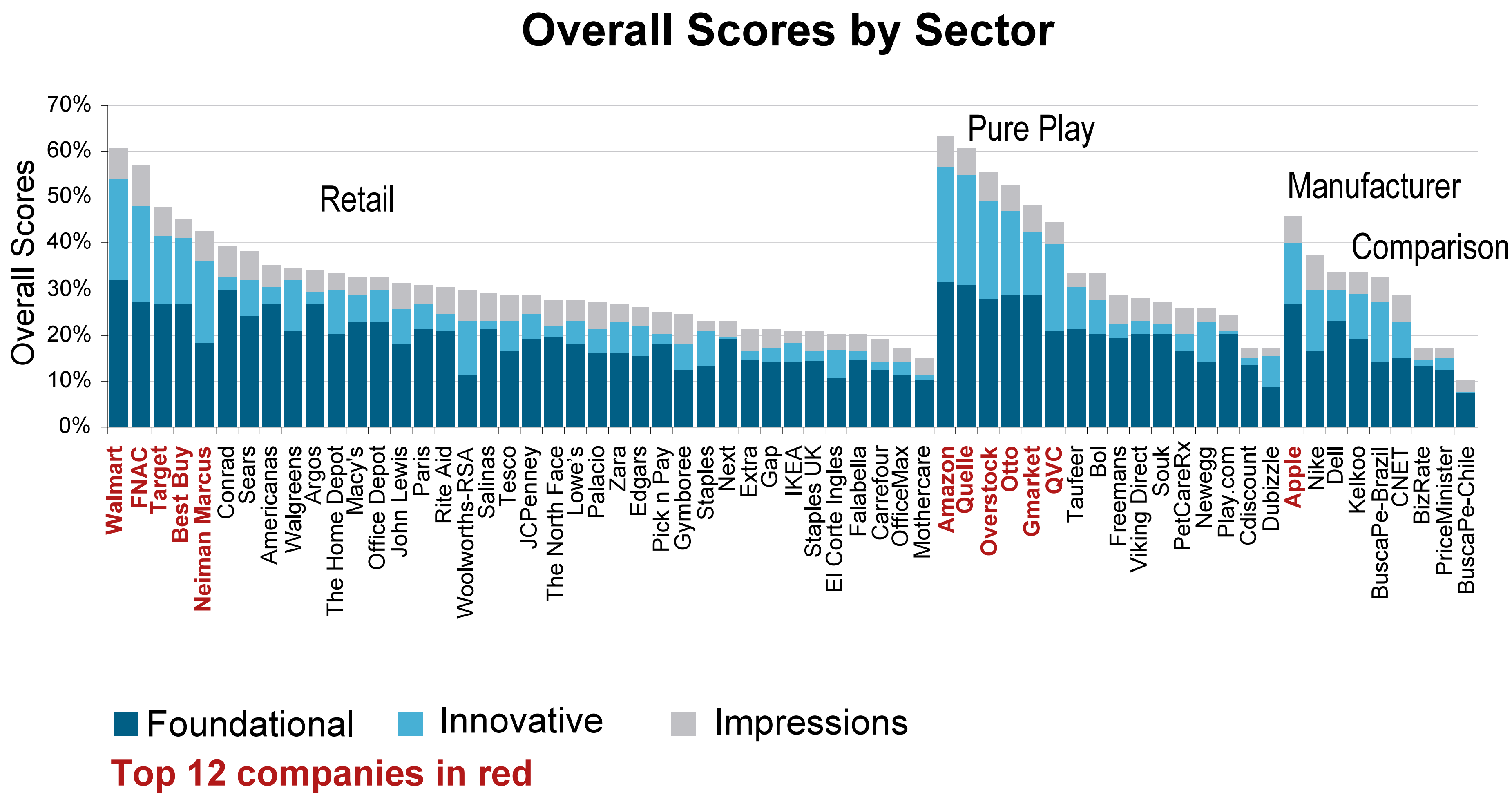
North America Scores Higher than Europe and Emerging Markets

