Internet sales: lost opportunities

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Xansa and Akamai

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Xansa is an outsourcing and technology company. Committed to delivering guaranteed business outcomes through a combination of technology and process expertise, we give our clients the freedom to do more with their business.

From the sharp end of merchandising to the back of the back-office, Xansa works closely with retailers in a way that embraces the strong brand values each client wishes to protect. This unique combination of sector knowledge, technology experience and integrated delivery helps retailers get more of their products in the hands of their customers at the right price.

Akamai® is the leading global service provider for accelerating content and business processes online. More than 1,800 organizations have formed trusted relationships with Akamai, improving their revenue and reducing costs by maximizing the performance of their online businesses. Leveraging the Akamai EdgePlatform, these organizations gain business advantage today, and have the foundation for the emerging Web solutions of tomorrow. Akamai is "The Trusted Choice for Online Business." For more information, visit www.akamai.com

Working together, Xansa and Akamai will be able to offer UK retailers customised solutions where expertise in both in-store and line of business retail can be combined with website performance, reliability and security.

Joint retail customers that leverage Akamai and Xansa can combine best-in-class technology with resources and expertise to achieve multi-channel marketing and to merge their online and in-store operations.

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Introduction

For retailers, the internet is growing in importance. Even today, it is fundamentally changing the shape of demand and the way in which people shop. This means there are serious implications for all retailers whether they're pure internet players or hybrids.

One of the most telling signs of the significant nature of the change is the proportion of retail sales accounted for by the online channel which, with each passing year, is becoming significantly larger. In 2000 online sales as a proportion of all retail sales were just 0.8%, by 2005 this figure had increased to 3.1% and we forecast that by 2010 it will grow to 6.8%. Even more dramatically, by 2020 almost 15% of all retail sales could be made through the internet.

Clearly such growth is a significant opportunity for retailers. But are they in a position to take advantage of it?

In this short report we have examined the performance of retailers' online operations over the 2005 festive period. We have looked at the value of online sales lost due to website performance issues and at the proportion of players employing alternative technical infrastructure.

From the results it is clear that there is still quite bit of work to be done by retailers both in terms of understanding the performance of their online operations and ensuring that customers are presented with a functional and efficient site.

SECTION 2

Internet sales, the lost opportunities

The growing importance of the internet

During the festive period of 2005, we estimate that internet retail sales topped £3.8bn: almost 47% of total online sales across 2005. That three months can account for almost half of annual internet sales indicates not only the significant volume of transactions being driven through retail websites, but also underlines how important it is for retailers to have fully functioning websites to take advantage of this traffic.

The importance of a smooth, uninterrupted browsing and transactional experience cannot be overstated. Convenience is one of the major drivers of internet sales. As our research among internet consumers has shown, across almost every category a very significant proportion say they use the online channel over more traditional methods of shopping because of the convenience it offers them (see figure 1).

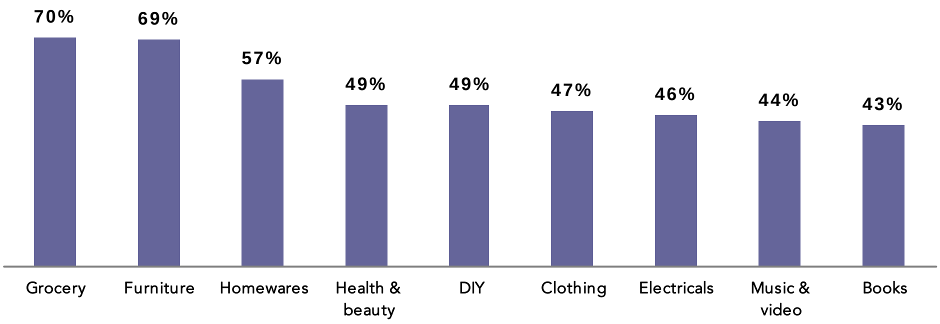

Figure 1: Percentage of internet shoppers who say that they use the internet because it is more convenient
Source: Verdict survey of internet shoppers, 2005/6

Making the online shopping experience inconvenient by having a slow website, a website which is not available when the consumer wants to use it or by having an unreliable transactional process can, and will, alienate online shoppers. Many will simply take their custom elsewhere be it to a physical retailer or an online competitor. The latter option is particularly easy online: unlike having to walk to another physical store, typing the URL of a rival retailer is virtually no hassle at all.

