Retail E-Channel Experience: Cisco IBSG Assessment

Primary Results

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Increasing Importance of the Online Channel

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The e-commerce growth rate continues to significantly surpass that of traditional brick-and-mortar retail channels, with fourth quarter 2006 online sales increasing 24 percent over the same period in 2005 (*BusinessWeek*, March 2007). And while the performance of traditional retailers was lackluster during the 2006 holiday season, with only 3 percent comparative store sales growth from November 25 through December 26 (Bloomberg, January 2007), online channel sales grew more than 26 percent during the same period (Bloomberg, January 2007).

Retail e-commerce sales hit US$108 billion in 2006 (*BusinessWeek*, March 2007), and are expected to maintain a blistering pace through 2007, with sales forecasted to improve 20 percent to $129 billion (*BusinessWeek*, March 2007). Not surprisingly, the number of U.S. households engaged in online shopping is expected to rise from 39 percent in 2005 to 48 percent by 2010 (Forrester Research, September 2005). By 2008, 83 percent of all Internet users will access the Internet over broadband connections (Forrester Research, July 2005), thus making online shopping even easier due to higher connection speeds.

The online channel has become an integral part of the customer's brand perception and shopping experience. According to a survey of e-commerce shoppers during the 2006 holiday season, 59 percent of respondents said that an unsatisfactory online shopping experience taints their view of the brand, both online and offline. Surprisingly, even though online shopping has made its way into the mainstream, consumer satisfaction changed little from when the same survey was taken for the 2005 holiday season, where 55 percent of respondents made the same claim. To increase sales and protect their brand images, retailers are looking for ways to enhance the online shopping experience.

The Cisco® Internet Business Solutions Group (IBSG) last year conducted a survey of leading Websites using a proprietary benchmarking tool that assessed foundational and emerging online capabilities, and the degree of integration between both a retailer's Website and store. (For results of the 2005 survey, contact Lindsay Parker at linparke@cisco.com.) IBSG recently annualized the survey in response to online shopping issues and to identify year-to-year online shopping trends.

Assessment Methodology

By taking a consumer's point of view, IBSG assessed each retailer's Website from an "outside-in" perspective, focusing on ease of use, personalization, content, interaction, and transaction, as well as analyzing nearly 70 discrete attributes. Items were purchased on each site so that back-end processes could be benchmarked, including shipping, billing, returns processing, and crediting.

Specific attributes and questions were drawn from an analysis of commercial Website benchmarking and ranking competitions, research on leading consumer e-commerce practices, examples of best practices of consumer e-commerce sites, and analysis of leading practices in Web usability.

Specific companies assessed during the 2006 holiday shopping season included the 2005 U.S. Global 300 retailers in drug, general merchandise, and department store categories; the top 15 Websites in terms of 2005 revenue along with five innovators; and Websites recognized for trend-setting service, design, or multichannel capabilities. In total, 27 U.S. consumer Websites were benchmarked. (See complete list in the chart on page 7.)

Key Findings

The leaders in foundational capabilities—the non-negotiable or "must have" basic capabilities that consumers have come to expect from retailers' Websites—skewed toward large, established retailers with a comprehensive brick-and-mortar business. The list of leaders (see Figure 1) also includes two innovative players, but unlike last year's results, did not include any pure-play e-commerce retailers.

Figure 1. Top-Ranking Retailers in Foundational Capabilities

2006		
★macy's	78%	Strong, basic transactional capabilities; easy to shop and make returns
BEST BUY	75%	Excellent performer from last year; still strong as an easy site with which to transact
(Target)	73%	Amazon.com functionality incorporated into Target's back-end capabilities with an additional store channel
STAPLES that was easy.	73%	Strong focus on small and medium-sized businesses, with tools and foundational capabilities in place to serve that market
SCION Cabela's	71%	Tie between Scion and Cabela's; transactions are easy, particularly for Generation-Y and/or a hunting/fishing aficionado

Source: Cisco IBSG, 2007

Foundational capabilities were assessed in the following categories: 12 in ease of use, 13 in transactions, five in personalization, six in content, and one in interaction. Ease-of-use and transaction capabilities were given the most weight because design, navigation, general ease of use, and ability to purchase items are critical to a retailer's ability to succeed in the online channel.

As online shopping has matured, certain Web capabilities have become ubiquitous and an expected part of the online shopping experience—particularly functionality that makes it easier for the consumer to purchase merchandise and services. Foundational capabilities exhibited the following characteristics:

- 70 percent of retailers achieved the highest score available for an intuitive graphical user interface, with an integrated look and feel for content throughout the site, while the balance provided a clear, simple page design.