Average Capability Scores by Geography



Source: Cisco IBSG, 2009

Pure Players Score High, Especially on Innovative Capabilities

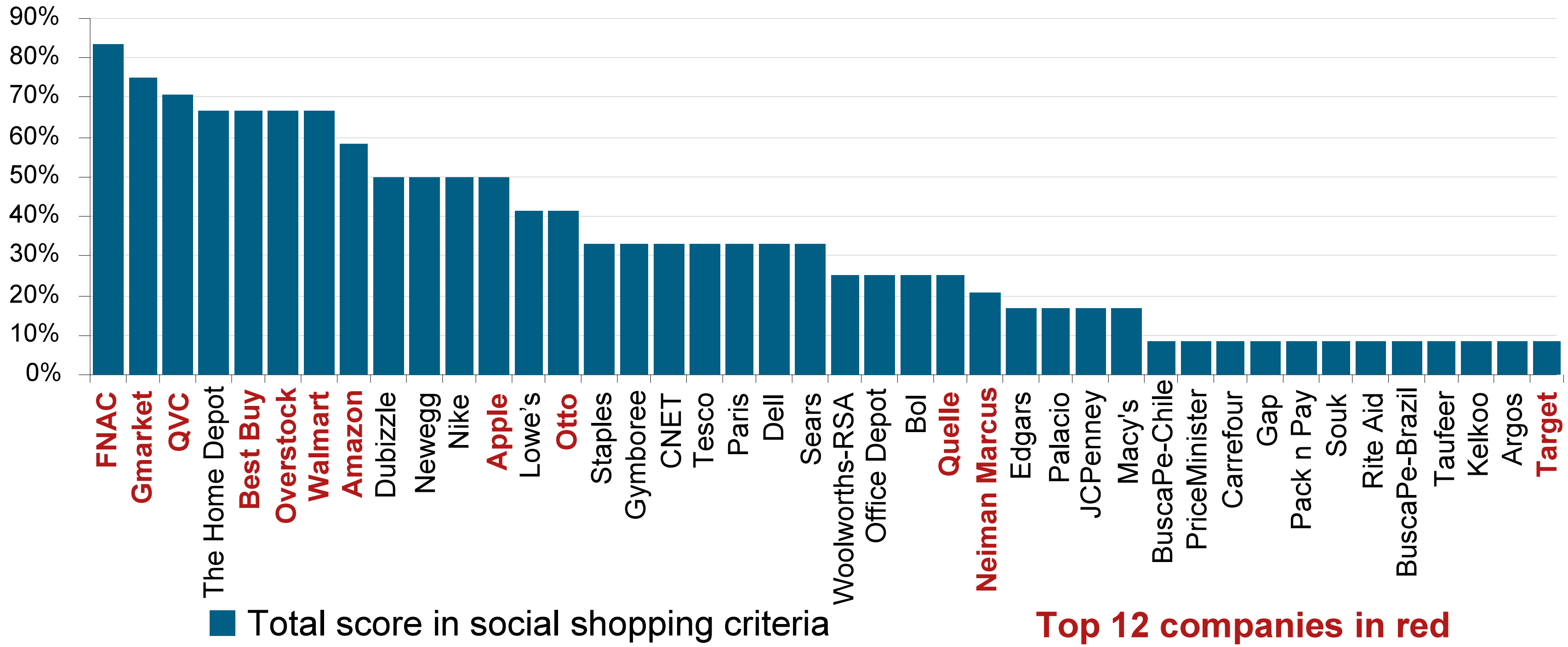


Source: Cisco IBSG, 2009

Leaders in All E-Retail Sectors Are Paying Attention to "Social Shopping"

42 of the 65 companies scored on at least one of these social shopping criteria:

