

eCommerce: B2C

US Consumer Shopping, Buying
and Demographics

September 2001



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Welcome to eMarketer

Dear Reader:

For everyone with a stake in online retailing, the business papers and magazines seem to bring nothing but bad news lately:

- **Bankruptcies and closures:** The graveyard of dead e-commerce startups now include familiar names such as eToys, Kozmo.com, Pets.com, PlanetRX.com and Webvan
- **Plummeting stock prices:** As of late-August 2001, the Dow Jones e-commerce stock index was down almost 80% since its peak in January 2000, compared with almost 20% for the broader S&P 500 index
- **Disappearing venture capital:** Only \$5.7 billion was invested in internet-related companies by US VC firms in the second quarter of 2001, according to The PricewaterhouseCoopers MoneyTree Survey in partnership with Venture One

With Wall Street currently sour on online retailing, are we facing the imminent death of consumer e-commerce?

History offers an interesting lesson. Shortly after the turn of the last century, as many as 3,000 firms were organized to produce cars in the US. Most of these companies never made it into production, and today there are only two major US-owned auto manufacturers left on the playing field (one of these, Ford, was almost knocked out by the Great Depression).

But, as anyone who's ever been stuck in traffic knows, the US auto industry is far from dead: Ford and General Motors took in combined revenues of some \$345 billion last year (more than twice as much as IBM, Intel and Microsoft *together*), and more than 10,000 companies supply parts to the U.S. auto industry.

Just as the automobile changed the world, the transforming effect of the internet will lead to fundamental changes in the way people live, interact and do business with one another. Along the way, online retailers will consolidate and even see profit margins dwindle, as every maturing business does. But for every headline-grabbing demise of a dot com, another traditional retail establishment opens up shop online. Meanwhile, consumers continue to open their wallets wider, feeling more and more confident about shopping online. Even in the midst of a worldwide economic downturn, the long-term outlook for online retailing remains encouraging.

That's the big picture. That doesn't mean the negative news is insignificant; it simply means there is plenty of good news that's never reported. We hope this report will help you see the big picture of online retailing as well.

Sincerely,



Geoff Ramsey
CEO, eMarketer

Full of facts and figures from hundreds of leading research authorities, eMarketer's new eStat Database contains thousands of records on online retailing and e-commerce. Try it now at www.emarketer.com.

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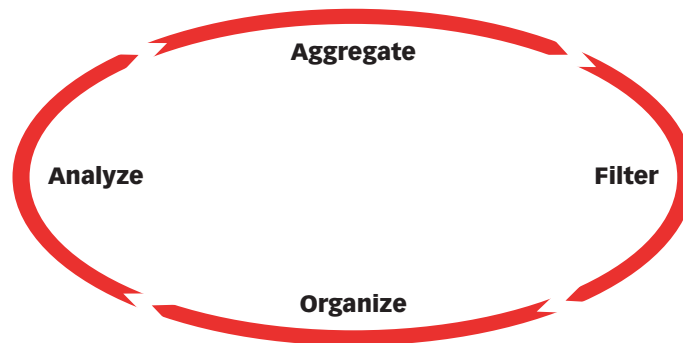
The eMarketer Methodology: Making Sense of the Numbers

eMarketer’s approach to market research is founded on a philosophy of aggregating data from as many different sources as possible. Why? Because there is no such thing as a perfect research study and no single research source can have all the answers. Moreover, a careful evaluation and weighting of multiple sources will inevitably yield a more accurate picture than any single source could possibly provide.

The eMarketer Difference

eMarketer does not conduct primary research. Neither a research firm nor a consultancy, eMarketer has no testing technique to defend, no research bias and no client contracts to protect.

eMarketer prepares each market report using a four-step process of aggregating, filtering, organizing and analyzing data from leading research sources worldwide.



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Accessing information from the internet as well as a library of electronically-filed research reports, surveys and studies, the eMarketer research team first compiles publicly available e-business data from hundreds of research sources. This information is filtered and organized and then presented in the form of easy-to-read tables, charts and graphs.

To develop each report, eMarketer’s analysts evaluate the aggregated data and conduct further research to understand the numbers behind the numbers. Next, they provide concise analysis around the information to help make sense of the conflicting numbers and trends.

“I think eMarketer reports are extremely useful and set the highest standards for high quality, objective compilation of often wildly disparate sources of data. I rely on eMarketer’s research reports as a solid and trusted source.”

— Professor Donna L. Hoffman, Co-Director, eLab, Vanderbilt University

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What Benefits Do eMarketer Reports Provide?

There are many benefits associated with eMarketer's aggregation approach to research. The evaluation and presentation of multiple sources means that:

- The information is more objective than that provided by any single research source. eMarketer has no bias towards any particular internet technology, e-business trend or market segment.
- The information is more comprehensive – each set of findings reflects the collected wisdom of the leading research firms, consultancies and industry analysts.
- The information is all in one place, making it easy to locate, evaluate and compare. eMarketer reports assemble all the different data points and accompanying expert opinions into one easy-to-follow reference document.
- The information is neatly organized and clearly presented to save people time and help them make better, faster and more informed business decisions.

eMarketer reports also serve as a convenient guidebook or roadmap to other research sources for those wanting more drill-down or "how-to" information on a given topic of interest.

“When I need the latest trends and stats on e-business, I turn to eMarketer. eMarketer cuts through the hype and turns an overabundance of data into concise information that is sound and dependable.”

— Mark Selleck, Business Unit Executive, DISU e-business Solutions, IBM

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Defining "Electronic Commerce"

eMarketer defines an e-commerce transaction in the context of a typical product sale, which involves ordering, processing and delivery:

3 Phases of a Product Sale



eMarketer’s dollar estimates and projections in this report reflect a relatively strict definition for what constitutes “electronic commerce.” eMarketer defines an electronic commerce purchase of a product or service as one where the buyer initiates and completes the entire purchase order, or transactional contract, via the internet (including e-mail). How the merchant chooses to process the transaction order (i.e., manually or electronically), and how the product is actually delivered, are irrelevant to this definition.

Other researchers, with more liberal definitions, will often include revenues which are “facilitated” or “influenced” by the internet – such as when a person researches merchandise online but then makes the final order through a telephone call, salesperson visit or other, non-digital means.

The nature of business is changing as the dollar volume of e-commerce continues to rise dramatically. Companies are increasingly operating around the clock and on a global scale as they integrate new supply chain networks, distribution systems and pricing models that accelerate their business at light speed.

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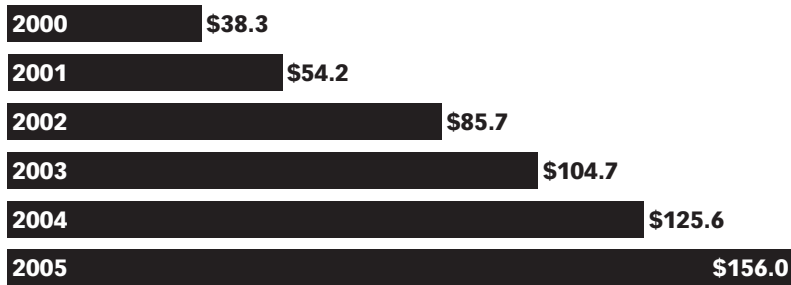
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Talk of the demise of the US B2C e-commerce sector is highly exaggerated. Through 2005, online revenues from the sale of consumer goods and services will escalate to new heights, fueled by a bevy of novice and internet-savvy customers who seek the value-added conveniences of web-based shopping.

The softening US economy might have stunted the pace of previous online revenue growth predictions, but it has not deterred the growth of the online buying population. Throngs of US consumers are flocking to the web where they have become more selective in their purchasing decisions, opting to buy from trusted sources that offer the best discounts, widest selection, and reliable delivery.

US B2C e-commerce revenues totaled \$38.3 billion in 2000 and will more than quadruple by 2005.

US B2C eCommerce Revenues, 2000-2005 (in billions)



Source: eMarketer, 2001

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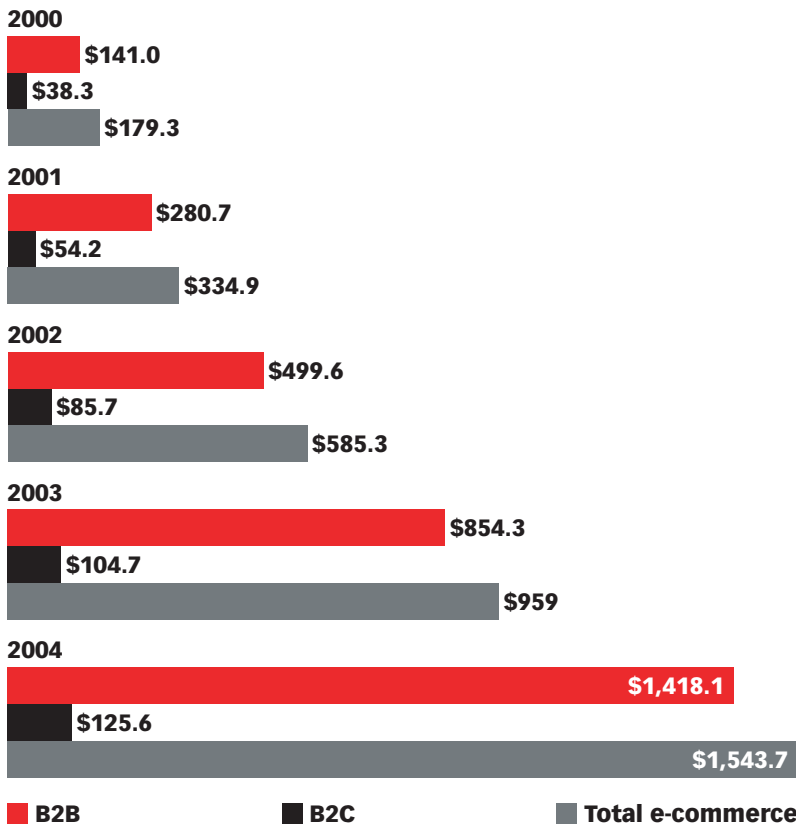
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The US is leading the global e-commerce revolution. Total e-commerce revenues in the US will grow from \$179 billion in 2000 to \$1.5 trillion in 2004.

US eCommerce Revenues, 2000-2004 (in billions)



Source: eMarketer, 2001

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Consumer-directed e-commerce is about 16% of all e-commerce in the US, down from over 21% in 2000. Its percentage will continue to shrink through 2004 when it will be only 8.1% of the total.

US B2C eCommerce as % of Total eCommerce, 2000-2004

	2000	2001	2002	2003	2004
Total e-commerce	\$179.3	\$334.9	\$585.3	\$959.0	\$1,543.7
B2C	\$38.3	\$54.2	\$85.7	\$104.7	\$125.6
B2C e-commerce as % of total e-commerce	21.4%	16.2%	14.6%	10.9%	8.1%

Source: eMarketer, 2001

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Accurately assessing the state of the US online B2C market is difficult, given the numerous and conflicting revenue projections from different research firms and other sources, each of which use different methodologies and statistical models to compute their final numbers. Until recently, anyone attempting to determine which researcher was most accurate in predicting the future of any particular aspect of the internet, including e-commerce, did not have a definitive source with which to do this.

But in fall 1999, the US Department of Commerce (DOC) finally began to measure e-commerce B2C activity so business people and others could have a benchmark with which they could have some trust.

eMarketer has adapted its methodology to recognize that certain government and other respected, objective sources are beginning to provide reliable numbers that can be consistently tracked over time. US e-commerce revenues are “benchmarked” using historical data from the DOC, while internet penetration rates are formulated using data from the International Telecommunications Union (ITU). For further reference, see the earlier explanation of our methodology.

Quarterly Revenues

The DOC in May 2001 reported that its preliminary estimate of US B2C e-commerce sales for the first quarter of 2001, not adjusted for seasonal, holiday, and trading-day differences, and not including online travel sales, was \$7.6 billion, a 14.6% decrease from Q4 2000. It marked the first decline in B2C e-commerce sales since the government began tracking such activity.

The Q1 2001 estimate, however, represented a year-over-year increase of 38.2% from Q1 2000. Despite the growth, US B2C e-commerce sales were still a paltry 1.04% of total retail sales.

Still, the first quarter number is respectable, given the turbulent economic conditions of those first three months and that, historically, it is a quarter that exhibits much sharper revenue declines. The first quarter is typically when e-tailers are recovering from their busy year-end holiday season and consumers are short on disposable cash, having paid their large, just-received credit card bills.

In late August 2001, the DOC released its estimate for the second quarter of 2001. The Q2 figure of \$7.46 billion represented a disappointing 1.8% decline over Q1 2001, yet a 24.7% increase over Q2 2000.

US Commerce Department Switches from SIC to NAICS Classification System

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On August 30, 2001, the DOC announced a new sample of retailers was introduced with the first quarter of 2001 that was designed to produce estimates based on the North American Industry Classification System (NAICS) and replaced the sample designed to produce estimates based on the Standard Industrial Classification (SIC) System. The SIC time series ended with the first quarter of 2001. Estimates for the first quarter of 2001 were replaced with estimates from the new sample. Previously published SIC estimates were restated on a NAICS basis for the period fourth quarter 1999 to fourth quarter 2000. (The Q2 2001 estimate is also based on the new NAICS sample).

US B2C eCommerce Revenues, by Quarter, Q4 1999-Q1 2001 (in millions and as a % of US retail revenues)

	US retail	Online B2C revenues	Online as a % of total
Q4 1999	\$785,869	\$5,266	0.67%
Q1 2000	\$714,425	\$5,526	0.77%
Q2 2000	\$777,819	\$5,982	0.77%
Q3 2000	\$772,796	\$6,898	0.89%
Q4 2000	\$817,715	\$8,881	1.09%
Q1 2001	\$728,662	\$7,592	1.04%
Q2 2001*	\$807,467	\$7,458	0.92%
Aggregate Total	\$5,404,753	\$47,603	0.88%

*Note: Figures do not include online travel revenues; *On August 30, 2001, the DOC announced a new sample of retailers was introduced with the first quarter of 2001 that was designed to produce estimates based on the North American Industry Classification System (NAICS) and replaced the sample designed to produce estimates based on the Standard Industrial Classification (SIC) System. The SIC time series ended with the first quarter of 2001. Estimates for the first quarter of 2001 were replaced with estimates from the new sample. Previously published SIC estimates were restated on a NAICS basis for the period fourth quarter 1999 to fourth quarter 2000. (The Q2 2001 estimate is also based on the new NAICS sample).*

Source: Census Bureau of the Department of Commerce, 2001

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The DOC's 2000 total for US B2C e-commerce revenues was \$27.3 billion. However, not included in the sum are revenues from online travel, which eMarketer estimates at \$11.0 billion in 2000. If the DOC's \$27.3 billion total retail e-commerce revenues for 2000 are added to the \$11.0 billion for travel sales, then total B2C e-commerce revenues equal \$38.3 billion, which is eMarketer's estimate for 2000.

US B2C eCommerce Revenues, 2000 (in billions)

	2000
US Department of Commerce B2C estimate (1)	\$27.3
Online travel revenues (2)	\$11.0
Total B2C e-commerce revenues (2)	\$38.3

Source: (1) US Department of Commerce; (2) eMarketer, 2001

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That the government estimated US B2C e-commerce revenues to be more than 1% for the fourth quarter of 2000 is remarkable, considering the rapidity at which the internet bubble was bursting and consumer confidence was declining during that quarter. (The Census Bureau reports that the margin of error for the change in the US B2C e-commerce sales from Q4 2000 and Q1 2001 is about 2.6%.)

For 2001, eMarketer projects a slow first half but a robust, record-breaking end of the year, when e-tailers typically earn the lion's share of their revenues from holiday sales.

US B2C eCommerce Revenues, by Quarter, 2001

Quarter	B2C revenues (in billions)	% of year total	Change from previous quarter
Q1	\$10.56	19.5%	6.9%
Q2	\$11.37	21.0%	7.6%
Q3	\$14.02	25.9%	23.3%
Q4	\$18.20	33.6%	29.8%
Total	\$54.15	100%	-

Source: eMarketer, 2001

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For 2000, online travel revenues comprised 29% of total B2C e-commerce revenues. Removing travel from the total, we arrive at the total DOC annual estimate.

US B2C eCommerce Revenues, by Quarter, 2000 (in billions)

Quarter	Total B2C revenues (1)	Travel revenues (1)	DOC B2C estimate (2)
Q1	\$7.43	\$1.90	\$5.53
Q2	\$8.48	\$2.50	\$5.98
Q3	\$10.00	\$3.10	\$6.90
Q4	\$12.40	\$3.50	\$8.90
Annual total	\$38.30	\$11.00	\$27.30

Source: (1) eMarketer, (2) Department of Commerce, 2001

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US B2C eCommerce Revenues, by Quarter, 2001 (in billions)

Quarter	Total B2C revenues (1)	Travel revenues (1)	DOC B2C estimate (2)
Q1	\$10.59	\$2.97	\$7.59
Q2	\$11.36	\$3.91	\$7.46
Q3	\$14.02	\$4.85	–
Q4	\$18.20	\$5.47	–
Annual total	\$54.15	\$17.20	–

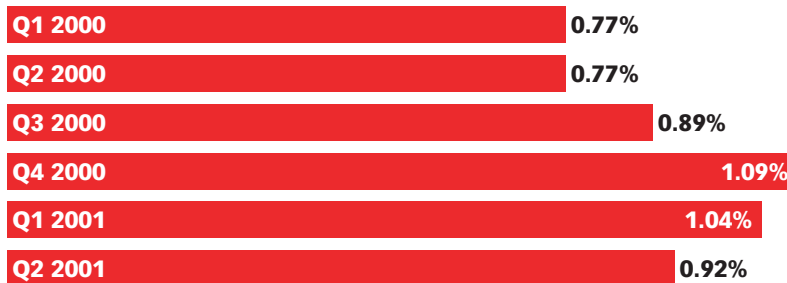
Source: (1)eMarketer, (2)Department of Commerce, 2001

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In Q2 2001, the Department of Commerce reported that online B2C revenues, as a percent of total retail sales, fell below the 1% mark.

US B2C eCommerce Revenues, Q1 2000 - Q2 2001 (as a % of total sales)



Note: not including travel

Source: US Department of Commerce, 2001

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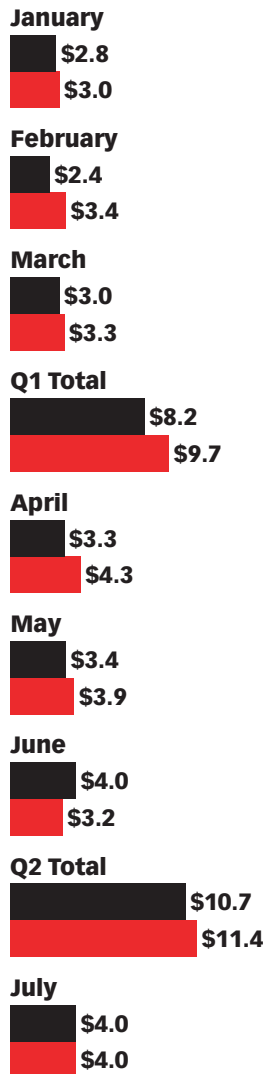
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Monthly US B2C eCommerce Revenues

Even as consumers continue to ring up cash registers at popular offline retailers, Forrester Research and Greenfield Online reported that consumers are continuing to increase their online spending from 2000. Each month through May 2001 has seen an increase over the same month from 2000. However, total US online spending decreased from \$3.9 billion in May to \$3.2 billion in June, an 18.3% drop. That dip followed a drop in spending between April and May, when spending was down from April 2001's \$4.3 million total. The decline was the first month measured that saw a decrease from the previous month. Average monthly spending per customer for May was \$265, down from \$273 in April.