- 85 percent enabled users to access product information within three seconds.

- 96 percent enabled users to search by product category, while 82 percent enabled users to search by item number.

- 96 percent offered recommendations for companion items during the shopping experience.

- 96 percent maintained a purchase history for customers to access.

- 78 percent clearly identified new and promotional items and top sellers.

Other foundational capabilities were not nearly as common across the benchmarked companies, with basic multichannel integration being an area where functionality seemed to lag. These capabilities exhibited the following characterisitics:

- 33 percent provided "what's in store" detail, while 44 percent provided only a store locator feature.

- 30 percent enabled shoppers to access online circulars and redeem online coupons in stores.

- 44 percent provided security assurances throughout the site.

If foundational capabilities are essential elements a retailer needs to be viable in the online channel, then emerging capabilities represent the "extras" or "bells and whistles" that are outside the standard online shopping experience. Based on the improvement of scores from 2005 to 2006, however, it became clear that leading online retailers have invested heavily in emerging capabilities to enhance the customer's interaction with a site. Scion, a nontraditional retailer, set the pace by providing a truly interactive and customized online car-buying experience. Other leaders include established players like Sears, Circuit City, and SonyStyle, while one pure-play giant, Amazon.com, continues to set the pace for a leading-edge online experience (see Figure 2).

Figure 2. Top-Ranking Retailers in Emerging Capabilities

2006		
SCION	66%	Caters to customers with community forums, music, events, and multichannel integration
Sears	65%	5x5 multichannel program*; great user interaction and virtualization capabilities
amazon.com	64%	Pushing the edge of the envelope; online "piazza" encourages visitors to "linger longer"
circuit city	63%	Revolutionary multichannel integration with 24x24 program** focused on user feedback
sony style	59%	Slick look and feel with multiple opportunities for user to provide feedback

Source: Cisco IBSG, 2007

Emerging capabilities demonstrate the retailer's ability to take the user experience to a new level both in terms of convenience and satisfaction. Major attributes examined here include advanced capabilities in personalization, content, and interaction, with the latter two categories having more weight.

When looking at emerging capabilities in the personalization category, Cisco IBSG found:

· 56 percent of the companies (including Best Buy, Sears, Wal-Mart, JCPenney, and Amazon.com) proactively offer suggested services.

· 85 percent allow users to subscribe to various e-mail alerts.

· 70 percent allow U.S. consumers to shop all or part of the site in at least one language other than English; Dell, Apple, Office Depot, HP, and SonyStyle provide shopping in more than five languages.

· None of the U.S. retailers sends alerts to devices other than a PC; all rely on e-mail instead of text messaging.

· Amazon.com remains the leader in providing a truly personalized online experience with features that include "my store" and customized Gold Box discounts/offers.

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* Sears 5x5 program enables shoppers to place an order online with a guarantee that the order will be available in a Sears store within five minutes. If your order isn't ready in five minutes, you will receive a $5 coupon redeemable at any Sears store.

** Circuit City 24x24 policy promises 24-minute turnaround for in-store pickup of an order placed online. If order isn't ready in 24 minutes, customer receives $24 from Circuit City.

When considering emerging capabilities related to content, Cisco IBSG found:

- 70 percent of the companies allow shoppers to compare prices online either to user-defined or to site-defined alternatives, with the highest-scoring companies being Amazon.com, Cabela's, Circuit City, Best Buy, Home Depot, and Sears.

- 30 percent provide visibility into store inventory availability, with Lowe's defining best-practice performance by providing inventory availability at multiple, nearby locations.

- Store inventory visibility actually declined from 48 percent in 2005.

- 26 percent use audio/music to help promote items and/or services, with Apple, Amazon.com, Best Buy, Scion, and SonyStyle offering the most advanced, digital music offerings. The percentage of sites offering audio/music declined from 29 percent in 2005.

- 86 percent use online video to help sell products/services or enrich the user's experience, with many players providing instructional videos, while others, such as Sears, allow users to post their own videos as part of certain promotions.

Emerging capabilities in the interaction category fell into one of two subsets: interaction between the shopper and the company's Website, or interaction among shoppers that visit the Website. When it came to facilitating the greatest number of and richest experiences for interaction between the shopper and the site, IBSG found the following:

- 63 percent of the companies allow users to do some level of user-driven product customization or virtualization, with Amazon.com, SonyStyle, and Target providing customization in multiple categories.