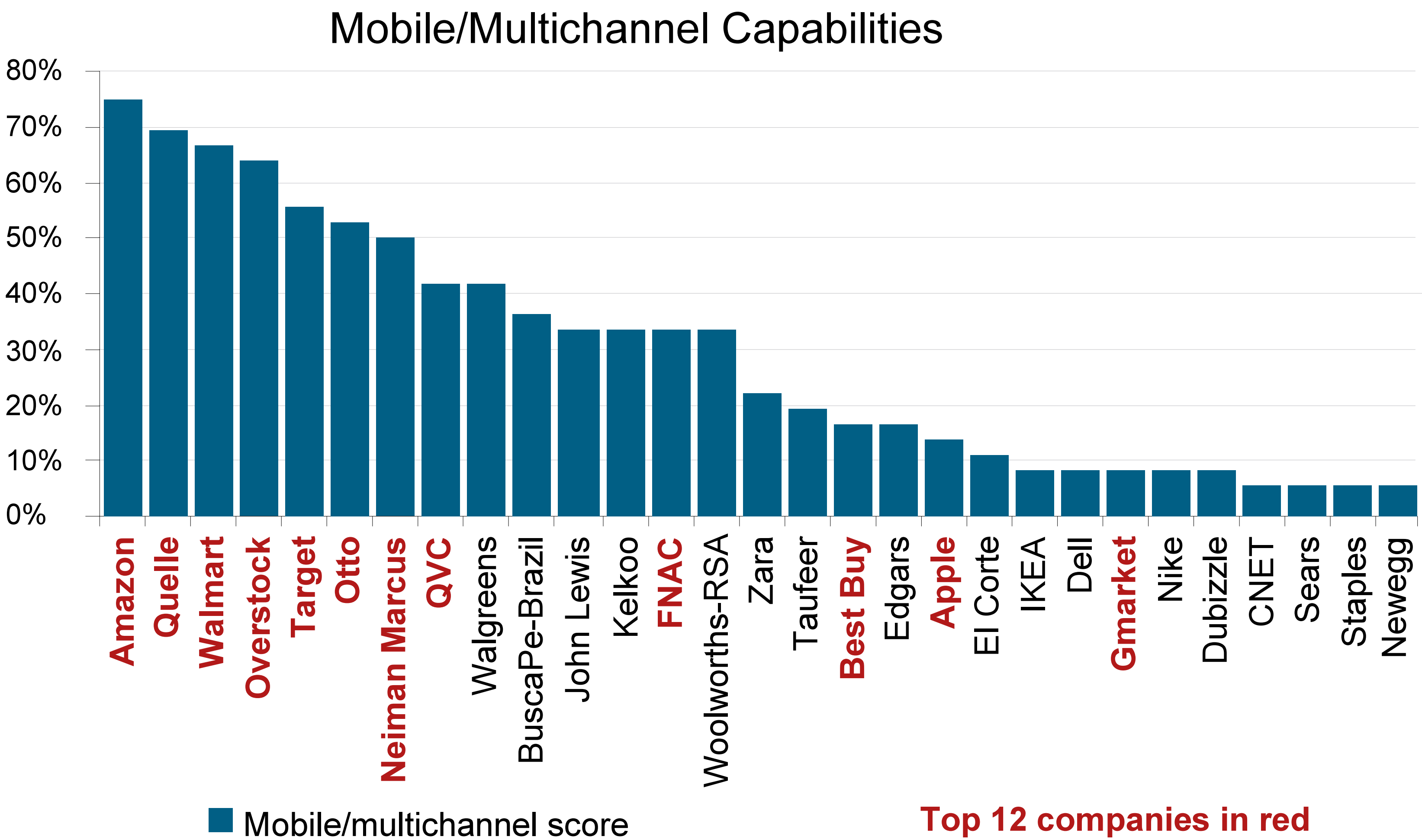
- Does the site highlight customer events?
- Can customers add content to the site?
- Does the site use social media to communicate with customers?
- Does the site promote collaboration and communities of interest among customers?



Source: Cisco IBSG, 2009

Only a Few Score with Mobile / Multichannel Capabilities…

…Including All of the Top 12



Source: Cisco IBSG, 2009

Examples and Insights

Examples of Sites that Scored Well on Social Shopping Criteria

Open Hyves gadget for seasonal wish lists

Links to all major social networking pages

Presence on Facebook; instructional videos on YouTube

Social bookmarking

Criteria: Use of Customer Reviews, Adoption of Social Networking (Blogs/Forums), Customer Events / Customer Involvement