Monthly Online B2C Sales in the US, 2000 & 2001 (in millions)



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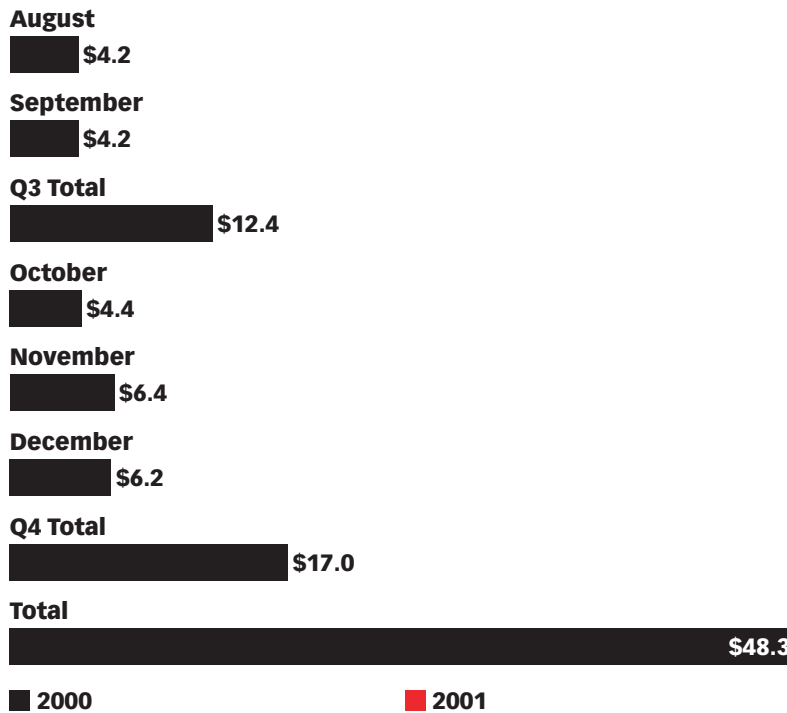
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Source: www.digitrends.net, 2001

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Forrester and Greenfield include travel-related revenues, such as online sales of airline tickets, hotel rooms, and car rentals, in their total estimates. If travel is removed from the total, then we can compare the numbers to the DOC's quarterly estimates.

Quarterly Online US B2C Sales, Q1 2000-Q1 2001 (in billions)

Quarter	Total B2C	Travel-related online sales	Forrester/Greenfield total without travel	DOC/eMarketer estimates
Q2 2000	\$10.7	\$3.3	\$7.4	\$6.0
Q3 2000	\$12.4	\$3.8	\$8.6	\$6.9
Q4 2000	\$17.0	\$4.1	\$12.9	\$8.9
Q1 2001	\$9.7	\$2.9	\$6.8	\$7.6
Q2 2001	\$11.4	\$3.8	\$7.6	\$7.5

Source: Forrester Research, June 2001; Greenfield Online, June 2001; eMarketer, 2001

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Meanwhile, America Online reported that during Q1 2001 its members spent \$6.7 billion shopping on the service, a new record that beat Q1 2000 by 70%.

America Online's Retail Sales, by Quarter, Q1 2000-Q1 2001 (in billions)



Note: *Derived from total AOL member spending of \$20 billion for 2000 and other 3 quarter's numbers, as given
Source: America Online, 2001

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A. B2C eCommerce and Total Retail Commerce

The internet's impact on overall commerce is becoming more significant. That the US government is now keeping stringent records of retail activity on the web is a testament to its impact on the total US Gross Domestic Product.

But a reality check is warranted. Although online B2C e-commerce revenues will continue to increase through 2005, it remains but a speck in the vast sea that is total US commerce. Even with a compounded growth rate of more than 300% from 1998 to 2000, online shopping represents only 1.2% of the \$3.2 trillion in US retail sales (according to figures from the DOC and the Direct Marketing Association), clearly leaving room for further growth.

US B2C eCommerce Sales as a % of Retail Sales, 2000-2002 (in billions)

	Retail sales (1)	B2C e-commerce sales (2)	B2C e-commerce sales as a % of retail sales (2)
2000	\$3,200	\$38.3	1.2%
2001	\$3,300	\$54.2	1.6%
2002	\$3,500	\$85.7	2.4%

Source: (1) Direct Marketing Association, 2001; (2) eMarketer, 2001

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Nonetheless, the web is the fastest-growing retail channel, at least according to Boston Consulting Group (BCG), which estimates that online retail revenues grew 66% in 2000 to \$44.5 billion and will reach \$65 billion by year-end 2001. Some products are moving faster online than others, with computer hardware and software leading the pack:

Online Share of US Retail Sales, by Category, 1999-2001

Category	1999	2000	2001
Computer hardware, software	15.6%	17.7%	22.6%
Books	8.5%	11.1%	13.3%
Travel	5.7%	10.5%	14.9%
Music, video	4.3%	6.3%	9.3%
Collectibles, auctions	2.8%	4.6%	6.2%
Toys	1.7%	3.7%	6.2%
Event tickets	2.3%	3.5%	4.9%
Flowers, cards, gifts	1.7%	3.7%	5.7%
Consumer goods	1.2%	3.1%	4.8%
Sporting goods	0.8%	1.4%	2.9%
Apparel	0.5%	1.1%	1.7%
Home office	0.2%	0.7%	1.4%
Jewelry	0.3%	0.6%	1.0%
Health, beauty	0.2%	0.5%	0.9%

Source: Boston Consulting Group, May 2001

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The following two charts put US B2C e-commerce in grand perspective. Each of the top five retailers in 2000 had sales that met or exceeded total US B2C e-commerce revenues for the year. Moreover, total B2C e-commerce revenues for 2000 was only 7% of the total 2000 revenues of the top 10 US retailers.

Sales of Top 10 US Retailers, 2000 & Q1 2001 (in billions)

Retailer	2000	Q1 2001
Wal-Mart Stores	\$191.3	\$48.1
Kroger	\$49.0	\$15.1
Home Depot	\$45.7	\$12.2
Sears, Roebuck & co	\$39.7	\$7.7
Kmart	\$37.0	\$8.3
Target	\$36.9	\$8.2
Albertson's	\$36.8	\$9.3
J.C. Penney	\$31.8	\$7.5
Costco	\$31.6	\$7.6
Safeway	\$32.0	\$7.7
Total	\$531.8	\$131.7

Source: eMarketer, company filings, 2001

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Sales of Top 10 US Offline Retailers, 2000 (in billions)

	Total 2000 Revenues
Top 10 US Offline Retailers	\$531.8
B2C e-commerce	\$38.3
B2C e-commerce as a % of top 10 US Offline Retailer Revenues for 2000	7.20%

Source: eMarketer, 2001

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B. Comparative Estimates of B2C eCommerce Revenues

Although numerous e-tailers went bankrupt during the latter half of 2000 into early 2001, the overall picture for US B2C e-commerce is not quite as bleak. No matter where you look, five-year projections for annual online B2C revenues in the US indicate steady growth, with some topping the \$200 billion mark within four years.

But the worsening economy, coupled with our decision to benchmark against DOC actual sales, has led eMarketer to recast its projections since the last B2C report in March 2001. In addition, the model has been extended to include an estimate for 2005.

Recast US B2C eCommerce Revenue Forecast, 2000-2005 (in billions)

	2000	2001	2002	2003	2004	2005
Original estimate (March 2001)	\$42.1	\$65.9	\$98.0	\$119.8	\$175.3	–
Revised estimate (September 2001)	\$38.3	\$54.2	\$85.7	\$104.7	\$125.6	\$156.0
% change	-9.0%	-17.8%	-12.5%	-12.6%	-28.4%	–

Source: eMarketer, 2001

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eMarketer has lowered its estimates by 9% for 2000 and 17.8% for 2001, for several reasons:

- The total number of online buyers for 2000 is smaller than original estimates (see Chapter VIII for more data about internet usage). In addition, the presence of fewer online buyers eroded total 2000 sales of e-tailers in leading categories, especially groceries and computers.
- Many leading researchers have lowered their B2C estimates (see below), which affects eMarketer's analysis of the final projections (eMarketer aggregates data from numerous sources, weighting some estimates more heavily than others).
- The down economy has reduced consumer discretionary income, which has adversely affected online sales.
- Finally, by using the DOC's 2000 and first half 2001 estimates as a benchmark, and adding in online travel sales, we arrived at the new 2000 and 2001 estimates.

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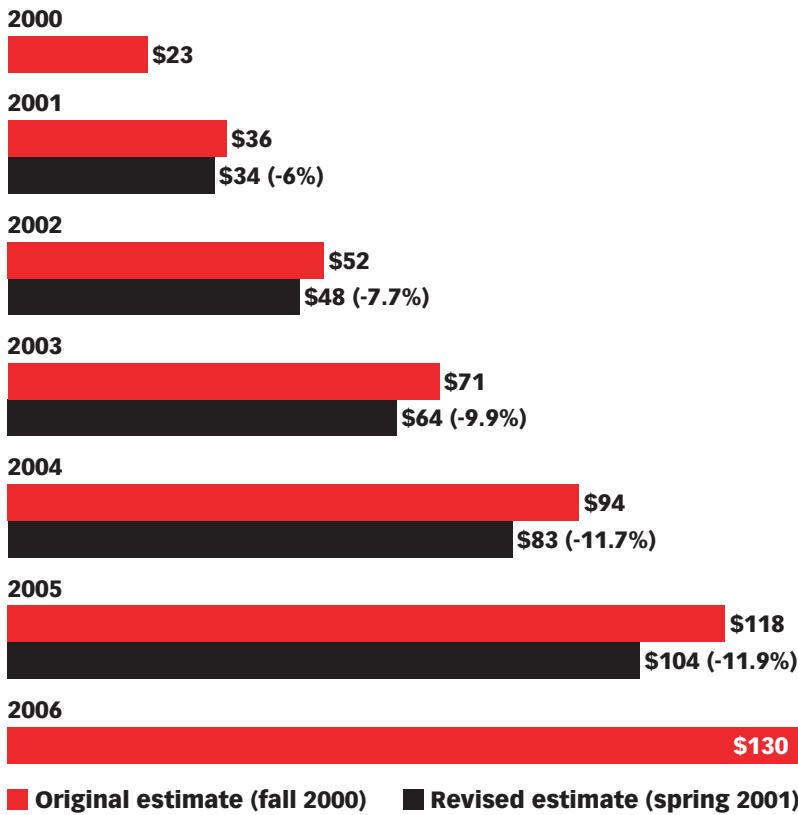
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Some veteran research firms have revised their B2C revenue projections to reflect the changing economic conditions. Jupiter Media Metrix reduced its annual sales estimate for 2001 to \$34 billion from the \$36 billion projected previously. That estimate, however, excludes travel bookings, and sales of automobiles and prescription drugs.

Revised US B2C eCommerce Revenues, 2000-2005 (in billions)



Note: Travel not included
Source: Jupiter Media Metrix, 2001

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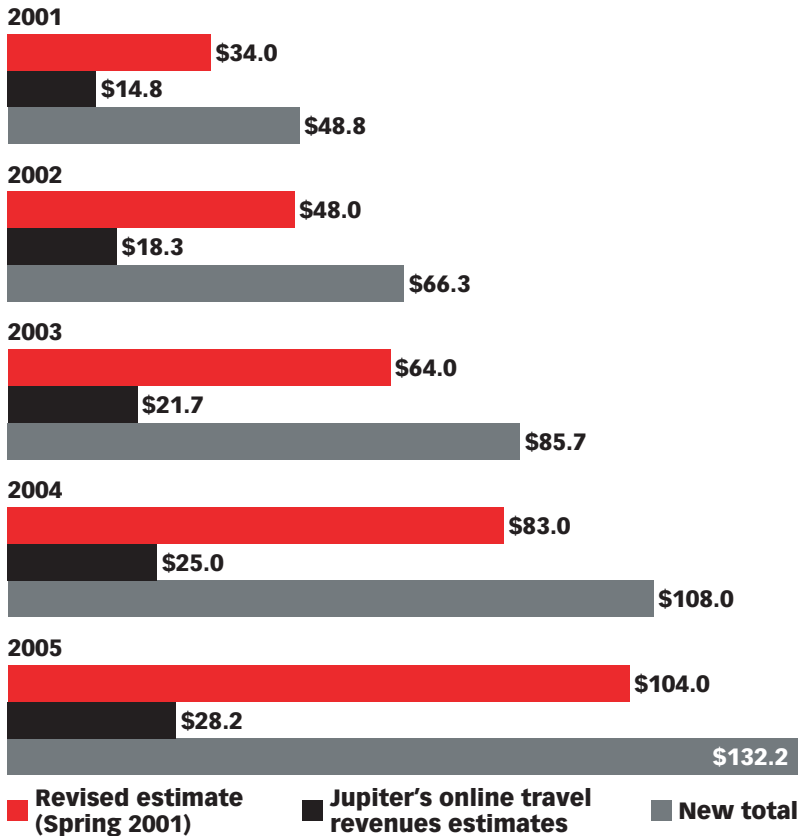
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If Jupiter's \$14.8 billion online travel estimate for 2001 is added to its total B2C e-commerce estimate, then its new 2001 total would increase to \$48.8 billion for 2001.

Revised US B2C eCommerce Revenues With Travel Revenues, 2000-2005 (in billions)



Source: Jupiter Media Metrix, 2001

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The unsteady e-commerce landscape will continue to redefine its borders through mid-2002 when scores of consumer-focused dot coms will run out of cash and customers. Meanwhile, well-established offline retail companies will encroach on the dot coms' diminishing territory. By year-end 2002, the click-and-mortar business model will rule on the web.

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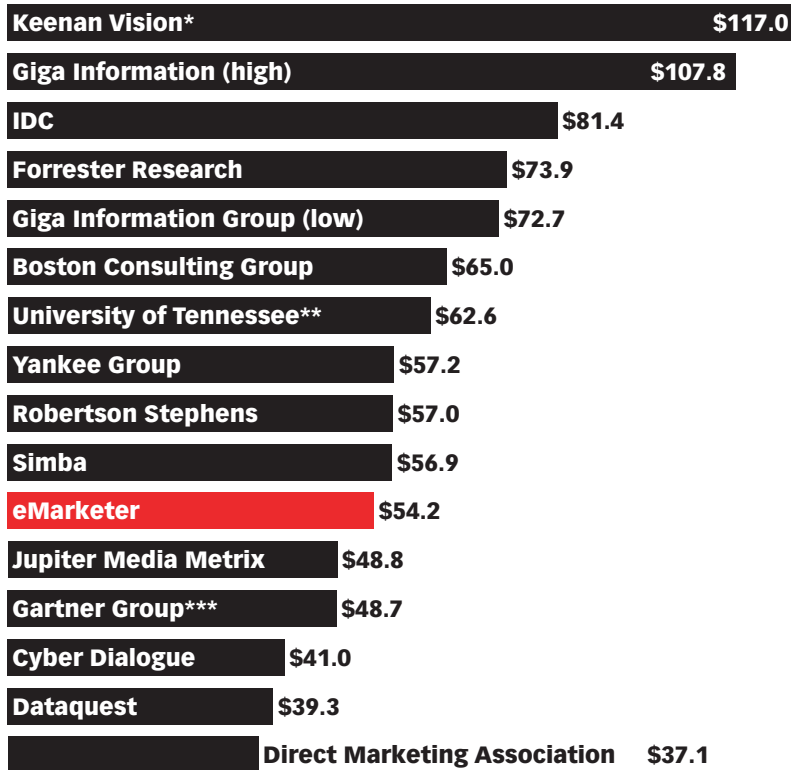
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The following charts show where the leading researchers have netted out with their recast revenue projections.

Comparative Estimates: US B2C eCommerce Revenues, 2001 (in billions)



*Note: * Includes B2C categories such as insurance and adult entertainment not in most analyses; **in sales-tax states only; ***includes all of North America*
 Source: eMarketer, 2001; various, as noted

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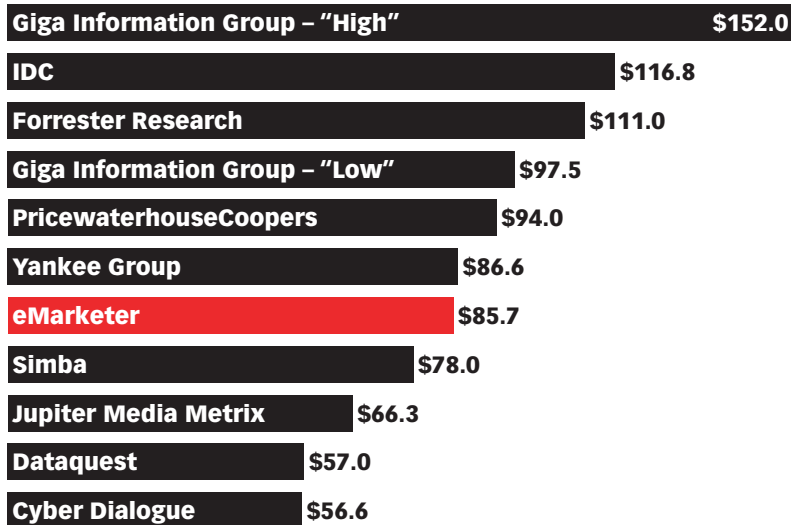
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Comparative Estimates: US B2C eCommerce Revenues, 2002



Source: eMarketer, 2001; various, as noted

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Various forecasts of B2C e-commerce revenues from several research firms indicate strong growth in the sector through 2005. Keenan Vision reported the highest estimates of the lot, although it factors into its estimates numerous shopping categories not included in estimates from other researchers. Keenan Vision also defines e-commerce as internet transactions that create a sales process that ultimately performs an electronic fund transfer between buyer and seller. It claims its definition of e-commerce is “more restrictive” than other researchers.

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Comparative Estimates: US B2C eCommerce Revenues, 2000-2005

	2000	2001	2002	2003	2004	2005
ActivMedia	\$56	-	-	-	-	-
Bank America	\$15.9	-	-	-	-	-
Booz Allen & Hamilton	\$32.0	-	-	-	-	-
Boston Consulting Group*	\$44.5	\$65.0	-	-	-	-
BizRate	\$39.6	-	-	-	-	-
Cyber Dialogue	\$29.5	\$41.0	\$56.6	\$76.3	\$102.3	-
Dataquest	\$25.0	\$39.3	\$57.0	\$147.0	-	-
Direct Marketing Association	\$28.0	\$37.1	-	-	-	-
eMarketer	\$38.3	\$54.2	\$85.7	\$104.7	\$125.6	\$156.0
Forrester Research	\$48.2	\$73.9	\$111.0	\$156.0	\$207.0	\$269.0
Gartner Group*	\$29.3	\$48.7	\$77.7	\$107.4	\$142.0	-
Giga Information (high)	\$58.5	\$107.8	\$152.0	\$193.9	\$233.0	-
Giga Information (low)	\$43.9	\$72.7	\$97.5	-	-	-
IDC	\$53.4	\$81.4	\$116.8	\$165.3	\$228.8	\$309.7
Jupiter Media Metrix	\$24.0	\$34.0	\$48.0	\$64.0	\$83.0	\$104.0
Keenan Vision	\$54.0	\$117.0	\$237.0	\$419.0	\$571.0	-
Odyssey	\$36.8	-	-	-	-	-
Robertson Stephens	-	\$57.0	-	-	-	-
Simba	\$39.8	\$56.9	\$78.0	\$108.5	-	-
University of Tennessee**	\$37.8	\$62.6	\$98.6	\$140.2	-	-
Yankee Group	\$36.6	\$57.2	\$86.6	\$125.6	-	-

Note: *includes all of North America; **in sales-tax states only
Source: eMarketer, 2001; various, as noted

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The general consensus is that annual percentage growth of B2C e-commerce will be the strongest through 2003.