Lost opportunities

From our research we estimate that individual retailers collectively lost £84.2m worth of online sales over the 2005 festive period. Of course, this doesn't mean to say that all of these sales simply vanished into thin air, they didn't: many went to rival online retailers while some were transferred to physical shops. Nevertheless, for the retailers affected these were sales that would have contributed to their bottom line and for many, could represent the difference between a profitable and an unprofitable online operation.

So, why were these sales lost? Our research identifies two main reasons: underperformance of websites and downtime. The former relates to the site exhibiting poor response times, customers being timed out and so forth; the latter relates to the site, or at least the transactional part of it, being completely unavailable.

Of those retailers surveyed over 15% said they suffered some form of underperformance during the peak trading period of 2005 while 17% said they experienced site downtime. Figure 2 shows a more detailed breakdown of these statistics.

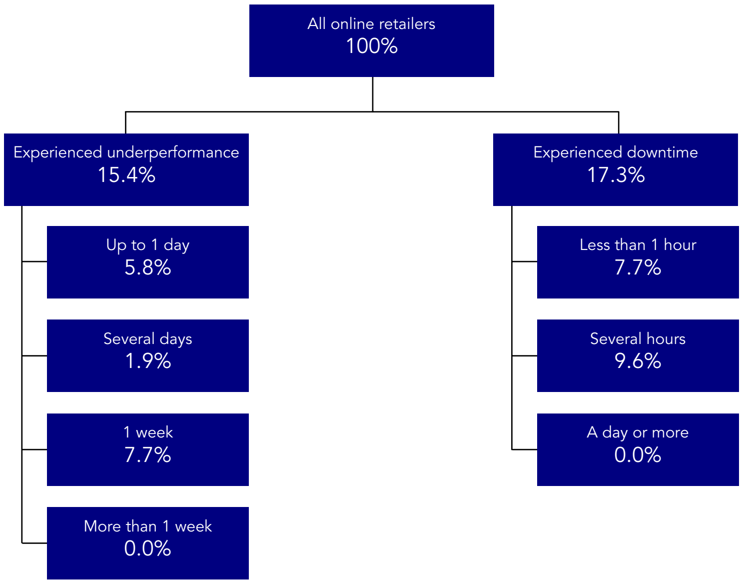

Figure 2: Percentage of retailers identifying downtime and underperformance with duration of problems
Source: Verdict/Xansa/Akamai survey of retailers, 2006

SECTION 3
Measuring and preventing losses

Measuring performance

With the growing importance of the internet, it is becoming critical for retailers to devise metrics which allow them to truly understand the impact of the online channel. To date, most have only done this in a superficial or partial way.

In relation to the festive period, we asked retailers whether or not they measured the cost of underperformance or downtime. Although a majority of retailers, almost 64%, said they did employ some measure, this leaves a not insignificant proportion with little or no appreciation of the cost website issues or problems have to their business.

Looking at the majority who do measure the cost of problems, it is revealing that most of them, almost 79%, only assess losses in terms of customers. Very few look at issues surround the brand or longer term defections to competitors. While such things are appreciably difficult to assess, they are vital pieces of information. Consumers in general, and internet shoppers in particular, are notoriously fickle and demanding: if a retailer doesn't satisfy their requirements first time and every time, they will simply find an alternative. As such, the loss for downtime or underperformance of a website doesn't necessarily extend to just one transaction; it could mean losing a customer for good.

Alternative infrastructure

Of the retailers we surveyed, just under 70% said they had some form of alternative infrastructure in place to meet peak demands; around 30% had no such backup. Figure 3 shows a more detailed breakdown of these figures.