Source: Cisco IBSG, 2009

Examples of Sites that Highlight Customer-Generated Content

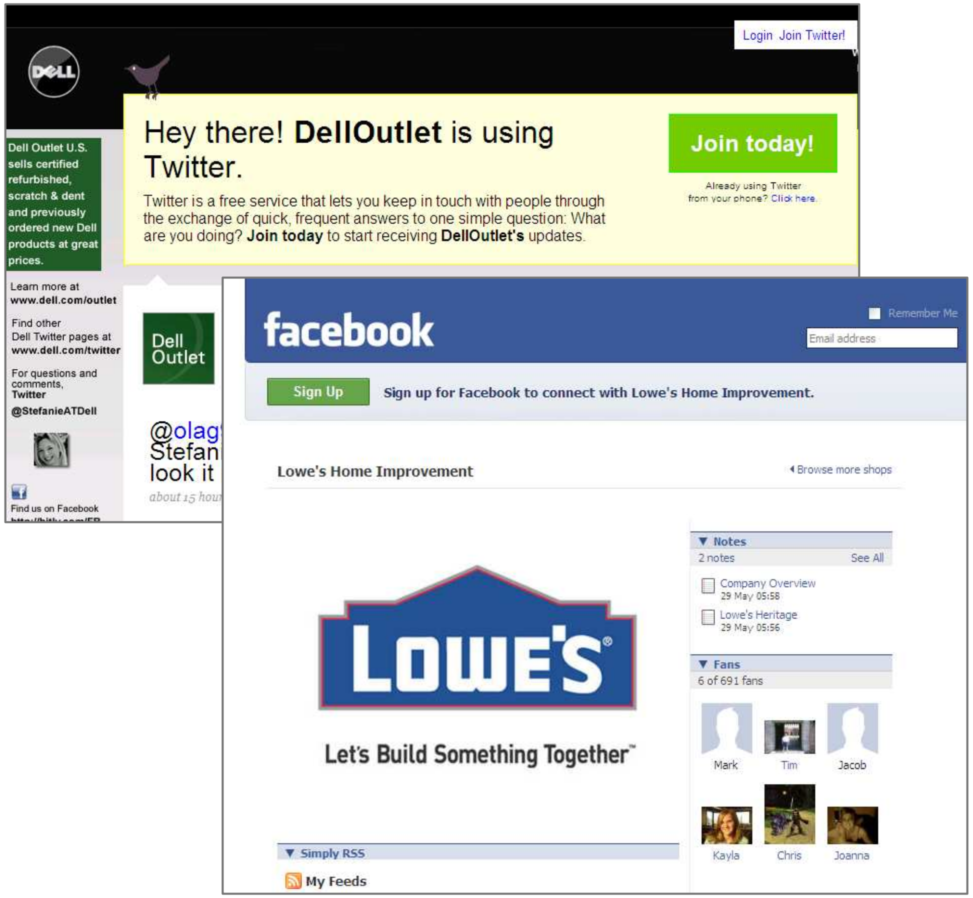
Gmarket has seeded retail "webzines"with user-generated content. The incentive to contribute reviews/guides is to earn redeemable Gmarket cash for future shopping.

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

Source: Cisco IBSG, 2009

Online Bargain Hunters Get Social

Research Confirms Social Shopping Is Taking Hold



- Nearly 30% of shoppers say they look to links forwarded from friends, peer comments, and social sites for the best bargains

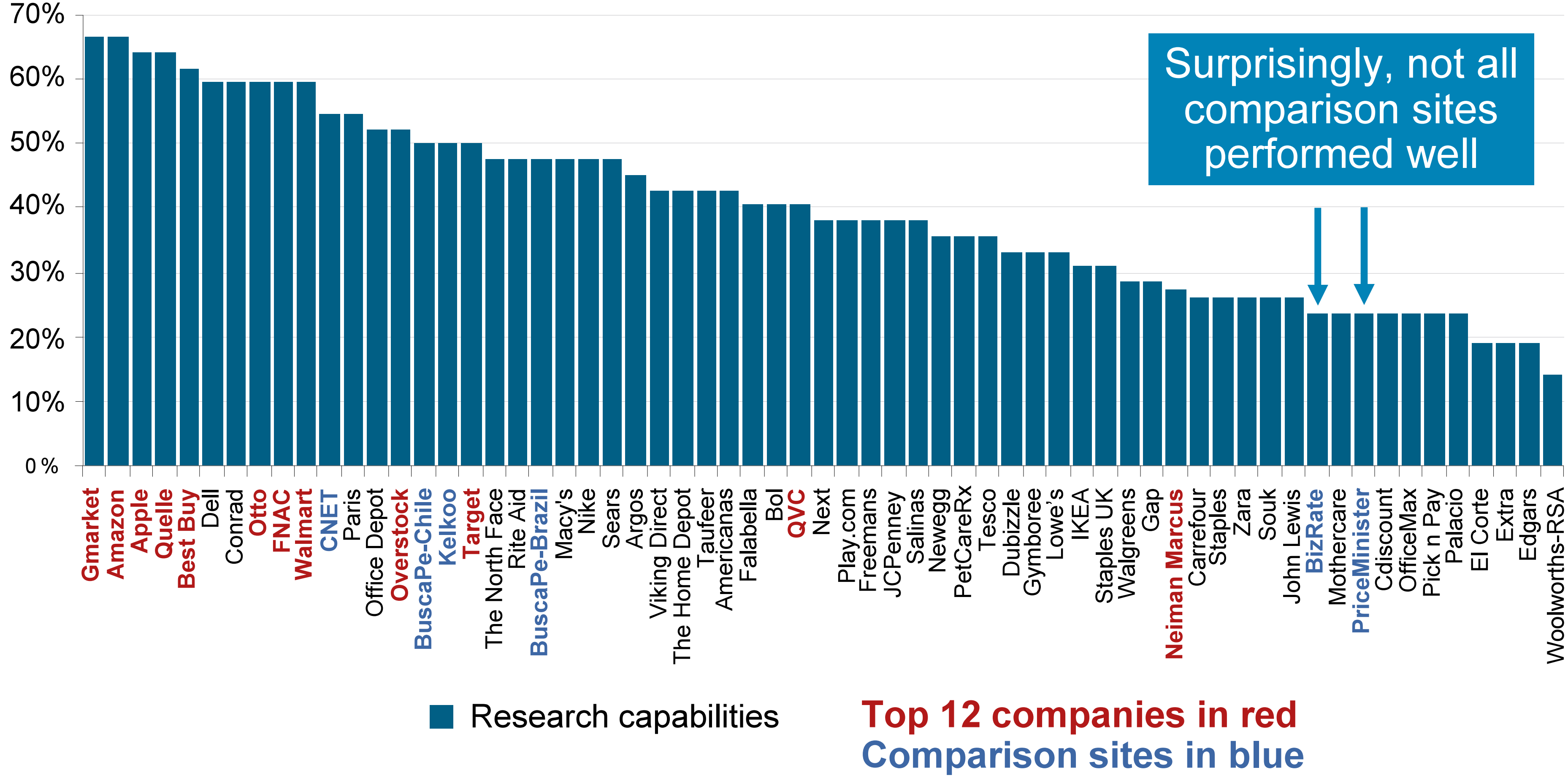
- Dell says it has made US$1 million in sales from Twitter