- 45 percent provide the option to "click to chat" (online session); 22 percent provide the option to "click to talk" (voice-based session via phone or PC).

- 37 provide the ability to consult with an expert when deeper product expertise is required.

The desire to interact with customers and to enable them to interact with each other is becoming an essential part of the online experience. Web 2.0 and other Web technology innovations will only encourage this kind of social networking and interactivity, making it a standard expectation among consumers. Many traditional retailers are already addressing this phenomenon to increase frequency of visits and customer reach. New online shopping features include the following characteristics:

- 48 percent of the companies allow shoppers to e-mail product information/preferences from the site directly to a friend.

- 63 percent allow users to post and view customer reviews, an increase from 33 percent in 2005. Companies include Amazon.com, Best Buy, Target, and Cabela's.

- 30 percent facilitate communication among users via forums and message boards; Cabela's, Dell, Scion, and Zappos.com actively encourage users to interact with others about their products and experiences.

Car-Buying Experience 2.0

Despite the hype surrounding Web 2.0 and its promise to deliver second-generation Web-based services that emphasize online collaboration and sharing among users, some online retailers have been slow to jump on the bandwagon. One, however, has embraced this new phenomenon as a means of truly connecting with its customers. Since its launch in 2005, Scion (a division of Toyota) has emerged as one of the best-selling car brands for U.S. consumers 35 and younger. One reason for Scion's spectacular success in this market is the truly interactive and community-oriented nature of the Scion online experience. Major features of www.scion.com include the following:

Clear Customer Focus

Not unlike last year's breakout Website www.cabelas.com, Scion, too, knows its target customers—what they drive, wear, and the kind of music they like. Consequently, Scion structured its site to meet its customers' needs. Scion.com offers a boombox feature that enables customers to listen to music—selected by Scion from a roster of artists who appeal to typical Scion purchasers—while they browse the site. In addition, Scion hosts concerts by these artists in venues across the United States, and all concert information is available on www.scion.com.

Sophisticated Customization Tools

Users can build their own cars on Scion's Website by selecting features such as car model, options, and interior and exterior colors, which users can then save as "my Scion." While many car sites offer similar functionality, Scion takes it to the next level by providing Website links to companies that specialize in aftermarket options for further customization. Scion.com also has a financing section where buyers can calculate payments and apply for car loans.

Integration Between Online and Offline Channels

Once potential buyers have specified their model, they can e-mail their specifications from the Scion site to a local dealership. The dealership can then find that specific vehicle and arrange for potential buyers to come in for a test drive.

### Social Networking and Community Participation

Owning a Scion means buyers become part of an exclusive club with a unique lifestyle that's supported through www.scion.com. A section of the Website is devoted to registered users across the United States who can, among other things, partake in discussion forums moderated by Scion; get information about Scion-sponsored events—from art exhibits to concerts to drag racing; access newsletters; and find out about the latest Scion car accessories.

Leaders, Challengers, and Followers

The results for the 2006 Cisco IBSG e-commerce survey were aggregated across all five categories as well as the emerging and foundational segments to come up with a composite score for each site assessed. Based on the scores, IBSG classified the companies into three categories: leaders, challengers, and followers.

Leaders are defined as companies that are excelling along multiple dimensions and providing a compelling online experience, while also performing strongly in back-office processes such as shipping, billing, and returns processing. These industry leaders are taking the greatest steps toward truly integrating their online and offline channels. Figure 3 shows the mix of traditional and innovative retailers.