Comparative Estimates: Annual Percentage Growth in US B2C eCommerce Revenues, 2000-2005

	2000 to 2001	2001 to 2002	2002 to 2003	2003 to 2004	2004 to 2005
ActivMedia	-	-	-	-	-
Bank America	-	-	-	-	-
Boston Consulting Group	46.1%	-	-	-	-
BizRate	-	-	-	-	-
Cyber Dialogue	39.0%	57.2%	34.8%	34.1%	-
Dataquest	57.2%	45.0%	158.0%	-	-
Department of Commerce	-	-	-	-	-
eMarketer	41.5%	58.1%	22.2%	20.0%	24.2%
Forrester Research	45.1%	50.2%	40.5%	32.7%	30.0%
Gartner Group*	66.2%	59.6%	38.2%	32.2%	-
Giga Information (high)	84.3%	41.0%	-	-	-
Giga Information (low)	65.6%	34.1%	-	-	-
Jupiter Media Metrix	41.7%	41.2%	33.3%	29.7%	25.3%
IDC	52.4%	43.5%	44.5%	38.4%	35.4%
Keenan Vision	116%	102.6%	76.8%	36.3%	-
Odyssey	-	-	-	-	-
University of Tennessee**	65.6%	57.5%	42.0%	-	-
Yankee Group	56.3%	51.4%	45.0%	-	-

Note: *includes all of North America; **in sales-tax states only
Source: eMarketer, 2001; various as noted

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Through mid-2002, the elusive path to profitability will be the primary challenge for dot.coms. Many have learned valuable lessons in online selling in their short lives. But retaining customers, increasing order conversion ratios, lowering customer acquisition costs, competing with multi-channel retailers, and many other operational hurdles remain unresolved. Those that focus on individual customer needs and partner with established offline retailers will likely thrive in the long term.

C. Online Tax Issue

“Many brick-and-mortar retail companies launched separate online businesses in order to compete with nimble internet-only retailers sheltered under the Internet Tax Freedom Act. But times have changed: the Tax Freedom Act, which intended to protect nascent internet companies and stimulate e-commerce, is set to expire; the threat to internet-only retailers now is miniscule, and state and local governments are feeling the sting of lost tax dollars.”

– Heather Dougherty, Jupiter analyst

The ongoing debate over online taxes on B2C e-commerce sales in the US heated up in 2001 as the moratorium on new internet sales taxes was set to expire in October. If the moratorium terminates without new regulations to replace it, states and other local municipalities would be free to add their own tariffs on internet transactions. The temporary tax ban, which went into effect in 1998, provided a three-year period to study the issue. State governments continue to believe that a moratorium on internet taxation will hurt their local economies. Online retailers, meanwhile, insist that taxing their sales will literally bankrupt them during a critical period in a down economy.

House Majority Leader Dick Armey has said he would seek a short-term ban on internet sales taxes, erecting a potential barrier to states that want to tax online commerce. Armey’s proposal could jeopardize state efforts to tax online commerce. Another bill, called the Internet Non-Discrimination Act, aims to keep access to the internet simple and devoid of discriminatory taxes.

Some studies have shown that internet taxes would reduce online sales by as much as 30%. Click-and-mortars are willing to collect tax for online sales, but pure plays want to avert an anticipated 6% tax.

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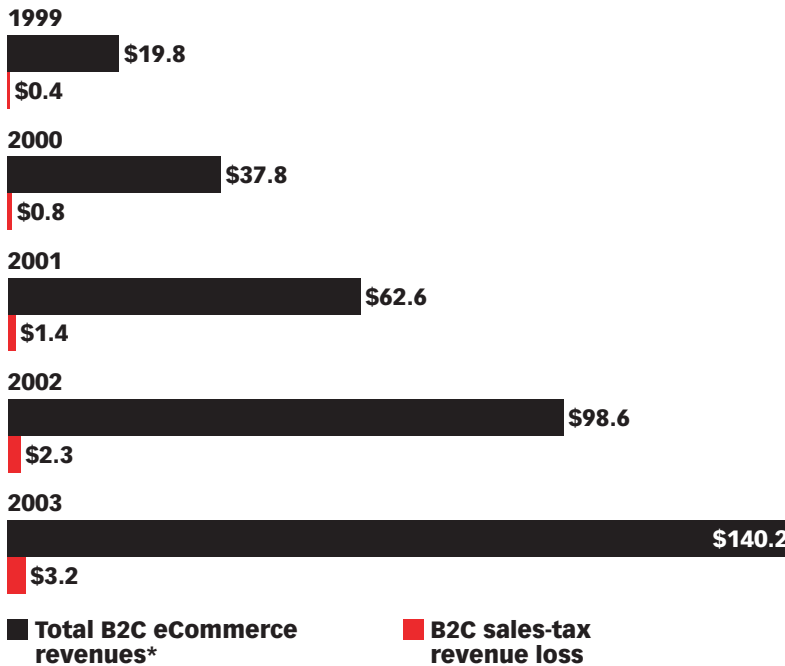
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Those who would be directly affected by taxes on the internet – consumers – remain indifferent about them. According to a Jupiter Media Metrix survey of US online buyers who have abandoned an online purchase recently, 74% do *not* choose one online retailer over another to avoid sales tax purchases under \$50. Under current legislation, state and local governments risk losing up to \$7.7 billion in lost tax revenues from online sales in 2005. The US General Accounting Office estimates that internet sales cost the states \$3.8 billion in unrecovered sales taxes in 2000.

If the trend continues, by 2003 states could lose as much as \$3.2 billion in tax revenue on internet purchases, according to a study conducted by the University of Tennessee. That figure assumes state governments will collect half of the taxes they are owed, which is higher than the current offline rate.

Lost Revenues Due to No Online Sales Tax in the US, 1999-2003 (in billions)



Note: *In sales-tax states only
 Source: Center for Business and Economic Research, University of Tennessee, 2000

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Clearly, the internet is not an ethereal duty-free shop many consumers believe it is. Much of online sales are subject to taxes. However, a 1992 Supreme Court decision mandated that states cannot require retailers to collect sales taxes unless they have a physical store in that state.

Taxation of internet sales remains highly unpopular among Americans. A Harris Interactive Election 2000 survey found that more than 80% of Americans disapprove of internet sales taxes at the federal, state or local level. As much as two-thirds (65%) of the online community believe that a sales tax would decrease online purchases, compared to only 26% of respondents who feel that it would not impact online purchases.

How Internet Users Feel About Online Sales Taxes, 2000 (as a % of respondents)

Oppose internet sales taxes



Sales tax would decrease online purchases



Sales tax would not impact online purchases



Source: Harris Interactive, 2000

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A similar study released by Active Research revealed almost identical results to the Harris poll. Active Research found that almost 66% of shoppers said their online shopping behavior would decrease if internet sales were taxed.

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“The notion of a ‘pure-play’ is turning out to be a wrong play... To be successful, online retailers need to exploit other marketing channels simultaneously.” – Joanna Barsh, McKinsey & Co.

US consumers are exerting more influence on the evolution of the internet as a shopping channel. Consumer preferences and desires are shaping the development of the innovative services and technology the channel provides, increasing its attractiveness as an alternative to traditional shopping.

Nevertheless, consumers continue to shop across many different channels, including the web, catalogs, direct mail, and retail outlets, before buying. The increasingly hybrid nature of shopping is blurring the lines between shopping channels, making it difficult to determine in which channel actual revenues will be credited to in the future.

Consumers want to move more seamlessly between shopping channels and be treated equally – no matter where they shop. They are frequently bundling the web and bricks-and-mortar shopping experiences to make their purchasing decisions. One purchase could involve a trip to the mall, flipping through a catalog, or surfing the web for information.

A multi-channel presence directly affects a retailer’s revenues since “channel agnostic” shoppers, as Jupiter Media Metrix calls them, spend about 30% more than single-channel shoppers. Moreover, consumers who visit online stores that also have a physical presence typically spend 20% more in the physical store, according to Forrester.

One study showed that web surfers are more willing to pick up a catalog and place an order over the phone than they are to buy online. About 57% of online shoppers buy from catalogs, while only about 43% who shop online actually make a purchase on the web, according to Boston Consulting Group. eMarketer estimates that 36% of all Americans (aged 14+) have purchased online in the past year.

Shopping Habits Among Online Population in the US, 2000



Source: Boston Consulting Group, 2000

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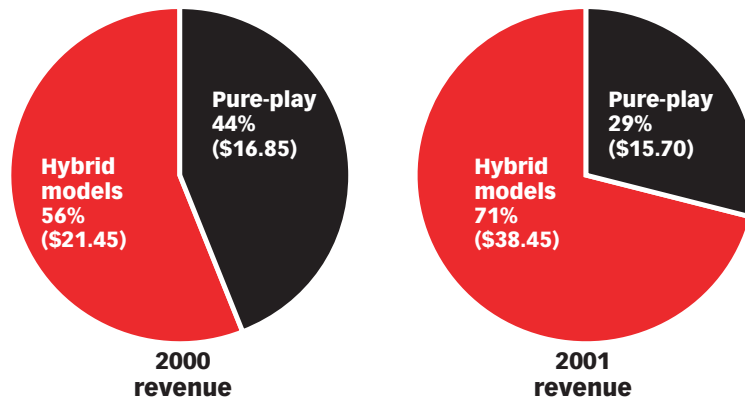
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Some recent shopping statistics indicate the impact of offline shopping:

- Peppers and Rogers Group and the Institute for the Future predict that consumer direct (CD) sales will account for 12% of all U.S. retail sales by 2010. The CD channel, which includes catalogs, direct mail, interactive television and online, will be an increasingly important source of information and assistance for shoppers making purchasing decisions. As a result, by 2010 the CD channel is likely to affect more than 24% of all US retail sales. Total CD revenue leaped from \$115 billion in 1998 to \$133 billion 1999, accounting for nearly 5% of retail sales.
- The Direct Marketing Association estimates that direct and interactive sales in the US exceeded \$1.5 trillion for 1999, including \$93 billion in catalog sales. The DMA reports that 89% of consumers have bought from catalogs at some point in time, with 57% having made purchases in the past year. Catalog shoppers made an average of eight purchases within the last year, spending an average of \$637.

Retailers have come to understand the changing preferences of the US consumer and many have established a presence in multiple channels to reach the greatest masses. Pure play e-tailers are ceding leadership to the brick-and-mortar chains that have established an internet presence. Click-and-mortar businesses received more than half of total B2C e-commerce revenues for the first time in 2000.

US B2C Revenues From Pure-Play and Hybrid Business Models, 2000-2001



Source: eMarketer, 2001

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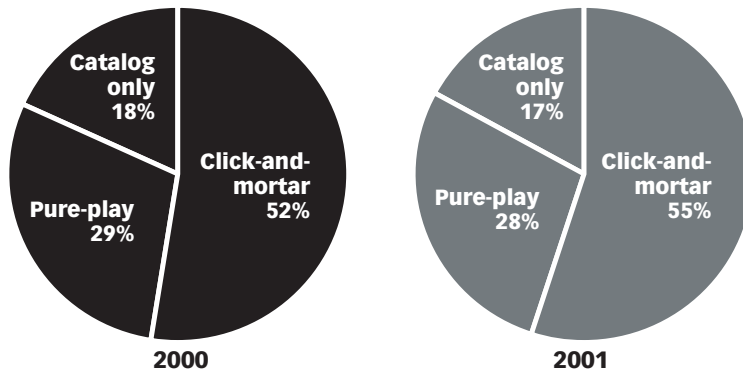
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Giga Information Group's data indicate that click-and-mortar companies will dominate internet sales in 2001, as they did in 2000.

B2C eCommerce Revenues, by type of Merchant, 2000 & 2001 (as a % of total revenue)



Source: Giga Information Group, 2000

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US B2C Online Sales, by Type of Merchant, 2000-2004 (in billions)

Type of merchant	2000	2001	2002	2003	2004
Pure play	\$17.3	\$30.7	\$38.9	\$44.7	\$48.4
Click-and-mortar	\$30.8	\$59.3	\$93.1	\$123.8	\$156.9
Catalog only	\$10.9	\$18.0	\$19.9	\$25.4	\$27.8
Total	\$59.0	\$108.0	\$151.9	\$193.9	\$233.1

Source: Giga Information Group, 2000

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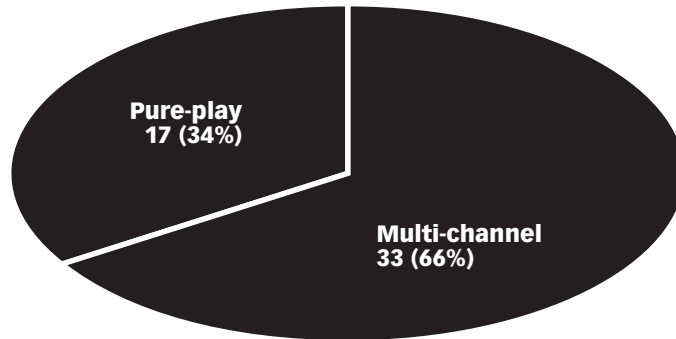
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The increasing success of the multi-channel retailer is reflected in its dominance among the 50 leading e-commerce sites in the US, according to Alexa Research. Multi-channel retailers outnumbered pure-plays nearly 2 to 1 among top 50 sites: 33 sites in the top 50 have multi-channel operations, while only 17 are pure-plays.

Multi-Channel Retailers among the Top 50 US B2C E-Commerce Sites, 2000



Source: Alexa Research, 2000

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Of course, stores remain the most popular shopping destinations, with 94% of consumers shopping in discount stores, 89% in grocery stores and 81% in drug stores, according to a study conducted by Indiana University and KPMG.

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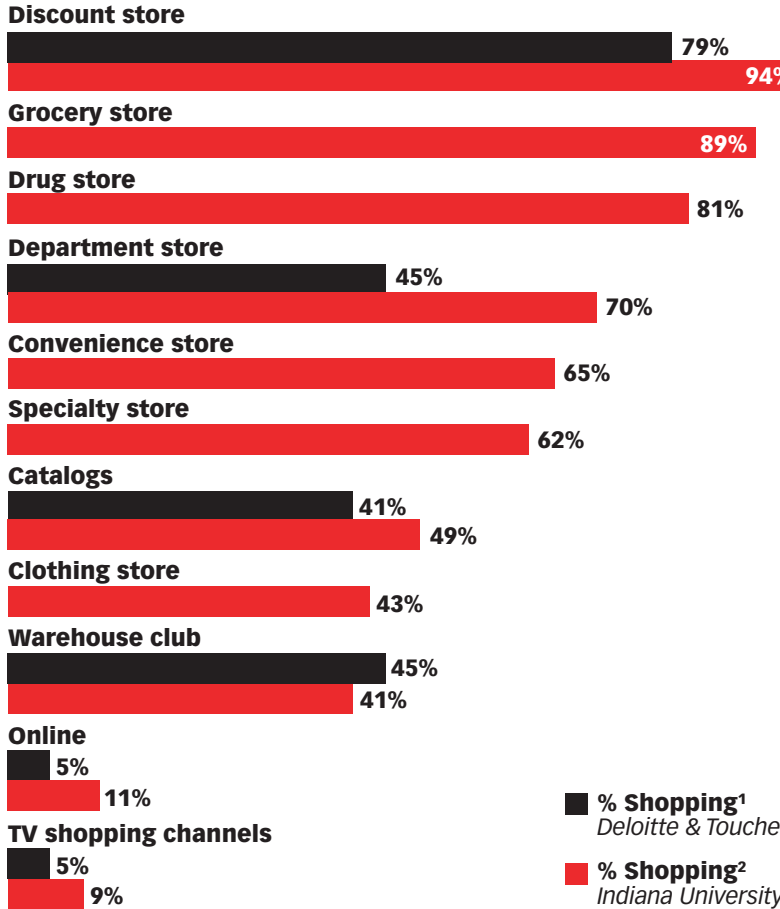
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For non-store formats, catalog shopping is the most popular, with 49% of consumers saying they have purchased from a catalog within a three-month period. The DMA, however, whose members are largely catalog distributors, shows a higher estimate of 57% of consumers.

Comparative Estimates: Where Do US Consumers Shop?, 2000



Source: (1) Deloitte & Touche/National Retail Federation, 1998 (2) Indiana University and KPMG, 2000

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But nearly half of online buyers (47%) in a PricewaterhouseCoopers survey said their online purchases replaced purchases they would otherwise have made in a store. Over 36% said their online purchase replaced a purchase they would have made through a catalog.

How Internet Sales Replace Other Channels, 2000

Online purchase replaced store purchase



Online purchase replaced catalog purchase



Online purchase consists of items not bought otherwise



Source: PricewaterhouseCoopers, 2000

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Store-based buying preferences could be waning. More than half of online shoppers told Ernst & Young that they are visiting retail stores less often. Respondents indicated that more than half of their online purchases, on average, ordinarily would have been made in a store or by phone, a finding that suggests brick-and-mortar retailers are losing sales to the online channel.

Effect of Online Shopping on In-store Traffic Among US Online Shoppers, 2000 (as % of survey respondents)

Shop less at the retail store



Shop more often at retail store



Made purchase that would have been made in traditional stores and catalogs



Source: Ernst & Young, 2000

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During the throes of the economic downturn of early 2001, high-end retail shopping experienced the greatest decline in spending, while discount shopping saw the greatest increase in spending, according to Knowledge Systems & Research, Inc. A little over half of consumers who have purchased on the web (online buyers) did not change their spending levels in the channel during the period.

US Consumer Spending Channel Comparison (six-month period), 2001

Channel	Increased spending	No change in spending	Decrease in spending
High-end retail stores	5%	38%	57%
Department stores	10%	49%	41%
Online	16%	52%	32%
Discount stores	33%	48%	19%

Source: Knowledge Systems & Research, Inc., 2001

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The internet as an information channel for offline purchasing continues to be important. Nearly 21% of internet users have bought goods or services offline as a result of information found online, according to Taylor Nelson Sofres.

Catalog Sales

“Catalogs are a great advertising vehicle. I don’t know too many people who say, ‘I’m going to take my laptop to the beach and browse.’”

– Michael Sherman, president, Fingerhut (in Direct Newsline, June 4, 2001)

Even as e-commerce has exploded, retailers are sending out more catalogs than ever. The DMA reported that paper catalog mailings in the US have risen 8.7% since 1995 to 14.4 billion in 1998. A number of retailers say that catalogs spur impulse purchases. The convenience of buying on the web will eventually make the internet the leading non-store shopping venue.

Consumers remain fond of catalogs, however, partly because they provide the same home delivery convenience as online shopping. Catalog-based sales growth continues to outpace overall retail growth, according to the Direct Marketing Association. In 2001, catalog sales are projected to reach \$120 billion, an 8.9% increase over 2000 sales. Consumer-directed sales will total \$73.3 billion in 2001, or 61% of the total.

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US Catalog Sales, 2000-2002 (in billions)

Consumer



Business



Total



■ 2000 ■ 2001 ■ 2002

Source: Direct Marketing Association, 2001; www.the-dma.org, 2001

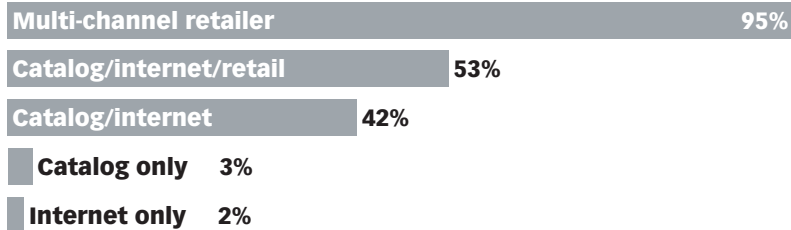
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The DMA finds that the internet generated 13% of all catalog sales in 2000. The DMA study, *Economic Impact: U.S. Direct and Interactive Marketing Today*, also reveals that although internet sales are slowing, the web remains the fastest-growing direct marketing medium. Web-generated sales are expected to reach \$37.1 billion in 2001, an increase of 32% over 2000 sales of \$28 billion.

Many print-based catalogers are jumping on the internet bandwagon, establishing a viable interactive online channel that utilizes their existing fulfillment infrastructure. About 95% of catalogers described themselves as multi-channel retailers, with 53% as catalog/internet/retailer.