  "Two years ago, social media wasn't even considered a source of traffic by merchants. There's a huge opportunity here for retailers to employ a social commerce strategy."
  Jon Provisor, CTO, Guidance

Source: Guidance/Synovate Survey, 2008; Marketing Charts, 2008, Econsultancy, March 6, 2009

Most Leaders Score Well on Research and Comparison Capabilities

Both Retailers and Comparison Sites Seek to Facilitate Awareness/Research Stage



Source: Cisco IBSG, 2009

Examples of Sites with Strong Research and Multichannel Capabilities

amazon

- Detailed product information, including manufacturer and consumer comments on main screen
- Post reviews, including photos
- Save search
- Create side-by-side tables, although not easily

BEST BUY

- Very good side-by-side capabilities

OTTO QUELLE.

- Comparison is possible, albeit not very convenient
- Validation of—and incentive for—reviews

kelkoo

- Mobile and some Web 2.0 features make it an easy and useful experience. Lives up to its claim: find, compare, buy

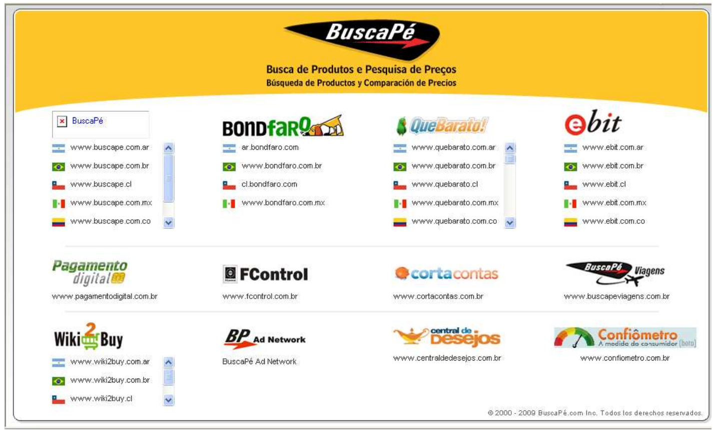
BuscaPé

- Ability to compare features, specifications, price, reviews under six different categories

Source: Cisco IBSG, 2009

Economic Downturn Has Made Comparison Sites More Important

- Comparison shopping engines (CSEs) rank high as “first pages visited”
- 43% of retailers say online sales through CSEs have increased
- CSE traffic in the U.K. increased by 37% between June 2007 and June 2008, with about half of this traffic redirected to retailers’ websites
- Currently, 10% of top retailers' sales come from CSEs
- CSEs not only drive price competition, but also increase retailers’ need to include certain capabilities, such as inventory on hand



Sources: Econsultancy, DoubleClick, reported in Retailer Daily, 2008; Hitwise Intelligence, quoted in BizReport, 2008

E-Commerce Experience Impacts In-Store Processes

Systemax turns CompUSA into a
“Retail 2.0” channel for TigerDirect

Threadless.com has a store in Chicago that displays
user-generated content from the web

How “Clicks” Are Changing “Bricks”