Figure 3. Relative Ranking Across All Capabilities
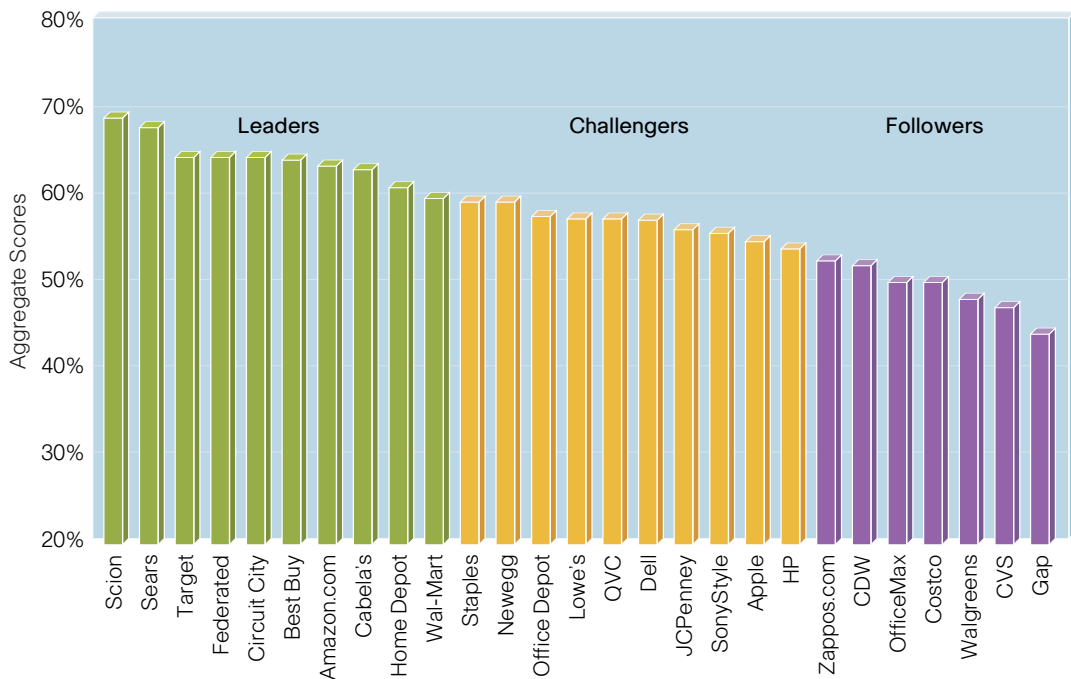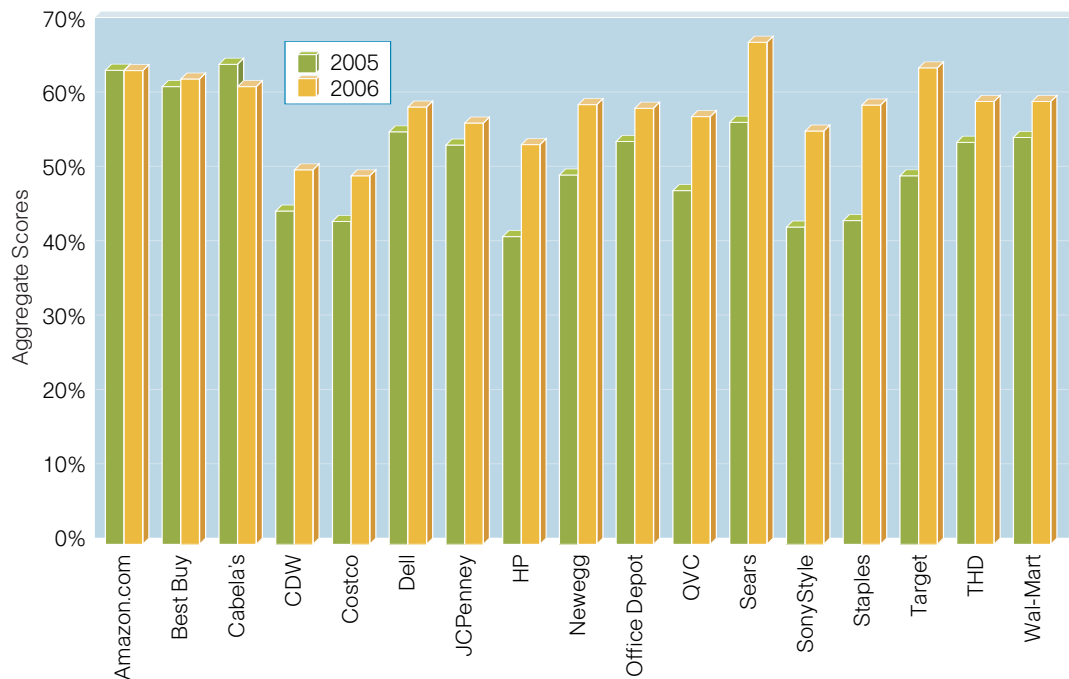

Source: Cisco IBSG, 2007

Challengers are defined as companies that are performing well in the foundational and emerging capabilities; with some additional focus, they can produce a compelling and differentiated Web shopping experience provided by retailing leaders. These companies include a mix of strong online and traditional retailers such as Staples, Newegg, Office Depot, Lowe's, and QVC.