How US Catalog Companies Define Themselves, 2001



Source: Direct Marketing Association, 2001; www.the-dma.org, 2001

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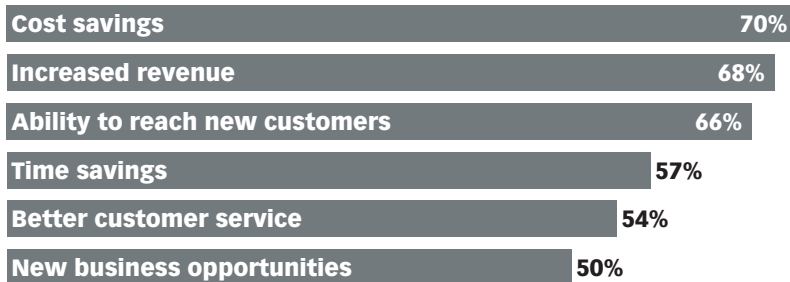
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About 70% of catalogers say that cost savings is the top benefit received from the use of interactive media. Other benefits:

What Benefits US B2C Catalogers See from An Online Presence, 2000



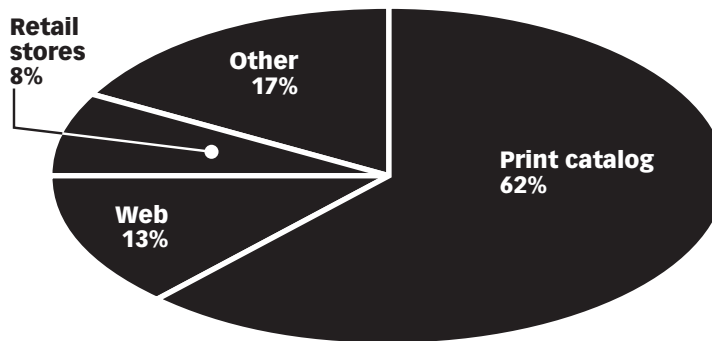
Source: Direct Marketing Association, 2001

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Multi-channel retailing has become a source for income accretion for catalog companies. But while 13% of sales were attributed to the web, 62% of sales were driven by the print catalog.

Sources of Revenue Among US Catalogers, 2000



Source: Direct Marketing Association, 2001; www.the-dma.org

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“Web-based retailers need to learn the basics of retailing. Store-based players are new to home delivery and selling to consumers one-on-one from a distance. Catalogers have a leg up on many dimensions, but need to perfect ways to exploit the relationship marketing opportunities that the internet enables, and improve the consumer online experience.”

– Peter Stanger, vice president, Boston Consulting Group (in *iMarketing News*, May 7, 2001)

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Catalogers are likely the only consistently profitable B2C companies on the web. About 40% of catalogers have attracted new customers through their online operations, according to a study conducted by Boston Consulting Group/Shop.org, resulting in about 72% of them showing an operating profit for 2000. Indeed, catalog giant Eddie Bauer realizes between \$800 and \$1,000 in annual spending per customer due to its presence online, at the mall and in the mail. For those who shop in only one of Eddie Bauer's channels, the average annual spending is only \$200 to \$300.

But not all consumers maintain an affinity for catalog shopping. Survey results from PricewaterhouseCoopers indicate that internet users who have purchased clothing in a six-month period concentrated their category spending with stores. In fact, stores garnered more than 70% of expenditures in both categories. In comparison, catalogs captured 11% of internet users' expenditures on clothing for themselves during a six-month period while online retailers secured 10% of spending in the category. Similar results were found with consumer electronics.

Clothing Expenditures, by Channel, 2000 (among internet users who purchased clothing in a six-month period)

	Store	Catalogs	Online	Other
All internet users	78%	11%	10%	2%
Online buyers	75%	11%	12%	2%
Online non-buyers	87%	9%	–	3%

Source: PricewaterhouseCoopers, 2000

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Catalogers are concerned that the click-and-mortar strategy often pays off for stores. Three out of every four partnerships linking a brick-and-mortar retailer with an e-commerce player since 1997 has been successful, according to McKinsey & Co. In examining 700 alliances involving online companies in the last four years, McKinsey found that 55% of them were a success, compared to 51% of offline partnerships.

However, many US B2C e-commerce companies have not entered strategic alliances with offline companies – and they are even outperforming catalog-based and store-based companies in many facets of the shopping experience, such as order conversion and fulfillment. Results from Boston Consulting Group/Shop.org indicate impressive results from web-based companies.

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Performance Statistics of US B2C Companies, by Channel, 2000

	Web-based top performers	Catalog-based	Store-based	All web-based companies
Abandoned shopping carts	34%	41%	64%	51%
Order conversion	2.7%	2.6%	1.8%	2.2%
Buyer conversion	4.3%	4.8%	3.2%	3.7%
Orders completely filled	97%	89%	85%	85%
Average order processing time	0.7 days	1.3 days	1.9 days	1.5 days

Source: Boston Consulting Group, 2001

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“While consumer demand continues to propel growth, online retailers have wrestled with operational issues and improving their performance in key areas such as customer acquisition and buyer conversion.”

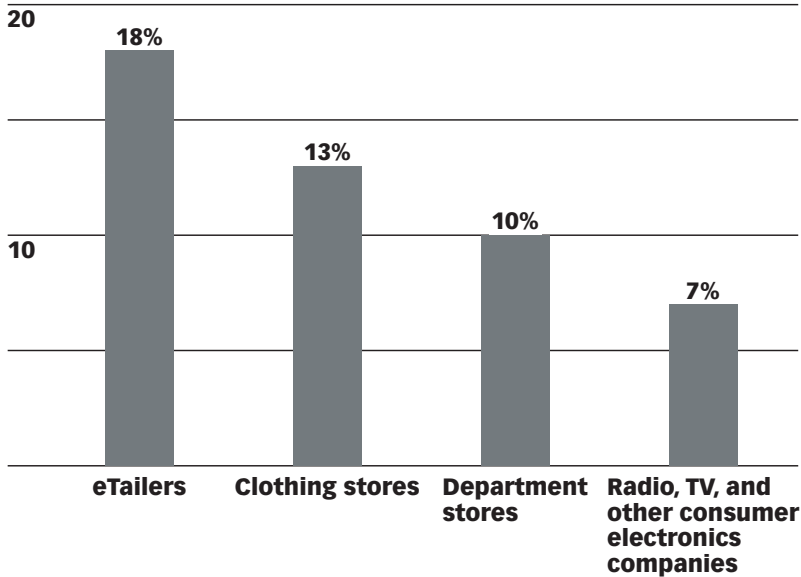
— Elaine Rubin, chairman of Shop.org.

For those US B2C e-commerce companies that thrived during the 2000 year-end holiday season, 2001 became a year to keep and grow established customers – and turn a profit. Customer relationship management strategies promised long-term revenue streams and reduced operating costs. By increasing their share of each customer’s business, instead of increasing overall market share, e-tailers could lock in customer loyalty and reach profitability. The Holy Grail was determining which customers are most profitable over the long term.

The age of e-business profitability is here, but the gap between the most successful and the poorest performing group of online companies is growing. In its E-Performance Scorecard, McKinsey & Co. found that one dot com in five is now profitable. The Scorecard, which measured the profitability of companies in three industries, found that the strongest pure-play e-tailers are outperforming their brick-and-mortar competitors in some areas, such as higher operating margins.

Average e-tailers are still operating in the red, but the leading ones have their operating margins on the plus side, according to a McKinsey & Co. study. Leading e-tailers now outperform their offline counterparts:

Average Operating Profit Margin of Top US eTailers and Traditional US Retailers in 3 Industries, Q3 1999-Q2 2000



Source: McKinsey & Co., 2000

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McKinsey found that e-tailers launched by incumbent offline businesses were doing better than their online-only competitors partly because of their added benefit of established brands, marketing arrangements, and installed information technology, such as order-fulfillment systems. Almost 86% of the e-tailers in the best-performing quartile were offshoots of incumbents, compared with 7% of those in the worst-performing quartile.

US Pure-play eTailers Customer Acquisition Costs and Conversion Ratios Compared with Click-and-Mortar eTailers, Q4 1999-Q2 2000

	Pure-play eTailers	Click-and-mortar
Customer acquisition costs	\$146	\$62
Customer-to-visitor ratio	4.5	7.1
Number of transactions per customer	1.28	1.34

Source: McKinsey & Co., 2000

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Customer profitability analysis involved ranking customers by their value and needs, and engaging in interactive relationships with the most valuable group. Successful companies began to aggressively manage their customers from the moment of attraction, to convert browsers into buyers, and then buyers into loyal buyers.

Despite the dot com shakeout, online retailers were able to reduce losses as a percentage of revenues. Boston Consulting Group/Shop.org found that operating losses decreased as a percentage of revenue, from 19% in 1999 to 13%, or \$5.6 billion, in 2000.

The movement toward profitability is largely due to online retailers controlling their marketing budgets. 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 were able to bring them down from a high of \$82 to \$55 over the same period. The best performing online retailers reduced acquisition costs to an average of \$14 per customer, rivaling the performance of catalog-based retailers.

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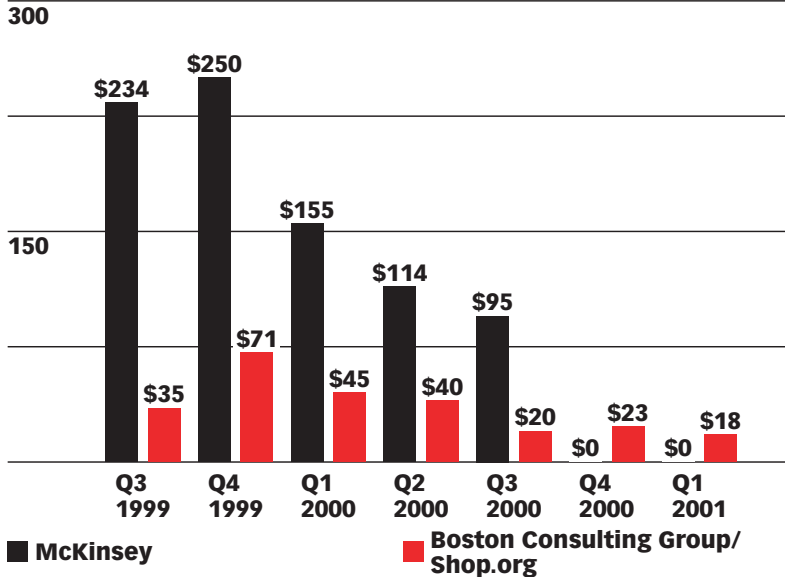
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According to BCG/Shop.org, the customer acquisition cost for online retailers in the US fell 60% between Q1 2000 and Q1 2001 – from \$45 to \$18, respectively. BCG surveyed 79 e-tailers and found that their general customer acquisition cost dropped by \$5 between the end of 2000 and Q1 2001. Data from McKinsey & Co. indicate similar declining costs, although its estimates include non-retailers and are noticeably higher:

Comparative Estimates: US Online Retailers' Customer Acquisition Costs, Q3 1999-Q1 2001



Source: McKinsey & Co., 2000; Boston Consulting Group/Shop.org, 2001

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In contrast, research firm IDC concludes that average online customer acquisition costs are actually rising, from \$95 in 2000 to \$122 in 2001. The firm reported that the costs will level off to just under \$120 in 2004 and 2005.

“Clicks-and-bricks e-tailers have the deck so heavily stacked in their favor...that very few born-on-the-web e-tailers stand a chance of making money down the road.”

— Tom Wyman, J.P. Morgan Securities (from *eCommerce Business*, Aug. 28, 2000)

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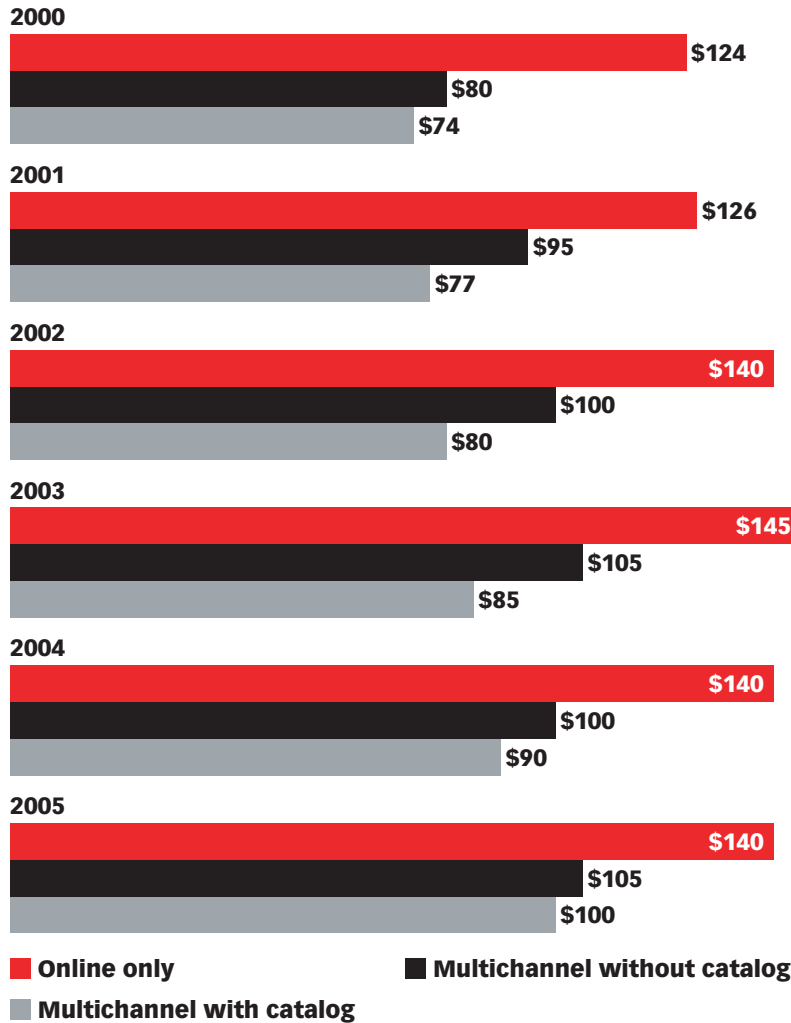
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eMarketer concludes that online customer acquisition costs are still high but will decline through 2004. Nonetheless, those e-tailers with a multichannel strategy, including catalogs and an offline presence, will benefit from lower average costs compared to competitors. McKinsey data support this hypothesis.

US Average Online Customer Acquisition Costs, by Channel Strategy, 2000-2005



Source: McKinsey & Co., 2000

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Customer/Order Conversion Ratios

US B2C e-commerce companies are doing a better job of converting shoppers into customers than in previous years by improving site navigation and adding more customized features, among other reasons. eMarketer places the customer conversion ratio at 2.9% for 2000, a good improvement from the 1.9% of 1999. For 2001, the ratio jumps to 3.5% as e-tailers will attract and win new customers with more targeted, customized marketing campaigns.

US Online Retailers' Customer Conversion Ratios, 1999-2001



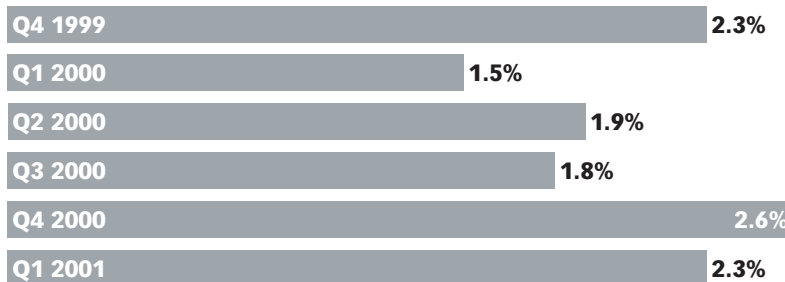
Source: eMarketer, 2001

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Defined as the total number of orders received divided by the total number of visits, the order conversion rate for online retailers in Q1 2001 dropped to 2.3% (from 2.6% in Q4 2000, which is to be expected considering the holidays are at the end of the year). Still, the conversion rate grew over the course of 2000:

US Online Retailers' Order Conversion Rates, Q4 1999-Q1 2001



Source: Boston Consulting Group, Shop.org, 2001

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“While consumer demand continues to propel growth, online retailers have wrestled with operational issues and improving their performance in key areas such as customer acquisition and buyer conversion.”

— Elaine Rubin, chairman, Shop.org

Buyer conversion rates for all web-based companies was 3.7% in 2000, slightly higher than store-based retailers, according to BCG.

Buyer Conversion Ratios, by Channel, 2000

	Web-based top performers	Catalog-based	Store-based	All web-based companies
Buyer conversion ratio	4.3%	4.8%	3.2%	3.7%

Source: Boston Consulting Group, 2001

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Similar data from McKinsey & Co. indicate customer conversion ratios more than tripled in less than one year between 1999 and 2000, although customers are buying less with each transaction.

US Online Retailers' Customer Conversion Ratios and Revenue per Customer, Q3 1999-Q2 2000

	Customer-to-visitor ratio (%)	Revenue per customer	Number of transactions per customer
Q3 1999	1.8%	\$327	1.9
Q4 1999	2.5%	\$418	2.0
Q1 2000	4.4%	\$179	1.2
Q2 2000	5.6%	\$203	1.3

Source: McKinsey & Co., 2000

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Comparative Estimates: US Online Customer Conversion Rates, 2000

Nielsen//NetRatings

1.8%

Jupiter Media Metrix

2.0%

Boston Consulting Group/Shop.org (average)

2.0%

Intermarket Group

2.7%

eMarketer

2.9%

McKinsey (Q4 99 to Q2 00)

3.6%

Source: eMarketer, 2001; various, as noted, 2001

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The strongest websites have conversion rates as high as 12%, as against 2.5% for average sites and a mere 0.4% for poorly performing sites, according to McKinsey. Its data suggest that those sites with simple transaction processes do a better job of converting visitors into buyers. Those sites that ask shoppers for a lot of information about their preferences and behavior exhibit lower order conversion rates. Some sites have improved their conversion rates by more than 50% by simplifying the purchase process, notes McKinsey. Those sites that need to acquire customer information should do so a little at a time instead of barraging customers with a long list of questions during the transaction.

Most of those who begin the process of researching and comparing products online find themselves experimenting with a purchase or two. eMarketer has divided the total number of online buyers by the total number of online shoppers to develop an online buying index between 2000 and 2005. The index will rise from 82 in 2000 to 93 in 2004. It will dip to 90 in 2005 when the penetration rate of online buyers will level off.

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Year	Shopped online	Total online shoppers (14+) (in millions)	Purchased online	Total online buyers (14+) (in millions)	Online buying index *
2000	73%	76.9	60%	64.1	83
2001	77%	90.7	67%	79.3	87
2002	79%	101.3	71%	91.1	90
2003	81%	113.5	75%	104.4	92
2004	82%	125.1	77%	116.6	93
2005	85%	143.7	77%	130.0	90

Note: *Online Buying Index is calculated by dividing the total number of online buyers by the total number of online shoppers

Source: eMarketer, 2001

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Profitability Strategies

“Brick-and-mortar retailers should not blindly follow the lead of their pure-play competitors by adopting a laser-like focus on the profitability of their websites.”

— Ken Casser, Jupiter Media Metrix senior analyst

By only examining top-line metrics such as sales and profits, Jupiter Media Metrix discovered that 69% of click-and-mortar retailers are underestimating the benefits derived from their websites. Jupiter’s report, “Profits Are for Pure Plays: Prudent Online Investment Strategies for Brick-and-Mortar Retailers,” shows that retailers who factor in non-transactional benefits, such as online-influenced sales and improved payroll productivity, discover that the return on investment of their websites is 65% higher than if they only consider online sales.

Although 45% of consumers have used a retailer’s website to research a product before buying it at the same company’s store, Jupiter found that most click-and-mortar retailers ignore the “non-transactional” value of their sites and are tracking metrics that treat their sites merely as selling channels.

Jupiter said that only pure plays should focus primarily on recognizing profits from their websites while click-and-mortar companies should attempt to maximize their sites’ potential to build online sales and drive informed customers into their stores.

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eTailers are attempting to increase sales by targeting larger customers. For some, that means abandoning consumer-based sales entirely. A 2001 Webmergers.com report found that 47% of the 90 B2C e-commerce companies studied had moved to a B2B strategy, while one-third of B2Bs had begun to pursue Fortune 100 customers. Nearly 16% of all companies shifted to an offline, bricks-and-mortar revenue model.

Repositioning Strategies of 125 Internet Companies, 2001

Move from B2C to B2B	34%
B2B to larger B2B	10%
Adopt bricks & mortar model	16%
Expand product offerings	14%

Source: *Webmergers.com, 2001*

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Publicly held internet startups twisted in the dot.com death spiral during the last year, stunning many stakeholders. However, another study conducted by the *Industry Standard* found that 36 of 43 online retailers that went public are still alive and kicking.