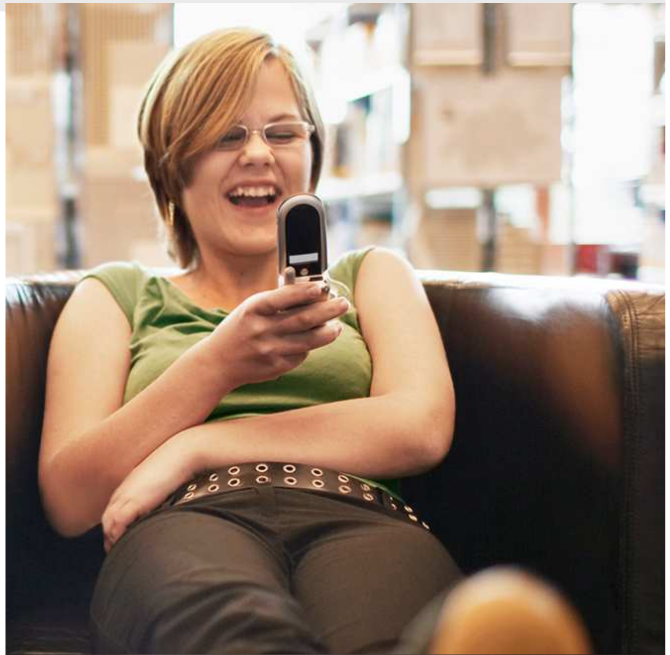
- 45% of U.S. retailers offer in-store kiosks and wireless devices, growing to 72% by 2010
- Online retailers are creating brick-and-mortar presence: some auction and e-commerce sites using convenience stores or subway stations as pick-up points

Source: China IT & Telecom Report, 2008

Retailer Support for M-Commerce Continues to Grow Rapidly

Doubled Since Last Year's Survey

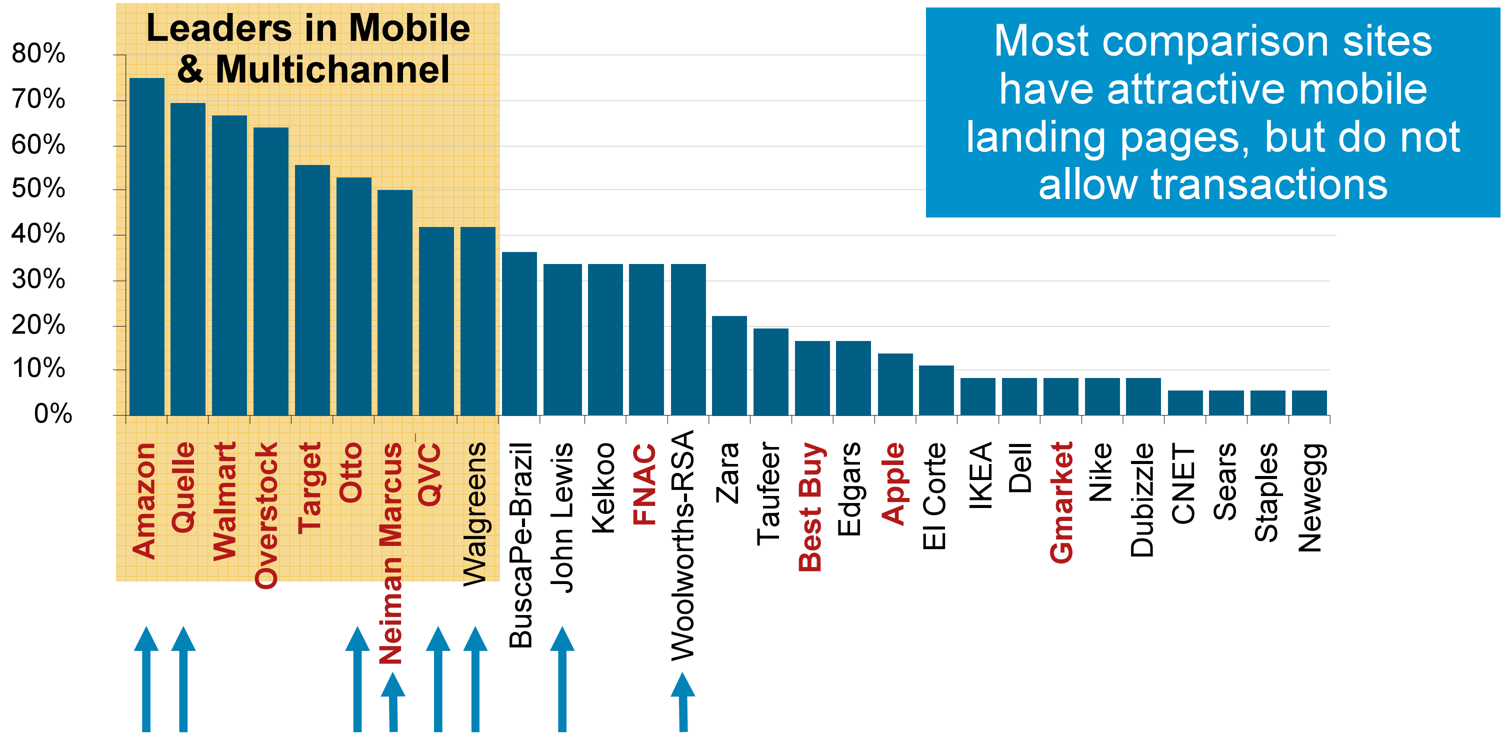
- 12% of sites surveyed support purchase via mobile phones—up from 6% in 2008
- Sites offer separate mobile landing page *and* ability to purchase via mobile
- Mobile sales CAGR estimated at 51%, with 27% penetration by 2010[2]
- Comparison sites, pure players, leading manufacturer sites, and large retailers all have separate landing pages for mobile