The followers, not to be mistaken as laggards, are companies who are strong, but not exceptional, in the emerging and foundational capabilities and include a number of pure-plays in addition to several major brick-and-mortar companies. All are making substantial commitments to enhancing their online channel, and IBSG expects them to be forces with which to contend in future assessments.

Dynamics of the Web: 2005 Versus 2006

How did the Web experience change from 2005 to 2006, and which messages should retailers take away from the year-over-year trends? Foundational capabilities were indeed "foundational" as back-end processes that facilitate browsing, purchasing, and returning products continued to be an expected component of the Web experience. The leaders invested in emerging technologies to serve their core customers better, enhance their brand, and differentiate the online customer experience from that of the other major players in the online space. They focused on integrating the purchasing process across all their channels in an effort to provide a consistent and compelling brand experience regardless of where their customers shop.

Figure 4. How the Web Experience Changed for Selected Retailers from 2005 to 2006

Source: Cisco IBSG, 2007

Foundational Capability Trends in 2006

The scores for foundational capabilities remained relatively constant for the leaders in 2005 versus 2006, although several new players that were introduced to the survey proved that excelling in the basics is essential to online success.

One of last year's foundational leaders, Best Buy, registered an improvement in its score, ensuring a position in the top five for both years. A new member of the survey, Macy's/ Federated, managed to claim the top position through extremely simple and customer-friendly purchasing and return processes. Target also showed significant improvement in 2006 as it merged its branding expertise with Amazon.com's back-end efficiency and convenience.

Emerging Capability Trends in 2006

When it comes to emerging capabilities, the leading score showed an improvement of almost 38 percent from 2005 to 2006. Amazon.com's score increased 33 percent year over year, and yet Amazon.com dropped from first place to third as new contenders Scion and Sears took the lead with enhanced product customization and leading-edge, multichannel integration.

The Road Ahead

The retailer's brand highly depends on the consumer's online shopping experience. Growing the online channel successfully and rapidly begins with retailers knowing their customers and engineering their sites to meet customers' brand expectations. Basic capabilities such as ease of use (which involves site design, navigation, and search capabilities) and transactions (such as purchasing, shipping, and returns) should be executed flawlessly. Customers expect their online transactions to be simple, reliable, and available at all times. When any of these capabilities falls short of customer expectations, the retailer's brand is in jeopardy.

Beyond the basics, however, online customers have come to expect a two-way dialogue with retailers. Leading retailers use their Web presence as a feedback mechanism where users can review products and provide an immediate response to their online experience. While some companies have found that opening themselves up to unvarnished customer input and criticism can be painful, the greater pain comes from losing business because customers were never invited to share their experiences. By soliciting customer opinions and being willing to respond, retailers can build a rapport that leads to greater brand loyalty.

In addition, online customers like to interact with each other and expect retailers to provide a conduit to facilitate that interaction. Companies such as Scion and Cabela's that are identified as "lifestyle brands" actively encourage social networking among their customers. Spending time on their sites is the Web equivalent to hanging out with friends, complete with music, video, and ongoing conversation about common interests, whether it's "customizing a ride" or the finer points of fly fishing.

With online shopping comes the search for the Holy Grail of the "seamless multichannel experience," a goal that has proven to be uncommonly elusive to achieve. Customers don't care, however, how difficult it is for retailers to align their channels and all the back-end systems required to support a multichannel environment; online consumers want to shop wherever and whenever it is convenient. Circuit City and Sears have revolutionized the world of multichannel retailing with their 24X24 and 5x5 programs. By offering online shopping with in-store pickup within minutes, these two retailers have figured out how to provide the seamless multichannel experience customers expect.

Retail executives responsible for growing sales, whether it's through the online channel or through the integration of the online channel with the stores, must keep a vigilant eye on what their competitors are offering and stay very close to their customers. They must constantly look for new ways to improve their sites' ease of use; provide deeper, richer, and more multimedia content; and create meaningful ways for online shoppers to interact with the company.

As customers continue to equate the online experience with the delivery of a retailer's brand promise, retail executives must create a compelling online experience and continually explore innovative ways to use the site to increase sales through improved channel integration. With online sales expected to maintain double-digit growth, the opportunities to increase revenue and customer loyalty through the online channel are tremendous.

More Information

The Cisco Internet Business Solutions Group (IBSG), the global strategic consulting arm of Cisco, helps Global Fortune 500 companies and public organizations transform the way they do business—first by designing innovative business processes, and then by integrating advanced technologies into visionary roadmaps that improve customer experience and revenue growth.

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

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