Publicly Held US eTailers That Went Out of Business, 1999-2001

eTailer	Vecture capital raised (in millions)	IPO amount raised (in millions)	Date of Death
eToys	\$48.0	\$191.0	3/8/2001
Fogdog.com	\$39.0	\$66.0	12/28/00
Genesis Direct	\$72.0	\$166.9	8/19/99
Mothernature.com	\$61.0	\$53.3	3/15/01
Pets.com	\$80.0	\$94.9	11/7/00
Planet Rx	\$98.0	\$96.0	7/1/00
Value America	\$19.0	\$145.5	8/11/00

Source: *The Industry Standard, July 9-16, 2001*

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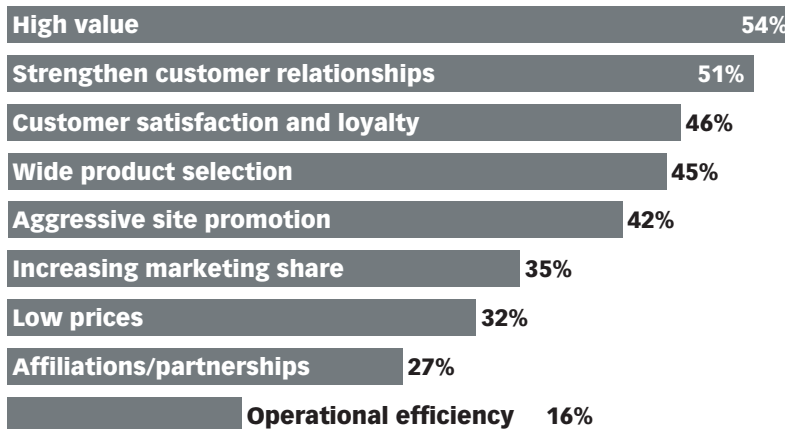
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ActivMedia Research reports that 66% of all e-businesses are either entirely or partially intended to generate profits. Surprisingly, 54% of profit-seeking sites were profitable as of June 2001, and 28% expect to be out of the red by year-end 2001. The report indicates that the typical website becomes profitable after 2 years online. B2C companies as a group engage in several customer-related strategies to become profitable. Overall, their goal is to increase customer satisfaction, but many find diversifying their product offerings increases revenues.

Leading Competitive Strategies for Profitability Among US Online Retailers, 2001



Source: *ActivMedia, 2001*

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www.eMarketer.com

“In the fickle world of e-commerce, customer loyalty is an ephemeral and elusive concept.”

— *Laurie Windham, Cognitative*

Improving online customer service is an effective strategy for securing loyalty; however, it will not guarantee profits. To operate profitably, e-tailers need a viable business model along with a steady cadre of profit-generating customers. By ranking customers based on their value to the company, online merchants can determine which ones are worth serving the best and can weed out those that prove to be least profitable for the long haul. Many online retailers have a substantial challenge ahead to build brand awareness and achieve profitability. The winners will be those that can effectively create and manage long-term relationships with the most valuable customers.

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Based on research gathered to date, the five key factors for converting an online shopper into a purchaser are: 1) Convenience, 2) Reassurance, 3) Options, 4) Service & Support and 5) Savings. The five can be remembered by the acronym CROSS, for what it will take e-tailers to “cross” the divide between shoppers and buyers.

eMarketer’s Top Five Factors for Channeling Online Shoppers into Buyers: C.R.O.S.S.

#1) Convenience (speed, efficiency)	#2) Reassurance (feeling safe)	#3) Options
Well laid-out site/Easy to navigate	Credit card transaction must be (or at least be perceived as) secure	Choices with delivery method and timing
All necessary product, sales and policy information is available and accessible	Privacy policy, including the use of personal information is clearly spelled out	Can buy over phone, web, catalog
Check-out/payment process is fast and all final costs are clearly identified	Adequate and simple return policies and guarantees	Multiple payment options
Wide variety of merchandise available	Familiar, well-known brand names evoke trust and assurance	Large selection of in-stock merchandise
#4) Service & Support	#5) Savings	
Access to customer service is easy and timely	Competitive pricing	
Personalization of web pages based on customer profiles	Discounts	
eMail and phone inquiries are answered quickly and in a friendly manner	Promotions, e-coupons	
On-time delivery; timely accurate billing		

Source: eMarketer, 1999

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A. Overview of US Population

The foundation of eMarketer's demand-side model begins with demographic trend data (from the U.S. Census Bureau) that projects the number of adult Americans (aged 18+) and teenagers (aged 14 - 17) for the years 2000 through 2005. These two groups comprise the core base of all consumer shoppers in the United States. (Of course, while many children aged 13 and under shop on occasion, the percentage doing so online will be relatively small given that they do not normally have access to credit cards, the primary form of payment on the internet).

QuickStats: United States, 2000

Total population (in millions)(1)	276.1
Population 14+ (in millions)(1)	221.0
GDP (PPP adjusted, in billions) (1999)(2)	\$9,255
GDP per capita (PPP adjusted) (1999)(2)	\$33,900
PCs per 100 inhabitants (1999)(3)	51
Internet users (in millions)	116.5
Internet users as % of pop.	42.2%
B2C e-commerce (in billions)	\$38.3

Source: eMarketer, 2001; 1) US Census Bureau, 2001 (interpolated by eMarketer); 2) CIA World Fact Book, 2000; 3) International Telecommunication Union (ITU), 2000

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Based on estimates provided by the DOC, the US remains on top of the world with 116.5 million total internet users in 2000, which is about 42% of the total population. A robust telecommunications infrastructure and low internet access costs for the general populous are a couple of reasons why the US leads the way.

Internet Users as a % of the US Population, 2000 (in millions)

Internet users	116.5 million (1)
US population	276.1 million (2)
Internet users as % of US population	42.2%

Note: (1) Based on US Dept. of Commerce numbers, (2) 2000 US Census Bureau figures

Source: eMarketer, 2001

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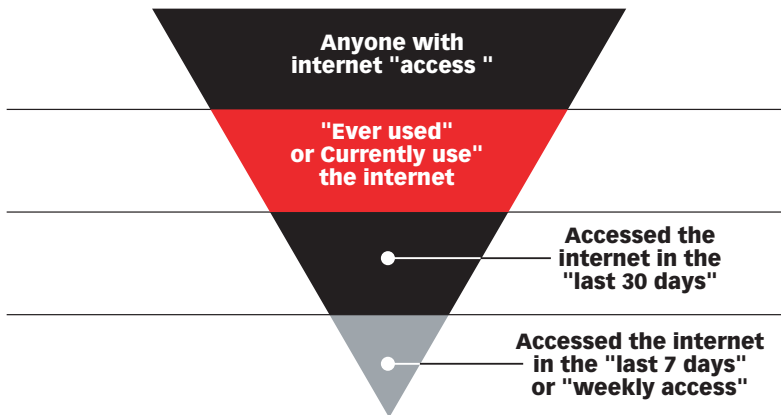
B. Internet Users

Before we can measure or forecast the number of internet users, we first have to answer a basic question: What is an internet user?

US research firms and other trusted sources disagree widely on how to answer this seemingly simple question. Part of the meaning of an internet user has to do with how frequently the person goes online.

In analyzing the various definitions used by researchers, eMarketer identifies four general levels of internet usage:

Four Levels of Internet Usage



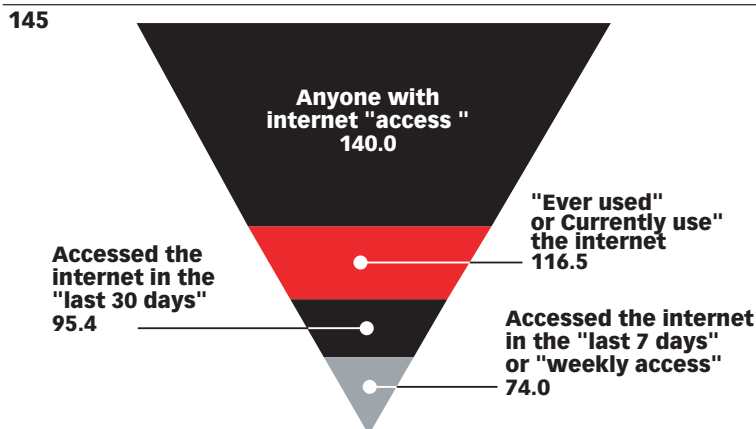
Source: eMarketer, 2001

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Estimates of total internet users at each level vary widely:

Estimates for Each of the Four Levels of Internet Usage, 2000 (in millions of users)



Source: eMarketer, 2001

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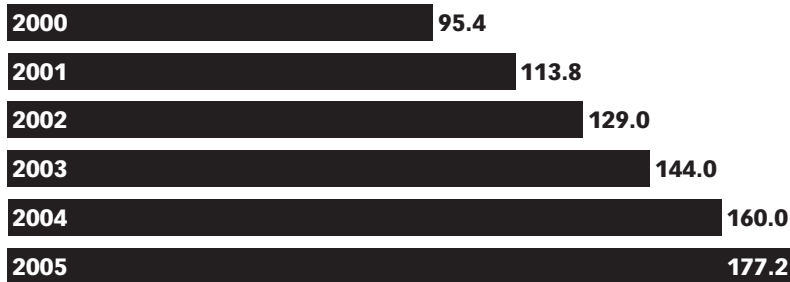
Some researchers, such as Jupiter Media Metrix, include as internet users those who do not necessarily get online but simply have “access.” However, the definition of internet “access” is not the same as internet “usage.”

eMarketer looks at all four definitions when aggregating and filtering data from various sources, but concentrates on levels two and three when analyzing the numbers.

For the purposes of examining global internet users, eMarketer looks at the ITU’s estimates. The ITU subscribes to a level three definition of an internet user – someone who went online in the past 30 days.

For 2000, the ITU estimates that there were 95.4 million internet users, of all ages, in the US. The ITU’s tighter definition of an internet user allows us to compare estimates of internet users with other regions of the world better than if we used a looser definition, such as Level One or Level Two.

US Internet Users (All Ages), Based on Last 30-Day Usage, 2000-2005 (in millions)



*Note: Based on eMarketer projections from 2001 to 2005
Source: ITU, 2000; eMarketer, 2001*

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When examining total internet users and specifically users at the demographic level (such as number of minorities online or number of seniors online), eMarketer applies the broader, Level Two definition of internet usage from the DOC, and looks to estimates specifically from its report, “Falling Through the Net: Toward Digital Inclusion” published in August 2000.

The DOC defines an internet user as someone who “currently uses” the internet.

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According to the DOC, as of August 2000, 116.5 million Americans were online – 31.9 million more than 20 months prior. Internet users accounted for 44.4% of the US population (age 3 and older).

US Internet Users, by Age Group, 2000 (in thousands and as % of each age group)

Age	US population, in thousands (1)	Internet users, in thousands (2)	Internet user rate (3)
0 to 2	13,440	13	0.10%
3 to 8	23,962	3,671	15.3%
9 to 17	36,673	19,579	53.4%
18 to 24	26,458	15,039	56.8%
25 to 49	101,946	56,433	55.4%
50 and over	73,580	21,758	29.6%
Total	276,059	116,500	-

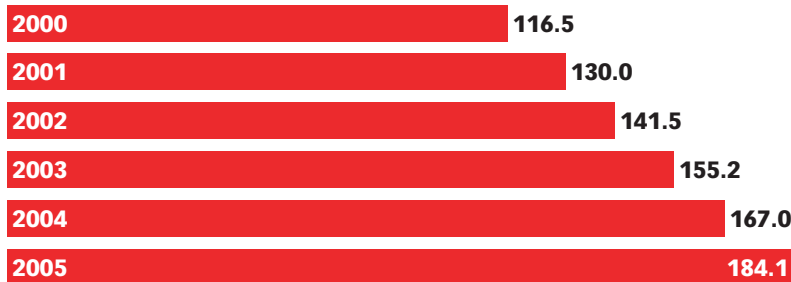
Source: (1) US Census Bureau; (2) US Commerce Department, 2000; (3) eMarketer, 2001

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Using the year 2000 figure from the DOC as a starting point, eMarketer projects forward to the year 2005, when we estimate there will be 184.1 million people online in the US.

US Internet Users (All Ages), 2000-2005 (in millions)



Note: Based on eMarketer projections from 2001 to 2005
Source: US Department of Commerce, 2000; eMarketer, 2001

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To forecast US B2C e-commerce estimates, we focus on the core group of shoppers and buyers of Americans aged 14 and older. First we look at the US DOC estimates for total internet users in this age group.

US Adult and Teen Internet Users, 2000

Age	US population (in thousands)	Total users (in thousands)	Internet users as a % of total
18 and older	205,576	93,230	45%
14 to17	15,743	12,100	77%
Total	221,319	105,330	48%

Source: US Census Bureau, US Department of Commerce (Interpolated by eMarketer), 2000

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Including teens (14+), there are 105.3 million internet users in the US, or about 48% of the population. By 2005, that number will reach 169 million.

US Internet Users (14+), 2000-2005 (in millions and as a % of 14+ population)

2000	105.3 (47.6%)
2001	117.8 (52.8%)
2002	128.2 (56.8%)
2003	140.1 (61.4%)
2004	152.5 (66.2%)
2005	169.0 (72.5%)

Note: Based on US Department of Commerce 2000 estimates of self-reported "current" usage

Source: eMarketer, 2001 (projections for 2001-2005)

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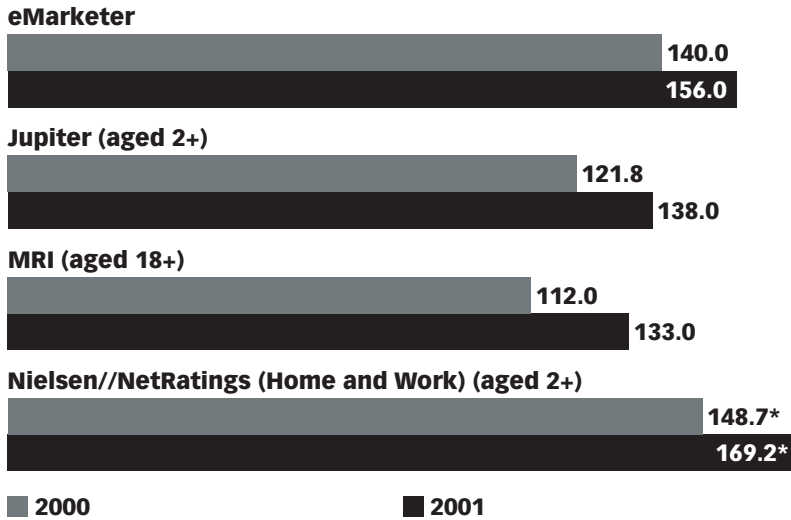
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Internet Users: Comparative Estimates

A hodgepodge of comparative estimates of internet users in the US complicates the task of accurately assessing the state of B2C e-commerce. How can one determine how many potential online shoppers and buyers there are without first knowing how many total users are online?

eMarketer has sorted through numerous estimates to compare internet users at each of the four levels: “access,” “currently use,” “last 30 days,” and “last 7 days.”

Comparative Estimates: Americans with Access to the Internet (“level 1” internet users) , 2000 and 2001 (in millions)



Note: *Based on eMarketer interpolation of 2000/2001 data
Source: eMarketer, 2001; various, as noted, 2001

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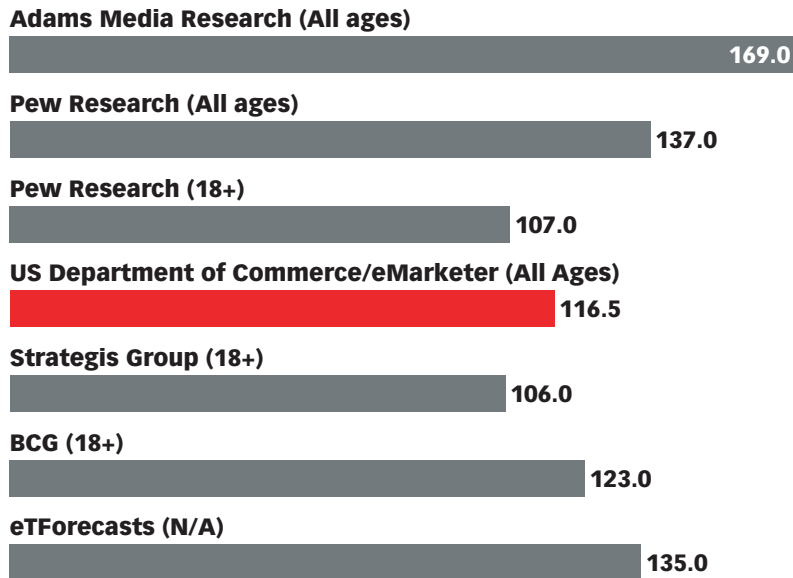
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Comparative Estimates: Americans Who Have "Ever Used" or "Currently Use" the Internet ("level 2" internet users), 2000 (in millions)

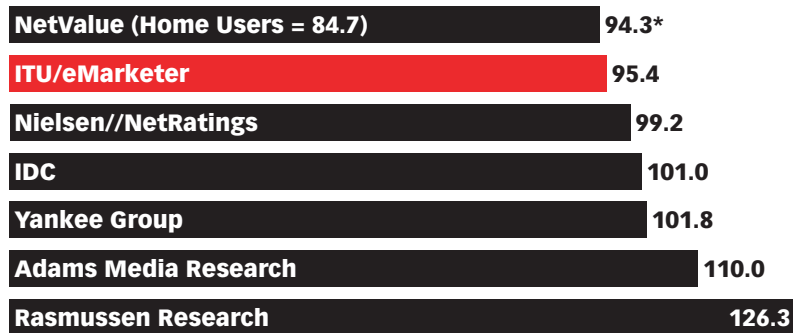


Source: eMarketer, 2001; various, as noted, 2001

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Comparative Estimates: Americans (of all ages) Who Have Accessed the Internet in Past 30 Days ("level 3" internet users), 2000 (in millions)



Note: *eMarketer interpolation based on Nielsen//NetRatings data

Source: eMarketer, 2001; various, as noted

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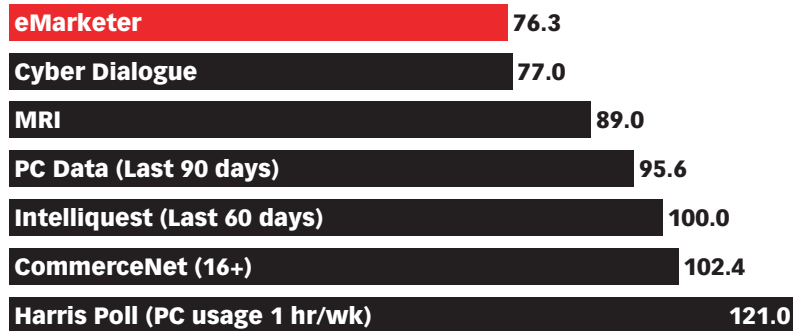
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Comparative Estimates: Adult (18+) Users Who Have Accessed the Internet in Past 30 Days ("level 3" internet users), 2000 (in millions)



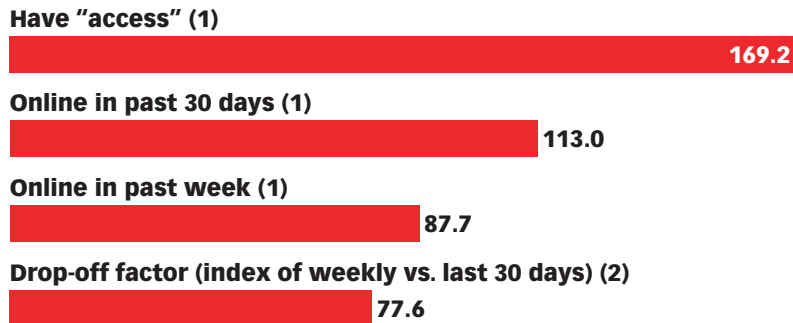
Source: eMarketer, 2001; various, as noted

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Nielsen//NetRatings also provides weekly updates on the number of internet users. From these numbers, eMarketer determined a "drop-off" factor to compare users who have been online in the past 30 days to users who have accessed the internet in the past week.