Sources: Cisco IBSG, 2009;[2] Credit Suisse, 2008

Leaders Are Breaking Away from the Pack in Mobile

Most Have Trials in Progress to Understand Impact of iPhone and Other Touch Phones



■ Mobile/Multichannel score   Top 12 companies in red

↑ Sites with separate mobile landing page enabling purchase via mobile and seamless connection between online and m-commerce

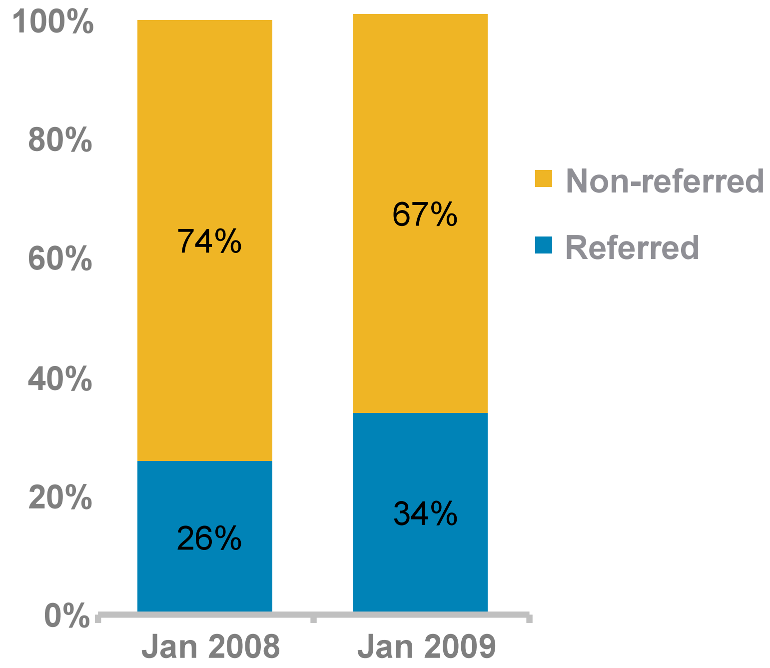
Source: Cisco IBSG, 2009

Key Takeaways

Consumers Drive E-Commerce Innovation

- "Social shopping" is transforming e-retail, enabled by consumer technology, customer reviews and referrals, mobile capabilities, and social networking sites
- Top three shopper referral vehicles: search, email, and comparison shopping
- Comparison sites remain important to both retailers and shoppers
- Mobile commerce continues to grow
- Several retailers have started to adapt in-store processes to deliver certain online benefits

