Net Retailers Face 45 Percent Growth in Market

By Rob Spiegel

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On the day I write this column, Spaceworks, another promising Internet company has closed its doors. The fever that once encouraged business writers to claim dot coms would quickly overcome and obliterate traditional businesses, is now burning against Net companies. Now it's fashionable for journalists to scoff at Internet enterprises, ridiculing excesses such as the goofy 2000 Super Bowl ads.

Ok, we've all had fun with the media backlash, now let's regain our bearings. Amid the stories of the dot com demise, there is a hidden stream of positive reports showing a growing base of Internet consumers willing to spend ever greater amounts online. Is anyone covering this story?

Report after report shows a growing population of Internet shoppers. High−speed connections are finally catching fire. Cable modems are booming and telecom companies are struggling to keep up with the demand for DSL installations. Analysts are saying nice things about Amazon.com's chances of hitting profitability later in 2001. Some bad news.

One recent piece of good cheer arrived in the form of "The State of Online Retailing 4.0," a new Shop.org study conducted by The Boston Consulting Group. The quiet−but−powerful headline of the report reads, "The North American online retail market is expected to grow 45 percent in 2001, reaching $65 billion." Not bad growth statistics, especially since we're supposedly in the throws of a complete collapse of the Internet economy.

Apparently, online retailers continue to improve their functionality while journalists report that Rome.com is burning. "While consumer demand continues to propel growth, online retailers have wrestled with operational issues. They're improving their performance in key areas such as customer acquisition and buyer conversion, " said Elaine Rubin, chairman (sic) of Shop.org.

She goes on to point out the weakness of some Net companies that contributed to the very real crash among some of the ill−prepared dot coms. "There is a steep learning curve in becoming an online retailer − those players that were unable to excel in all facets of this complex business just didn't make it to the end of 2000."

Among those retailers who did survive, the news continues to improve. The report finds that online retailers have been able to reduce their losses as a percentage of revenues. Operating losses decreased as a percentage of revenue from 19 percent in 1999 to 13 percent in 2000. As for the elusive

profitability, even more happy tidings. By Internet retail type, 72 percent of catalogers (sites owned by offline catalogs), 43 percent of store−based retailers (sites owned by brick stores) and 27 percent of Web−based retailers (Net−only retailers) are profitable at an operating level.

The report finds that the movement toward profitability is due, in large part, to online retailers placing tighter controls on their marketing budgets. You think?. As a result, customer acquisition costs for all online retailers fell from an average of $38 in 1999 to $29 in 2000. Web−based retailers (the stickiest of the wickets), in particular, were able to bring them down from a high of $82 (ouch) to $55 (still not great) over the same period. The best−performing Web−based retailers (the top 50 percent) reduced acquisition costs to an average of $14 (yea!) per customer rivaling the performance of catalog−based retailers.

The report concludes that Internet retailing is alive and very much healthy. Yet it also warns that each category of Internet retailer still has plenty to learn about running online stores. "Web−based retailers need to learn the basics of retailing," said Peter Stanger, vice president and leader of Boston Consulting Group's business−to−consumer topic area. "Store−based players are new to home delivery and selling to consumers one−on−one from a distance. Catalogers have a leg up in many dimensions, but they need to perfect ways to exploit the relationship−marketing opportunities. The winners will be those companies that can most effectively acquire or develop the capabilities they lack and integrate them with their existing strengths." Amen.

Hats off to the Net boom. They say the king is dead. We say, long live the king.

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The Silver Twinkle in Holiday 2001

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After a devastating year for dot coms, some good news has finally emerged. A year of downbeat new releases has concluded with a very promising up note, brining cheer to Net retailers. Call it whatever cliché you like, the silver lining around the black cloud, or the twinkle in Santa's eye, but online retail sites have much to celebrate from 2001 holiday sales season.

As noted in an early eBiz column, the season started with a promising lift over the Thanksgiving weekend, which is the traditional launch of Christmas gift buying. But unlike the year before, the good news continued all though the season. And the online cheer came at a time when offline retailers were fighting for their share of a downbeat seasonal market.

Encouraging statistics were released by Goldman Sachs, Harris Interactive and Nielsen/NetRatings in their group "eSpending" report of online spending and traffic. The gist is that U.S. consumers spent $13.8 billion online, up 15 percent from the 2000 holiday season.

The Jupiter Media Metrix Holiday 2001 E−commerce Series delivered some very encouraging news, showing that traffic at online sites was up 50 percent from a year earlier, and up 95 percent from 1999. Not surprisingly, the traffic and sales peaked during the first two weeks of December, a week or two earlier than the peak for offline retailers. In each of the weeks ended December 7 and December 14, online spenders exceeded $2.5 billion in purchases.

"With the holiday−buying season behind us, we're left with one inescapable truth: the Internet has become an integral part of holiday shopping," said Charles Buchwalter, VP media research at Jupiter Media Metrix. "Unlike 2000, when online shopping started strong but then fell off, online shopping this year started strong and ended even stronger."

As well as raw numbers of shoppers, the Internet also claimed a good percentage of American consumers. On any given week of November and December the number of shoppers exceeded 10 percent of the U.S. population. During most weeks the shoppers constituted more than 15 percent of Americans, and on the week of December a full 20 percent of the U.S. population purchased goods over the Internet.

According to Jupiter, the Net retailers that saw the greatest increase in sales also have a brick component. While the Internet as a whole experienced a 50 percent increase in sales, the traditional retailers saw their Web sales

grow by 73 percent over 2000. "We've been waiting for the inevitable dominance of traditional retailers over their pure−play counterparts, and it appears that 2001 may have been the year when it finally happened," said Ken Cassar, senior analyst at Jupiter Research. "With a few exceptions such as Amazon.com, the dominant retailers that sell merchandise directly from their sites tend to be affiliated with brick−and−mortar stores and catalogs." The top three traditional retailers during the holiday season were Columbia House, with 598,000 average daily unique visitors, Toysrus with 515,000 and Barnesandnoble with 447,000.

As well as the good news, there were also some less exciting developments during the holiday season. The volume of orders that did not arrive on time for Christmas did not improve over 2000. Both years came in with a dismal 12 percent late delivery. The top performers for on−time delivery were sporting goods, health and beauty, and food and drink. Many online retailers blamed late shipments on delivery services. As for actual in−stock items, Net retailers actually did better than the year before, so there may be some merit to their complains about delivery companies.

Overall, the 2001 holiday season was more than a silver lining around the dark cloud of the 2001 dot com disaster. The Christmas season may actually have ushered in a break in the stormy clouds, and that could indicate some real sunshine. Online retailing is clearly here to stay, even if the big numbers are collecting on the balance sheets of the major offline retailers.

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