Home and Work Internet Access and Usage Among All Ages (2+), June 2001 (in millions)



Source: (1) Nielsen//NetRatings, June 2001; (2) eMarketer, 2001

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If the drop-off factor of 77.6 is applied to the ITU's 2000 internet user estimate of 95.4 million, then there were 74.0 million users online each week in 2000.

US Internet Users, by Level of Usage, 2000 (in millions)

US internet users (self-defined "current" users) (1)	116.5
Last 30 days usage (2)	95.4
Weekly internet users (3)	74.0

*Note: (1) US Commerce Department
 (2) ITU estimate
 (3) Derived by applying Nielsen//NetRatings' drop-off factor
 Source: eMarketer, 2001*

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Since research firms vary widely in their estimations of online internet usage, the charts for growth from 1999 to 2005 also show a broad range of figures.

Comparative Estimates: US Internet Users, 1999-2005 (in millions)

	1999	2000	2001	2002	2003	2004	2005
Cyber Dialogue	-	77.0	97.3	107.2	117.1	-	-
eMarketer*	-	116.5	130.0	141.5	155.2	167.0	184.1
eTForecasts	-	135.0	-	169.0	-	-	214.0
IDC	101.1	122.7	135.0	156.0	176.0	194.0	-
Jupiter Research	104.5	121.8	138.0	153.6	168.4	182.0	194.0

Source: eMarketer, 2001; various, as noted

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Where data were available, eMarketer has calculated the year-over-year growth rates in the number of US internet users through 2005. Again, there is some variance as to how fast the internet user population is growing and when and if saturation will occur. eMarketer projects a steady 9% to 10% increase of users through 2005, when the increased penetration of broadband technology will spike the number of users by nearly 12% in that year.

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	2000 to 2001	2001 to 2002	2002 to 2003	2003 to 2004	2004 to 2005
Cyber Dialogue	10.6%	10.2%	9.2%	–	–
eMarketer*	10.5%	9.4%	10.1%	9.1%	11.7%
IDC	21.4%	18.8%	11.4%	–	
Jupiter Research	13.3%	11.3%	9.6%	8.1%	6.6%

Source:

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The chart below summarizes internet user estimates for 2000 for all of the comparative sources mentioned.

Comparative Estimates: US Internet Users, 2000 (in millions)

Source	Age	Location	Definition of user	2000
Morgan Stanley	–	–	–	152.0
Computer Industry Almanac	–	–	–	133.0
ComScore Networks	–	All	–	128.4
Rasmussen Research	All	All	–	126.3
Boston Consulting Group	18+	All	–	123.0
International Data Corp.	All Ages	All	Last 30 days	122.7
Jupiter Research	2+	All	Last 30 days	121.8
Harris Poll (Aug./Sept. 2000)*	18+	All	Must use a PC at least 1 hour per week	121.0
Department of Commerce	3+	All	“Currently use”	116.5
Adams Media Research	All	All	Last 30 days	110.0
eMarketer	14+	All	Last 30 days	107.1
Pew Research	18+	All	Ever used	107.0

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The Strategis Group	18+	All	Ever used	106.0
CommerceNet	16+	All	30 days	102.4
Yankee Group	All	All	–	101.8
Forrester Research	–	All	–	101.0
MRI	Adults	All	30 days	101.0
IntelliQuest	16+	All	90 days	100.0
Nielsen//Net Ratings	2+	Home and work	Last 30 days	99.2
Nielsen//Net Ratings	2+	Home and work	Last 7 days (derived)	77.0
PC Data Online	18+	–	Last 90 days	95.6
ITU	All	All	Last 30 days	95.4
Mediamark Research	18+	All	Last 30 days	89.0
MediaPost Communications	18+	–	–	87.9
NetValue	–	Home	–	84.7
Cyber Dialogue	18+	All	30 days	77.0
Media Metrix	2+	Home and work	30 days	77.9

*Note: *Harris Poll reports 59% penetration of adults in 2000; with base of adults at 205 million, that equals 121 million*
Source: eMarketer, 2001; various, as noted

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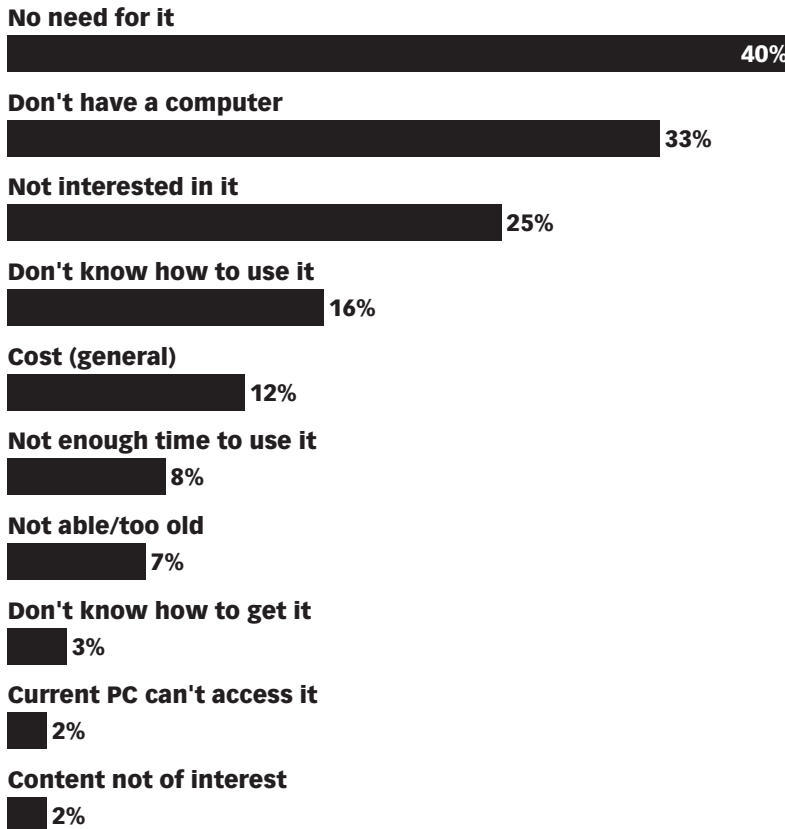
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New Users and Non-Internet Users

Despite the growing numbers of internet users worldwide, there remains a large fraction of the global population that has never ventured to the web. Research firm Ipsos-Reid reports a global internet user figure of 400 million, which represents only 6% of the earth's population. Its study found that even in heavily internet-saturated countries such as the US, up to one-third of the internet-enabled population chooses not to use the web. Top reasons include "no need, and "no computer."

Reasons for Not Using the Internet Among Consumers Worldwide, 2001



Source: Ipsos-Reid, 2001

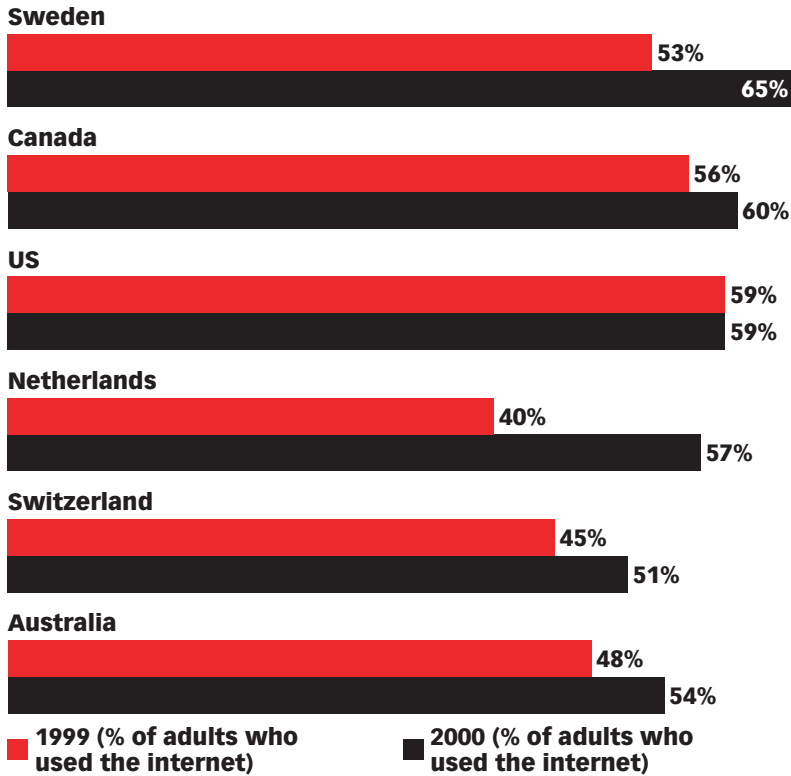
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Ipsos-Reid surveyed 28,000 internet users and found that among “leading-edge” countries, Sweden and Canada surpassed the US on internet usage. Although the US led the way in 1999 with 59% of adults having used the internet in a past 30-day period, by 2000 Sweden was ahead with 65%:

Internet Usage in "Cutting-Edge" Countries, 1999 & 2000



Source: Ipsos-Reid, 2001

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IDC predicts that between 2000 and 2005, there will be 24.2 million new internet users in the US between the ages of 35 and 54. The newbies will represent 28.5% of all new users in the country during that period. About 22.1 million new users over 55 will also come online in that span (accounting for 26% of all new users), as will 18.96 million new users under the age of 12 (22% of the new-user total).

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C. US Households Online

The DOC finds that as of August 2000 there were 105 million households in the US, a figure that will reach 112.2 million by 2005.

US Households, 2000-2005 (in millions)

2000	105.0
2001	107.8
2002	108.9
2003	110.0
2004	111.1
2005	112.2

Source: US Department of Commerce, 2000; eMarketer, 2001

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Americans bought home computers and connected them to the internet at an accelerated rate between December 1998 and August 2000. In that 20-month period, the share of households with internet access soared by 58%, from 26.2% to 41.5%, according to the DOC, while the share of households with computers rose from 42.1% to 51.0%. Thus, 58.5% of households (61.6 million) were not connected electronically.

US Households without Internet Access, 1998 & 2000 (in millions and as a % of total households)

1998	76.5 (73.8%)
2000	61.6 (58.5%)

Source: US Department of Commerce, 2000; eMarketer, 2001

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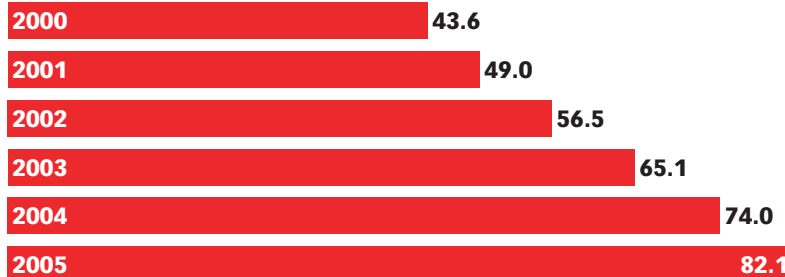
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Comparative estimates of US households online vary widely, too. eMarketer finds that there were 43.6 million households online in 2000, based on the DOC penetration rate of 41.5% of all households.

US Households Online, 2000-2005 (in millions)



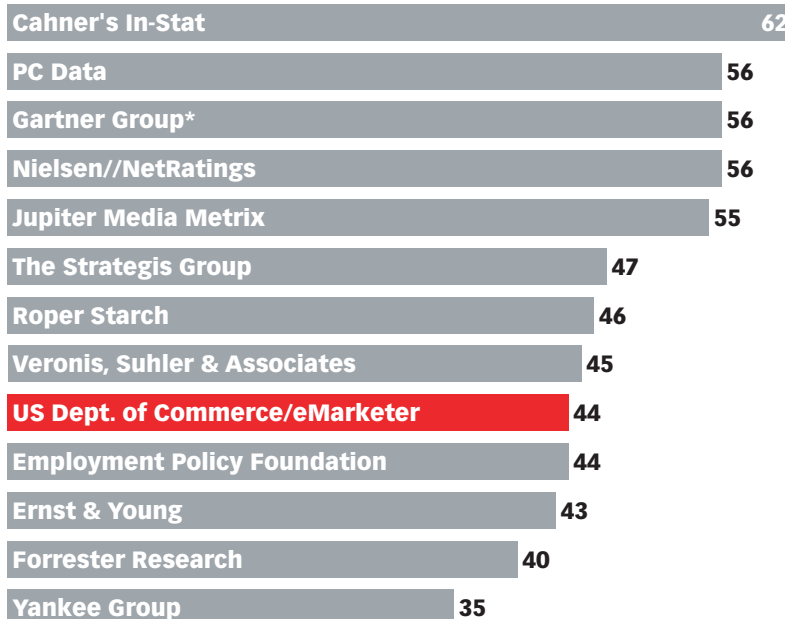
Note: Based on US Department of Commerce 2000 estimates
Source: eMarketer, 2001

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There are a wide range of estimates for total US households online and six of them converge tightly (within three or four million above or below) around the DOC's estimate of 44 million.

Comparative Estimates: US Households Online, 2000 (in millions)



Note: *Gartner Group estimates 65 million households online in 2001.
Source: eMarketer, 2001; various, as noted, 2000

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D. Time Spent Online

US internet users spend a considerable amount of time online once they log on to the web. Much of their surfing, it appears, is done while the boss is not looking.

Average Monthly Internet Use among US Online Population, January 2001

	At work	At home	Average all locations
Number of sessions per month	43	18	28
Number of unique sites visited	32	10	19
Time spent per site	45:53	59:33	-
Time spent per month	24:20:27	9:57:36	15:03:24
Time spent during surfing session	33:46	32:26	31:36
Active internet users	37,870,979	101,347,170	106,319,865

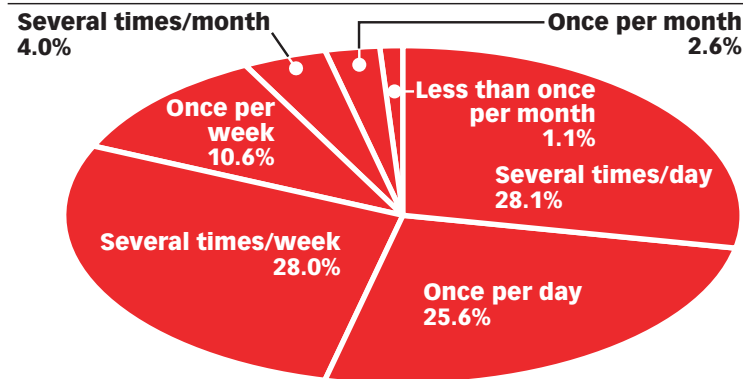
Source: Nielsen//NetRatings, 2001

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Internet users are logging on at least once per day. PC Data found that a small minority of users only go online less than once a month.

US Internet Users, by Frequency of Access, 2000



Source: PC Data Net Portrait, 2000

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Late in 2000, Nielsen//NetRatings found average surfing time dropped by 15%, from 17.5 hours in October to 14.9 hours in December. But both of those findings appear to reflect that usage has flattened out. The latest estimates from Nielsen//NetRatings indicate the average time spent online per month is around 15 hours.

Average Internet Use among US Online Population, per Month, 2000

Number of sessions	28
Time spent per month	15:03:24
Average length of session	31 min

Source: Nielsen//Netratings, 2001

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Drops in average time spent online are likely seasonal. Users spend more time online during holidays when they shop and e-mail greeting cards, among other things. Nielsen//NetRatings found internet usage back up to about 16.5 hours during June 2001. A separate measure from Jupiter Media Metrix also found internet users in the US averaged 19 hours online in June vs. 16.7 hours a year prior.

Comparative Estimates: Average Internet Use among US Online Population, June 2001 (hours online)

Nielsen//NetRatings (all locations)	16.5
Jupiter Media Metrix (all locations)	19

Source: Jupiter Media Metrix, Nielsen//NetRatings, 2001

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Average Internet Use Among US Population, per Month, 2000

Days online per month	10.9
Hours online per month	10.8

Source: NetValue, 2001

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The internet is becoming a popular medium for news and entertainment. A recent study by Scarborough Research found that increased internet usage is linked to a drop in the consumption of traditional media.

Changes in How US Internet Users Consume Traditional Media, 2001



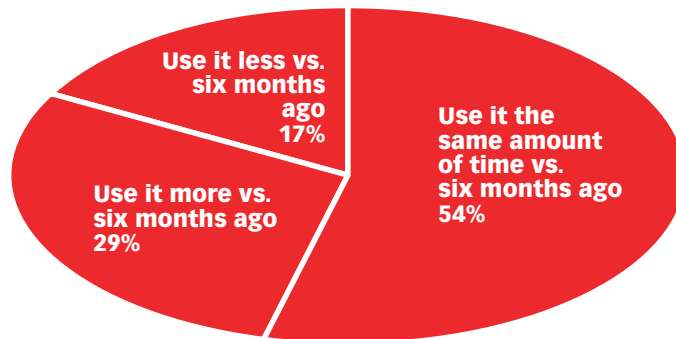
Source: Scarborough Research, 2001

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Internet users who report spending less time online are not necessarily on the road to internet abandonment, according to a study by Pew Internet & American Life Project. These users have become proficient in web surfing or have installed faster internet connections so they need less time to find the same information. More than half of the people Pew surveyed in February 2001 said they used the internet the same amount now as they did six months ago.

Internet Usage in the US, February-March 2001 (as a % of survey respondents)



Source: Pew Internet & American Life Project, February 2001

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Pew asked internet veterans (those who have been online for at least three years) and newbies (those who have been online for six months or less) if they have changed their internet habits. Pew reports that 62% of veterans say they go online “about the same amount” as they did six months ago, while 50% of newcomers say the same.

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Internet users are accessing the web whether at work or at play. But it appears that they make a few extra mouse clicks when getting paid for it:

US Internet Users at Home and at Work, 2001

	At home	At work
Number of sessions per week	6	11
Number of unique sites visited	6	14
Number of pageviews	215	381
Time spent online per week	3:07:10	5:48:50
Time spent during each session	30.44	31.06

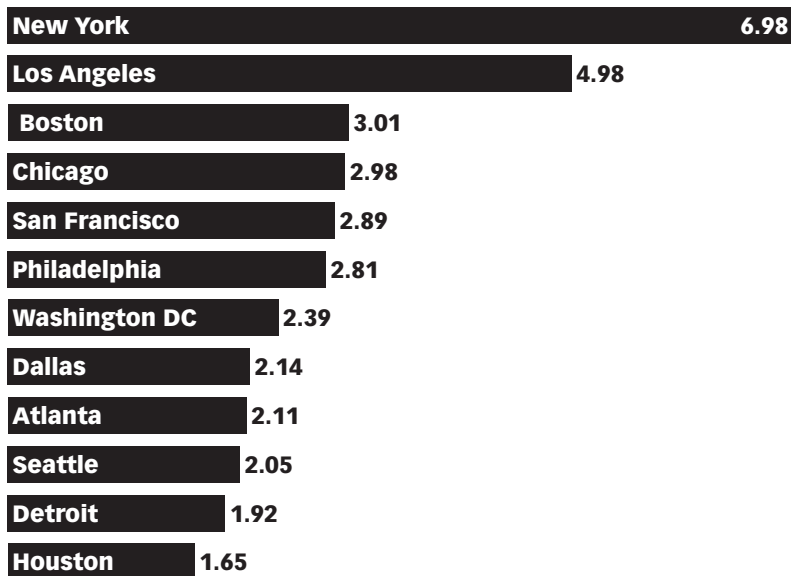
Source: *Jupiter Media Metrix, 2001*

031722 ©2001 eMarketer, Inc.

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New York and Los Angeles are the top two cities with the most online subscribers, according to Nielsen//NetRatings.