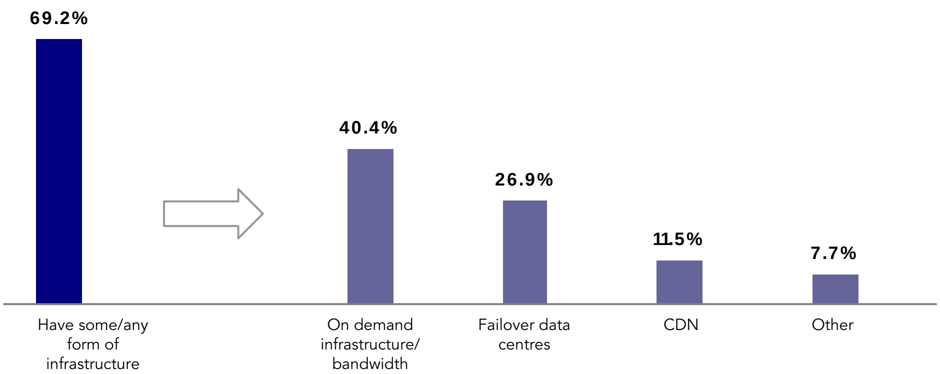

Figure 3: Percentage of retailers with alternative infrastructure to meet peak demands
Source: Verdict/Xansa/Akamai survey of retailers, 2006

What is particularly revealing is when only those retailers who experienced problems over the festive period are considered the proportions with alternative infrastructure in place plummet. Of those with problems around three-quarters said they had no continuity technology in place whatsoever. Clearly, this is something which cost them sales.

SECTION 4
Looking to the future

Internet growth

While the problem of lost sales is very much with us today, without remedy, the problem will get gradually worse. As the internet grows as a channel, retail websites will need to cope with ever increasing volumes of transactions leading to pressure on those sites that do not have the appropriate infrastructure in place. Moreover, since the number of customers and value of sales will be far higher in the future the potential losses will multiply and, as a proportion of a retailer's overall business, will become much more significant.

In terms of internet sales, this year's (2006) festive season should be worth around £4.7bn. Directly extrapolating the findings from this research, retailers could stand to lose £104m worth of sales as a result of website underperformance and downtime.

Over the next five years we forecast the online market will double its share of total retail from 3.1% in 2005 to 6.8% in 2010. In value terms this equates to a rise of 162% between 2005 and 2010 from £8.2bn to £21.5bn. The table below shows these forecasts in more detail.

Sector	Online spend 2005, £m	Online share 2005, %	Online spend 2010, £m	Online share 2010, %	Growth 2005-10, %
Electricals	1,949	8.7	4,602	16.0	136
Food and grocery	1,864	1.8	6,248	5.4	235
Clothing/footwear	873	2.3	2,274	4.9	160
Music and video	755	15.6	1,827	29.2	142
Homewares	516	4.9	1,200	9.4	133
DIY	441	3.5	1,201	7.9	172
Books	367	11.2	701	17.4	91
Furniture/floorcoverings	349	2.3	677	3.8	94
Health and beauty	207	1.4	534	3.1	158
Other	862	2.0	2,253	4.1	161
TOTAL	8,183	3.1	21,517	6.8	163

Further out, by 2020 the overall online market should be worth approximately £63bn or just over 14% of all retail spend.

APPENDIX
Methodology

Verdict interviewed 52 retailers over a period of 2 weeks (24 January 2006 through 13 February 2006).

The sample was broadly representative of UK retailers and incorporated a mix of: pure play online retailers and hybrid online/physical retailers; retail sectors; size of operation.

In each case, a trained interviewer spoke to the person within the retailer responsible for e-commerce or the online operation (e-commerce director, online business director, web manager, web operations manager or web/online marketing).

Retailers were asked a variety of questions, including:

- Whether they suffered downtime over the festive period 2005
- Whether they suffered underperformance over the festive period 2005
- Whether, and how, they measure the impact of downtime/underperformance on their business
- Whether they have alternative infrastructure in place to cope with peak demands

All forecasted numbers and values of internet sales are from Verdict's retail forecasting model.