Percentage of Referred Purchases

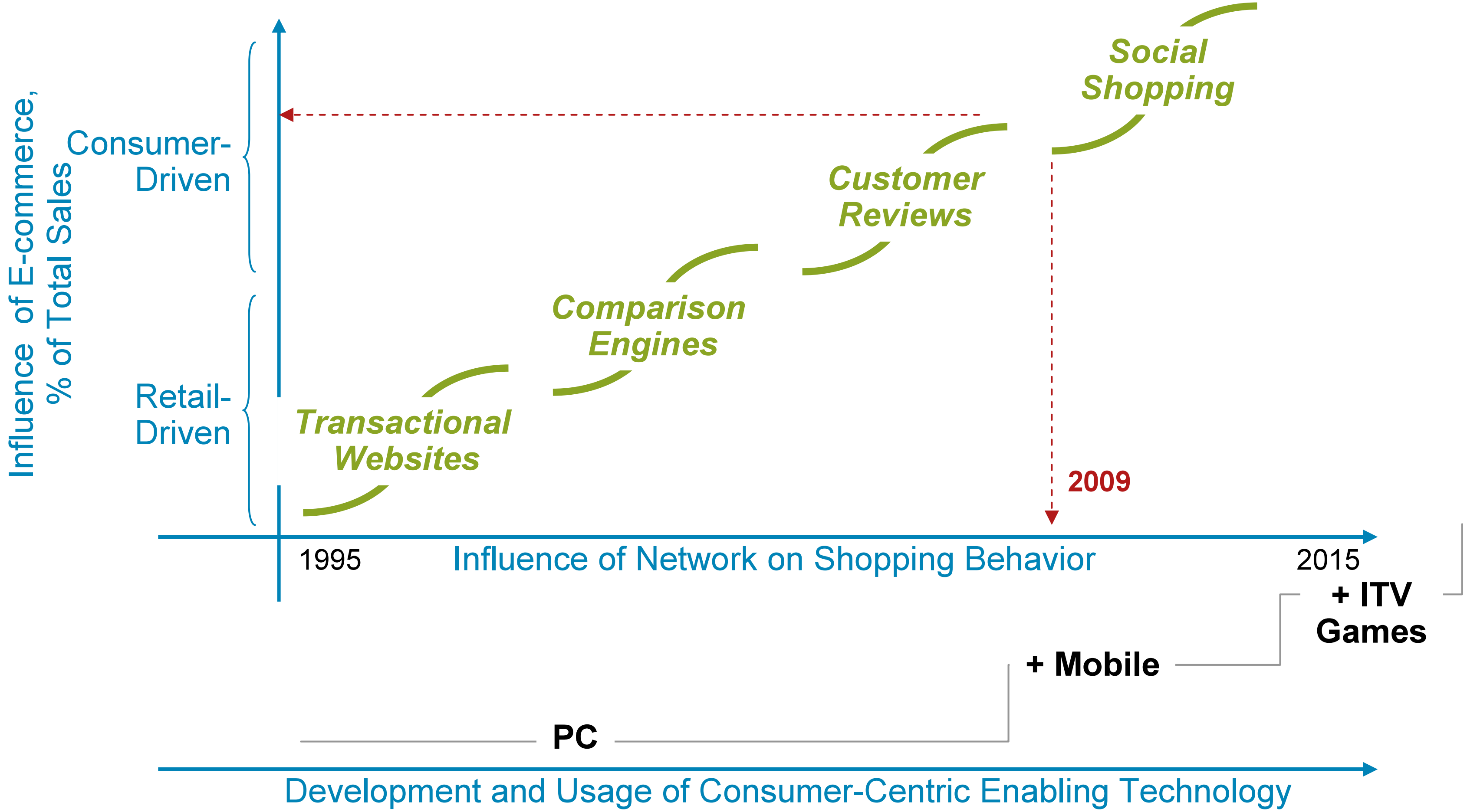


Referred consumer buying grew 31% in 2008

Source: State of Retail, comScore, 2009: Cisco IBSG, 2009

In a Networked Market, Connected Consumers Are Taking Control

As Technology Adoption Increases, So Does the Network's Influence on Shopping Behavior



Source: Cisco IBSG, 2009

E- and M-Commerce Are Retail's Hedge Against Slow In-Store Sales

- E-commerce is not immune to recession, but is performing significantly better than brick-and-mortar stores
- Consumers are turning to the Internet—and to each other—to save money, gas, and effort
- Retailers who master multichannel create a portfolio that increases customer loyalty and diversifies risk
- The next channels to master are social networking and mobile, including enabling phone usage in the store
- Retailers should also be piloting tests with iTV and game consoles

Source: Cisco IBSG, 2009

Key Questions Retailers Should Be Asking Themselves

INTERACT

- **Relationship:** What do I need to do to become friends (peers) with my customers?
- **Identity:** What kind of customers do I want?
- **Value:** How do I contribute to my customers' communities?
- **Destination:** What do I want to be famous for?

TRANSACT

- **Enablement:** How do I make it as easy as possible for a customer to find and do business with me?

INNOVATE

- **Roadmap:** What plans do I have to win in a world transformed by social technology?

Source: Cisco IBSG, 2009