US Online Subscribers, by City, 2001 (in millions)



Source: *Nielsen//NetRatings, 2001*

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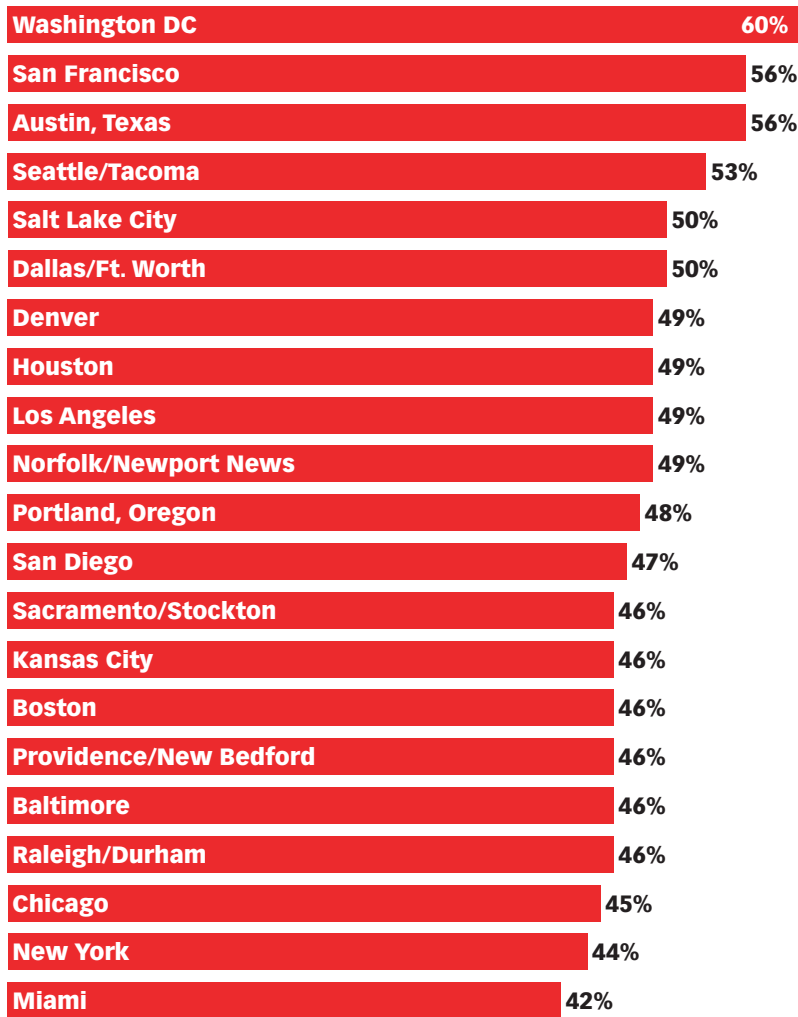
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Meanwhile, Scarborough Research finds that Washington, DC has the highest adult internet penetration in the country.

US Adult Internet Penetration, by City, 2000 (% of adults)



Source: Scarborough Research, 2000

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According to a recent report from Jupiter Media Metrix, as of March 2001, four companies command half of US internet users' time online. Jupiter explains that this number fell by 64% from March 1999 when 11 companies could claim 50% of users' time. Jupiter found that the AOL Time Warner Network can claim the highest percentage of US users' attention online. AOL Time Warner had a 32% share of users' minutes online in March 2001.

Top 10 US Online Properties, March 2001 (as a % of total usage minutes)

AOL Time Warner Network

32.0%

Microsoft sites

7.5%

Yahoo!

7.2%

Napster digital

3.6%

Juno

1.9%

eBay

1.9%

EA Online and applications

1.6%

Excite network

1.0%

iWon Inc.

1.0%

Walt Disney Internet Group

0.8%

Source: Jupiter Media Metrix, 2001

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Nielsen//NetRatings' and Harris Interactive's tracking of internet users finds that Amazon and eBay command a combined purchaser share of nearly 30% of the total online audience.

Top 10 Online Retailers, by Share of Purchasers, March 2001

Rank	Online retailer	Unique audience (in millions)	Purchaser share (%)
1	Amazon.com	22.8	15.1%
2	eBay	19.0	14.5%
3	BMG.com	4.8	4.3%
4	Barnes & Noble	5.9	3.8%
5	ColumbiaHouse.com	2.7	3.7%
6	Half.com	4.9	3.1%
7	JCPenney.com	3.3	3.0%
8	Travelocity.com	8.0	2.5%
9	CDNow.com	5.3	2.2%
10	Southwest.com	4.0	2.0%

Note: eBay's unique audience does not reflect Half.com's traffic. A larger unique audience does not necessarily translate into a higher purchaser share, since sites with lower traffic numbers can still be more effective at converting visitors to sales.

Source: Nielsen//NetRatings, Harris Interactive, 2001

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Jupiter also notes that the amount of time users spent online greatly increased between March 1999 (50 billion minutes spent online) and March 2001 (107 billion minutes spent online).

Total US Online Usage Minutes, and Number of Companies Controlling 50% and 60% of Minutes Online, March 1999, 2000 & 2001 (at home/work combined)

	March 1999	March 2000	March 2001
Total minutes spent online (in billions)	50	73	107
Number of companies controlling 50% of all minutes	11	7	4
Number of companies controlling 60% of all minutes	110	40	14

Source: Jupiter Media Metrix, 2001

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Buying online was a popular activity, although browsing for fun things to do was more popular, according to the Pew Internet & American Life Project.

Online Activities of US Internet Users, May-June & Nov.-Dec. 2000 (as a % of users)

Hobby information



Browse for fun



Buy a product



News



Medical information



Research for their jobs



Financial information



■ **May & June** ■ **Nov. & Dec.**

Source: *Pew Internet & American Life Project, 2001*

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E. Age: Kids, Teens, and Seniors

With a little less than half of the US population online this year, it has become easier to assess the characteristics of those who use the internet for one reason or another. Evidence from different surveys and studies comparing average online users to average Americans indicates that internet users are better educated and earn higher incomes.

Demographic Profile of the Average American and the Average Internet User, 2001

	American ¹	Internet User ²
Age (median)	36 years old	33 years old
Gender (mode)	Female (51%)	Female (51%)
Race (mode)	White (74%)	White (76%)
Household Income (median)	\$41,343	\$57,000
Education (mode)	College grad (22%)	College grad (41%)
Occupation (mode)	Managerial/ professional (31%)	Managerial/ professional (36%)

Source: (1) US Census Bureau, (2) eMarketer, 2001

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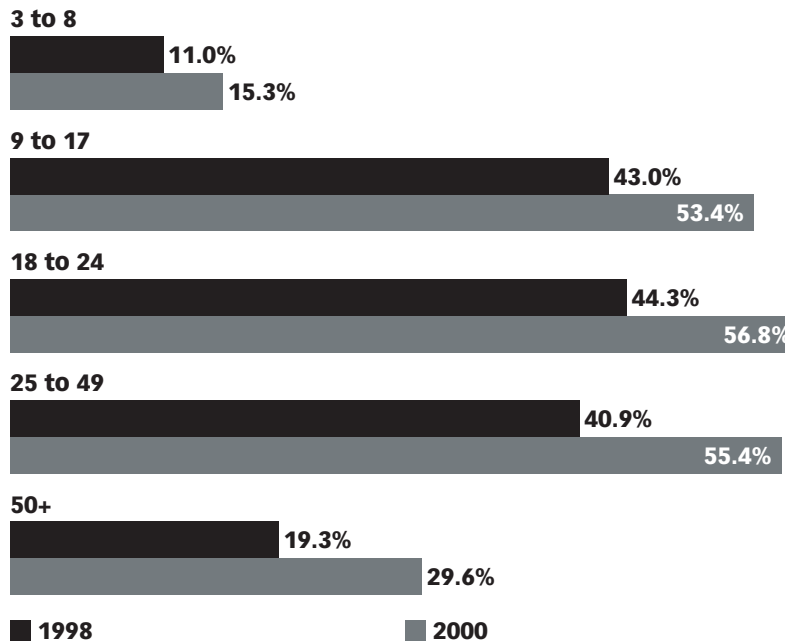
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The DOC, when analyzing internet users by age, separates the population into five groups: 3 to 8; 9 to 17; 18 to 24; 25 to 49, and 50 and older. The DOC found that since 1998 there has been strong growth in the personal use rates in all age categories except the youngest group. Individuals aged 18 to 24 had the highest internet use rate.

US Internet Use, by Age Group, 1998 & 2000 (as % of age segment in US population)



Note: "Falling Through the Net: Toward Digital Inclusion," US DOC
Source: US Department of Commerce, 2000

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Adults comprise the majority of internet users. Of the 18 to 49 year old range, 71.4 million were actively online in 2000, a figure that will reach 110.3 by 2005.

Total US Online Population, by Age Group, 2000-2005 (based on definition of "current" usage in millions)

	2000	2001	2002	2003	2004	2005
0-2	0.013	0.013	0.013	0.014	0.014	0.015
3-8	3.7	3.8	4.3	5.3	6.8	9.3
9-17	19.6	22.6	24.8	26.3	29.6	33.0
18-24	15.0	17.8	20.2	23.4	26.8	31.3
25-49	56.4	60.4	63.2	67.6	69.3	74.0
50 and older	21.8	25.4	29.0	32.6	34.5	36.5
Total	116.5	130.0	141.5	155.2	167.0	184.1

Source: eMarketer, 2001

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Kids Online

Young children (age 0 to 8) have the lowest internet use rate and the smallest increase in use since 1998, according to DOC data.

US Internet Users Ages 0 - 8, 2000

Age	US population (in millions)	Internet use rate	Total internet users (in millions)
0-2	13.4	0.10%	0.01
3-8	24.0	15.3%	3.7

Source: US Department of Commerce, 2000; eMarketer, 2001

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Pre-teens in the US use the internet much less than the older crowd. However, if the toddler group is removed, the remaining bunch is largely represented online. Jupiter Media Metrix found there were more than 7 million kids (age 2 to 11) online in 2000.

US Kids and Teens Online, 2000 (in millions)

2-11	7.59
12-17	11.89
Total	19.5

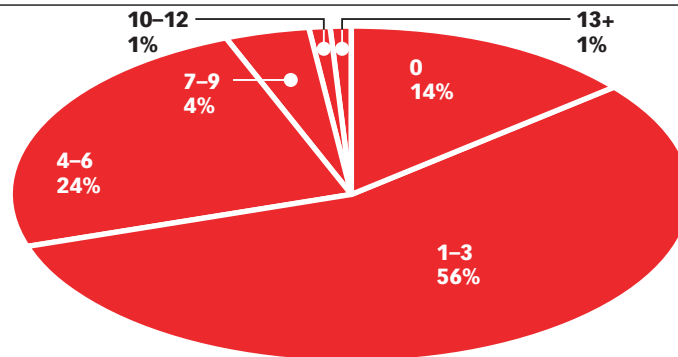
Source: Jupiter Media Metrix, 2000

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Over half of 8 to 12-year-olds went online for at least one hour a week in 2000.

Hours Spent Online per Week by US 8- to 12-Year-Olds with Internet Access, 2000



Source: The Zandl Group, 2000

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Kids spend much of their time on the web doing research and playing games, which explains why each online session can last nearly three-quarters of an hour. A study from Statistical Research shows that girls are more eager to log on than boys:

Time Spent Online by US Girls and Boys Ages 8-17, 2000

	Girls	Boys
Days per week	2.7	2.0
Time per session	46 minutes	35 minutes

Source: Statistical Research, Inc., 2000

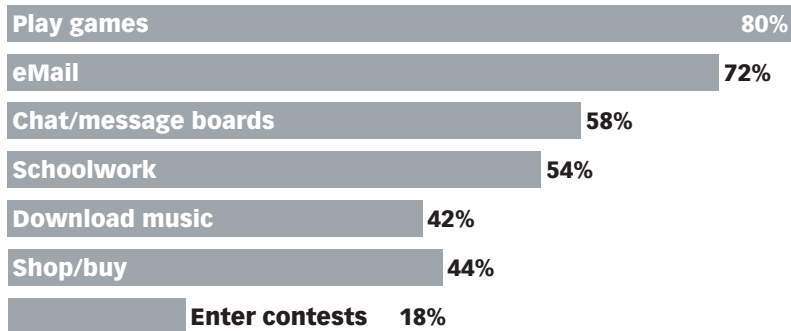
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Kids Buying Online

Of all the possible things kids can do on the internet, shopping ranks low on their list of favorite activities, according to the The Zandl Group.

What US Kids Do Online, 2000



Source: The Zandl Group, 2000

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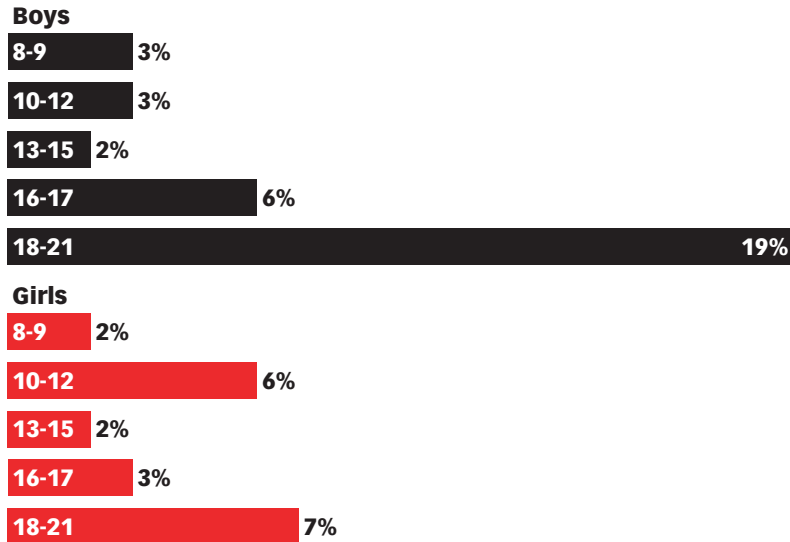
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However, Harris Interactive data indicate that kids are going online during the holidays to buy gifts. According to the most recent Harris Interactive Youth Pulse Survey, young children between 8 and 9 bought something online during the 2000 year-end holiday season. Boys spent 3% of their total holiday shopping online while girls spent 2% of their total.

Amount US Youth Spent Online During Holiday, 2000 (as a % of total holiday shopping for each age bracket)



Source: Harris Interactive Youth Pulse, 2001

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Part of a kid's propensity for buying online comes from the influence of their parents, who are teaching their children it's safe to visit certain websites to shop instead of schlepping them to the mall after school.

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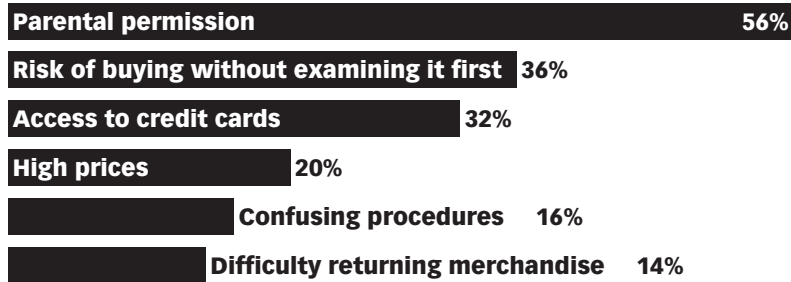
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For many kids, researching products online is a growing activity. Half of them have checked out something online, then gone to their local store to buy it. For this group of kids, many barriers to online purchasing stand in their way, the largest being getting approval from mom or dad to spend the money:

Barriers to Online Shopping according to Kids in the US, 2000



Source: *The Zandl Group, 2000*

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NFO Interactive found that one out of seven (14%) children have purchased goods online and 52% of all children aged 5 - 17 report that they have asked their parents to purchase an item they have seen online. This “influence” factor with children is difficult to measure.

Jupiter Media Metrix reported that children aged 5 – 12 will spend \$100 million online by 2002, up from only \$6 million in 1999.

Online Spending by Kids (5-to 12-years-old), 1998–2002 (in millions)



Source: *Jupiter Communications, 1999*

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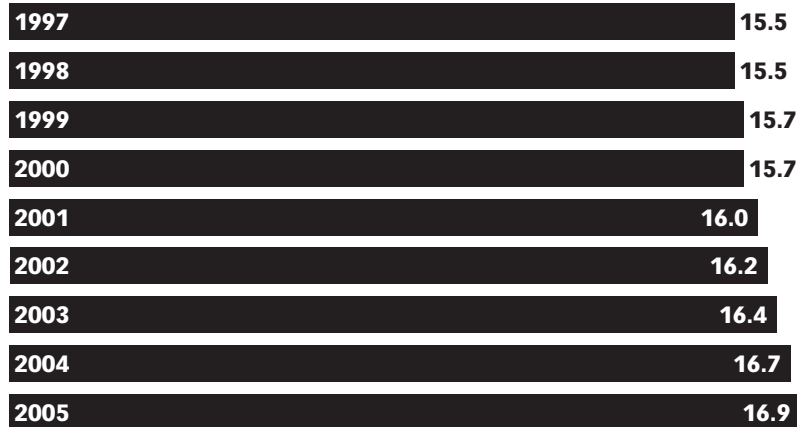
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Teenagers Online

When they're not reading their Harry Potter books or playing Sega video games, teenagers are on the internet, where they chat, check e-mail or download MP3 files. There are 16 million teenagers aged 14-17 years old today, according to several government sources. This number will increase to 16.9 million by 2005. The percentage of teens relative to the total adult/teen population will remain constant from 1997-2004, at about 7%.

US Teens 14 to-17 Years-Old, 1997-2005 (in millions)



Source: US Department of Commerce, 2000

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US Teens Aged 14-17 Online, 2000-2005 (in millions and as a % of all teens)

	2000	2001	2002	2003	2004	2005
Total US teens	15.7	16.0	16.2	16.4	16.7	16.9
Teens online	12.1	12.8	13.3	13.6	14.5	14.9
% of teens online	77%	80%	82%	83%	87%	88%

Source: eMarketer, 2001

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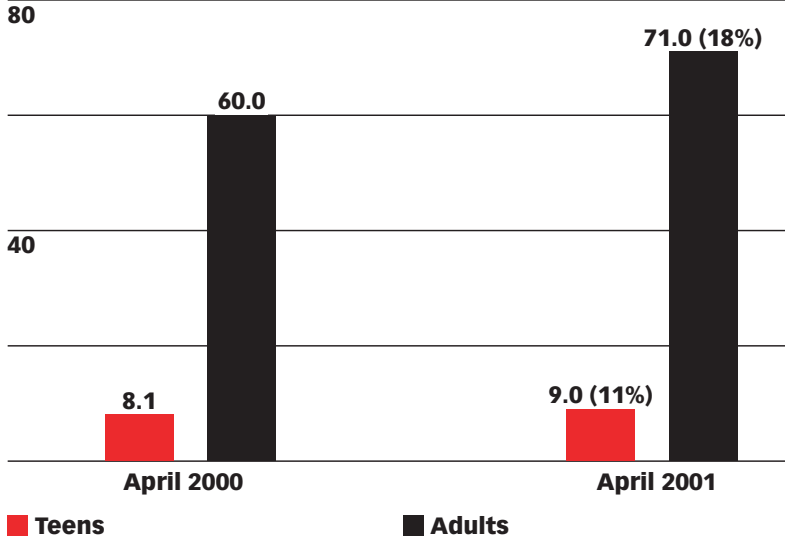
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Although teens are making themselves at home on the web, Jupiter Media Metrix found that between April 2000 and April 2001, the growth of the adult online population outpaced the wired teen population. Jupiter found that the number of adults online increased 18% (71 million internet users) while during the same period the teen population increased 11%, reaching a total of almost 9 million.

Internet Users in the US, Adults and Teens, April 2000 & April 2001 (in million and % of increase)



Source: Jupiter Media Metrix, 2001

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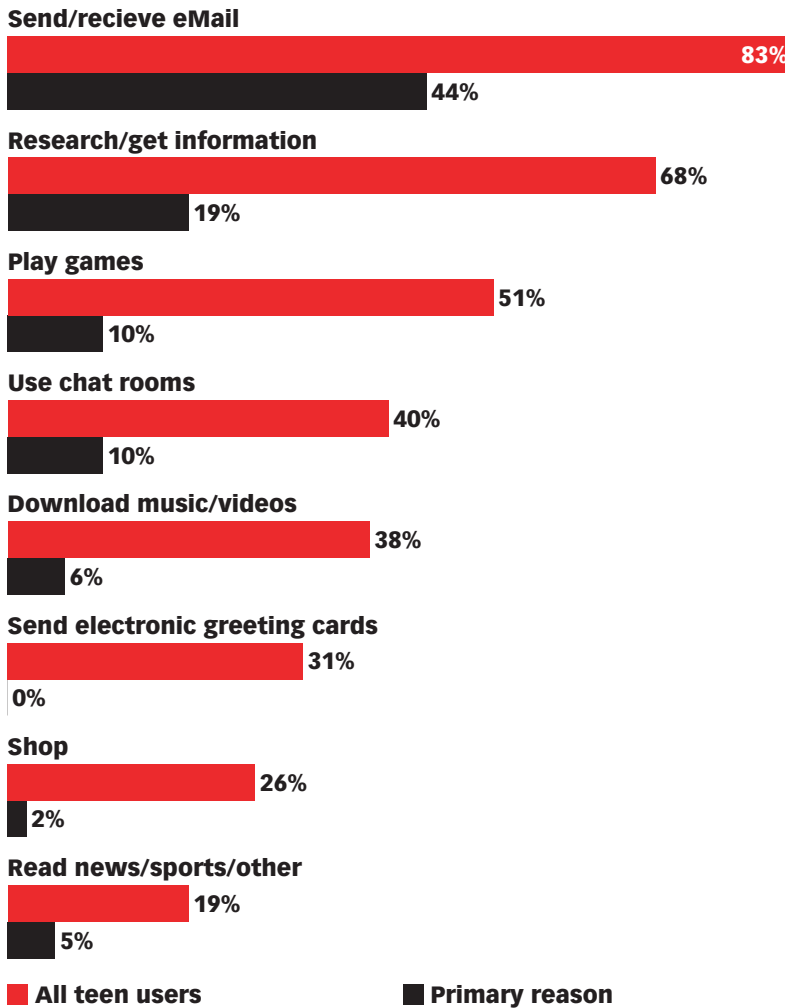
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Adults are also logging on more often than teens. During April, the average adult logged on 15 days and the average teen only nine.

Research firms differ over why teens are using the web. The most popular online activity is sending and receiving e-mail, according to PricewaterhouseCoopers. While they also go on the web for school-related research and to play games, few of them are shopping.

Reasons US Teens Ages 13-18 Go Online, 2000



Note: Sample group composed of 13- to 18-year-olds online
 Source: PricewaterhouseCoopers, April 2000

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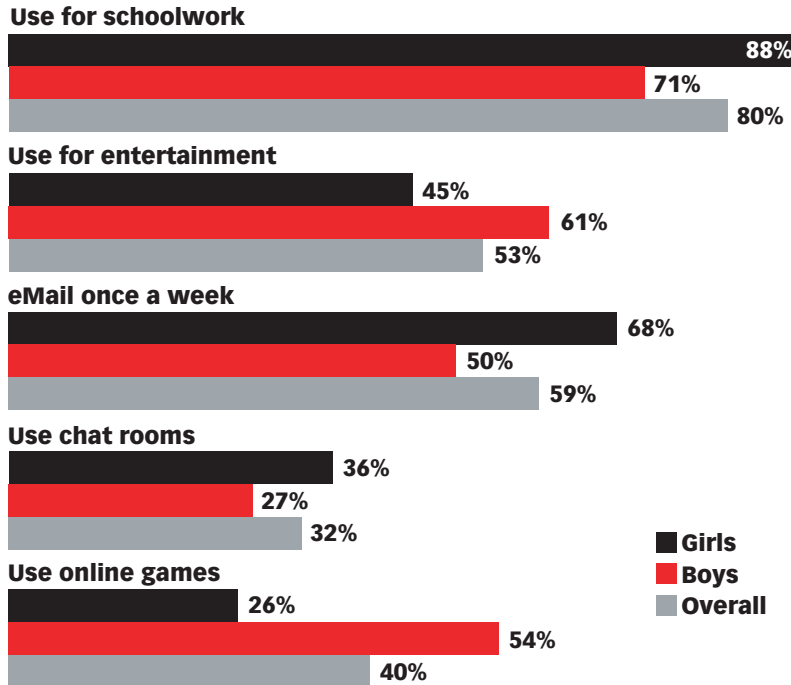
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But Grunwald Associates found that boys and girls apparently have similar intentions for internet use. Both genders surf the web primarily for school assignments and for fun.

What US Teens Do Online, by Gender, 2000 (as % of online group)



Source: Grunwald Associates, 2000

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www.eMarketer.com

Since they are online mostly at school and when parents are home to supervise, the most likely reason teens use the web is for schoolwork, although they won't readily admit it to any adult.

Frequency of Internet Use

A study called "Generation 2001: The Second Study," by Harris Interactive, reports that those born between 1979 and 2001 are the first generation that is virtually 100% connected to the internet. Northwestern Mutual commissioned the study, which found that teens are online about 11 hours each week. More than 55% of teenagers prefer the internet as their source for news and information, instead of the radio or television.

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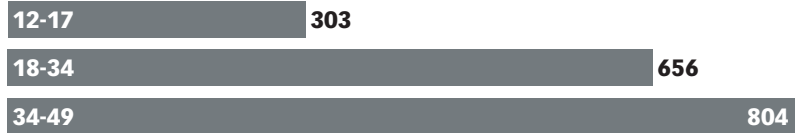
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However they get online, teens might have to wait until their parents are done surfing first. Middle-aged Americans spend almost three times longer online than younger internet users.

Average Time Spent Online by US Teens and Adults, by Age, 2000 (in minutes)



Source: Jupiter Media Metrix, 2000

031733 ©2001 eMarketer, Inc.

www.eMarketer.com

Teens Buying Online

Despite their modest discretionary income and lack of their own credit cards, the US teen population is increasingly buying online. By year-end 2001, 37% of all teens (14 to 17) online will have bought something on the web, up from 30% in 2000. In four years, eMarketer expects the population of teen online purchasers to grow to nearly 8 million, accounting for 53% of all teens online.

Teen Online Purchasers, 2000-2005 (as a % of teens online)

	2000	2001	2002	2003	2004	2005
Millions of active teens online	12.1	12.8	13.3	13.6	14.5	14.9
% of teens online buying	30%	37%	49%	51%	52%	53%
Millions of teens buying online	3.6	4.7	6.5	6.9	7.6	7.9

Source: eMarketer, 2001

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Research firms differ on what age range denotes a “teen” and that complicates how to measure their online spending levels accurately.

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Forrester Research's estimate (34%) reflects a base of users that includes college students who have credit cards to facilitate online purchasing— inflating the percentage of teen online consumers. Teen Research Unlimited's (25%) estimate also includes a base of users who are younger and less likely to be online consumers, thus deflating the percentage of teen online purchasers.

Comparative Estimates: % of Net-Connected Teens Who Have Purchased Online, 2000

	% of teens	Age range
Forrester Research	34%	16-22 years
PricewaterhouseCoopers	31%	13-18 years
eMarketer	30%	14-17 years
Teen Research Unlimited (TRU)	25%	12-17 years
Jupiter Media Metrix	11%	13-17 years

Source: eMarketer, various, as noted, 2001

032003 ©2001 eMarketer, Inc.

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US Teen Online Purchasers, 2000, 2003 & 2005 (as a % of all US teens)

	2000	2003	2005
Teens 14-17 (in millions)	15.7	16.4	16.9
% teen internet users who are buying online	30%	51%	53%
% of all teens who are buying online (14-17)	23%	42%	47%

Source: eMarketer, 2001

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This year, the average teen net consumer will spend \$253 online. Overall, teens will contribute \$1.2 billion to retail online commerce, accounting for 2% of all B2C e-commerce. Over time, average teen spending will fluctuate, as the number of teens shopping online is growing at a faster pace than their actual spending.

US Teen 14-17 Online Shoppers, 2000-2005

	2000	2001	2002	2003	2004	2005
Millions of teens buying online	3.6	4.7	6.5	6.9	7.6	7.9
Teens spending online (in millions)	\$710	\$1,200	\$1,675	\$1,800	\$2,150	\$2,500
Average online spending, per teen (USD)	\$196	\$253	\$257	\$259	\$283	\$316

Source: eMarketer, 2001

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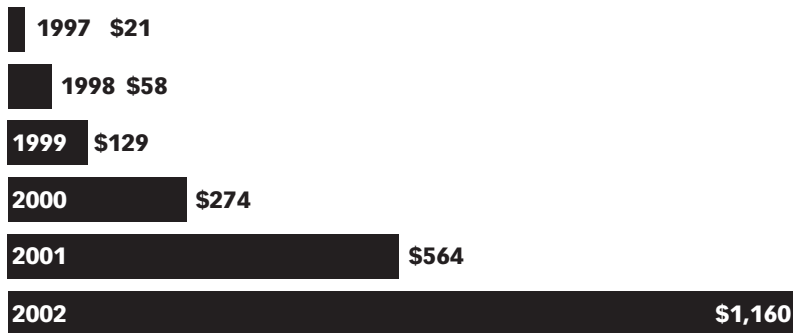
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Jupiter Media Metrix reports that while 89% of teens have never made an online purchase, nearly one-third (29%) research products online before buying them at stores. Jupiter’s research shows that although teens do not have their own credit cards, they visit the same sites as adults (ages 18 and up)—including Amazon.com and eBay. Jupiter analysts have found that marketers must consider the influence of online window shopping when developing advertising campaigns and advise companies to incorporate a single message across multiple ad channels.

Jupiter found that teens spent upward of \$274 million online in 2000 and that they will spend more than four times as much by 2002.

Teen Spending Online (12-to 18-years-old), 1997–2002 (in millions)



Source: Jupiter Communications, 1999

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Forrester Research forecasts that more than one-third of 16 to 22 year-olds will make online buys in 2000 and will spend \$4.5 billion – more than 10% of their disposable income. Forrester projects that by 2004, the majority of young consumers will shop online compared with less than half of adults.

US 16- to 22-Year-Olds Who Buy Online, 1999, 2000 & 2004

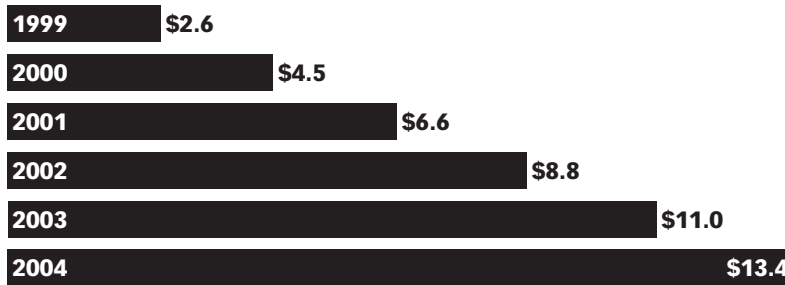
	1999	2000	2004
% online	47%	56%	73%
Number online (milions)	12.6	15.2	20.8
% Buying online	24%	34%	58%
Number buying online (milions)	6.4	9.3	16.5

Source: Forrester Research, 2000

031734 ©2001 eMarketer, Inc.

www.eMarketer.com

"Young Adults" Spending Online , 1999-2004 (16-22 year olds in billions)



Source: Forrester Research, 2000

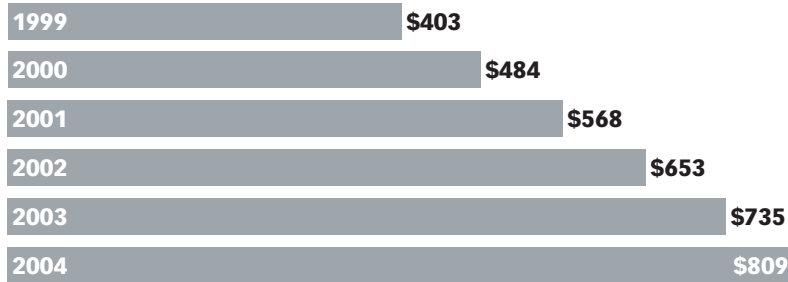
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Forrester’s 2000 estimate for average annual amount spent online by “teens” is \$484, about 2.5 times higher than eMarketer’s estimate of \$196. Note that Forrester examines young adults aged 16 to 22, which tend to have higher incomes than the 14 to 17-year-old group that comprise our number.

Average Annual "Young Adults" Spending Online, 2000 (among 16-22 year olds in dollars)



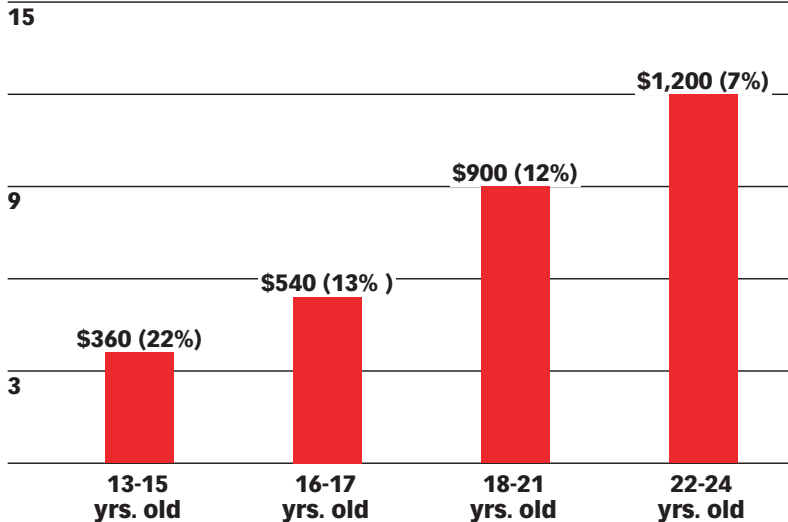
Source: Forrester Research, 2000

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In May 2001, MTV and Harris Interactive released results from their “Generation 2001” survey, commissioned by Northwestern Mutual. Among the 2,001 college seniors surveyed, 99% use the internet, with 90% sending and reading e-mail on a daily basis. As highly active internet users, this year’s graduates are more likely to turn to the internet than any other medium for news and information. And they are also buying online:

Median eCommerce Spending by Youth in the US, 2000 (in dollars per year and as a % of their income spent per year)



Source: MTV/Harris Interactive, 2000

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New data about the online habits of teenagers from the Pew Internet & American Life Project indicate that 17 million Americans between the ages of 12 and 17 use the internet. Pew found two-thirds of online teens use the web to research their purchases. Based on that estimate, 31% of teens must be buying online.

A similar study from PricewaterhouseCoopers indicated a lower percentage of online teens that shop on the web, which likely resulted from a smaller sample of teens surveyed.

Comparative Estimates: Online Behavior of US Teens, 2000 (as a % of online teens)

	eMarketer	Pew Internet & American Life Project	Pricewaterhouse-Coopers	Zandi Group
Shop online (includes comparative/window shopping and product information gathering)	73%	66%	39%	-
Actually make a purchase online	30%	31%	27%	20%
Cite online shopping as a reason to go online	-	-	26%	-
Consider a teen-friendly payment option a top reason to shop at a given site	-	-	9%	-
Go online primarily for online shopping	-	-	2%	-

Source: eMarketer, various, as noted, 2001

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One in five (20%) young people bought something online in 2000, according to the Zandl Group, which maintains a nationwide consumer panel of 3,000 young people (aged 8 to 24). Apparel and entertainment software topped their online shopping lists:

Leading Shopping Categories Among US Online Shoppers, 2000 (ages 8-24)

Category

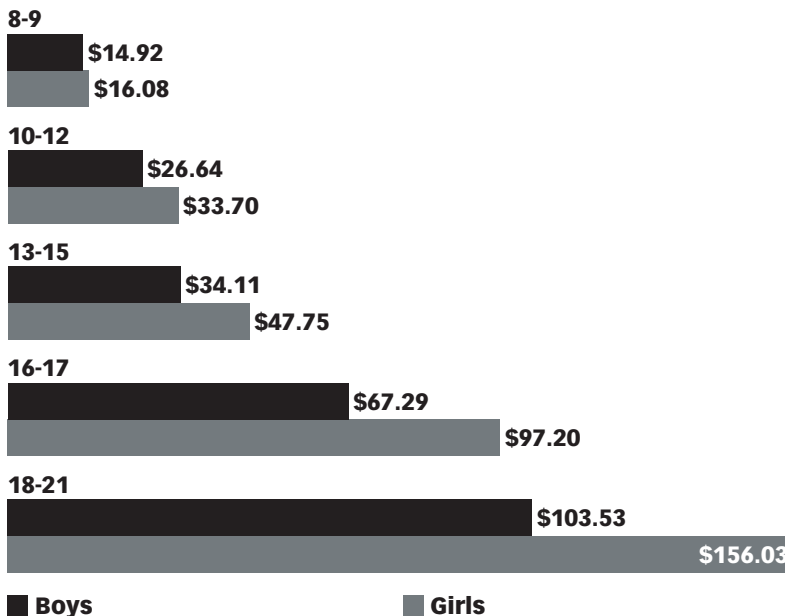
- Apparel
- Entertainment Software
- Books
- Tickets
- Toys
- Shoes
- Electronics
- Sports gear

Source: Zandl Group, 2000

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During the year-end 2000 holiday season, US kids, teenagers, and young adults aged 8 to 21 spent \$2.4 billion on gifts, according to Harris Interactive. Boys were more likely to buy holiday gifts online than girls, noted Harris, which found that boys seemed “more comfortable” with the concept of e-commerce. However, the median amount spent online for holiday gifts among boys was lower than that of girls for each age group.

Median Amount Spent on Gifts During Year-end Holidays, 2000 (by age)



Source: Harris Interactive Youth Pulse, 2001

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For more information on the demographics and buying patterns of kids and teens on the internet, order eMarketer's report on "Marketing Online to Kids & Teens" (May 2001). To order copies, visit the eMarketer website (www.emarketer.com) or send an e-mail to sales@emarketer.com.

Seniors Online

Individuals over the age of 50 are among the least likely to be internet users, according to data from the US Department of Commerce. The internet use rate in this group was only 29.6% in 2000. With Americans living longer, the senior population (those over age 50) has grown to more than 73.6 million people.

Seniors 50+ as a % of the US Population, 2000 (in millions and as a % of total)

Total US population	276.1
Seniors 50+	73.6 (27%)

Source: US Department of Commerce, 2000; eMarketer, 2001

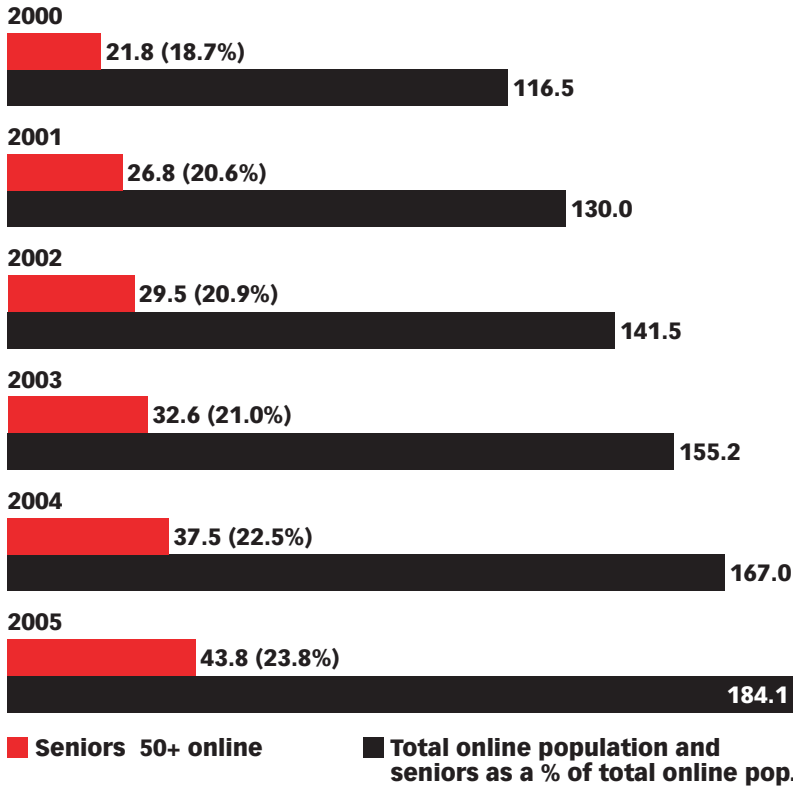
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There were 21.8 million seniors online in 2000 or 18.7% of the 116.5 million total. By 2005, the 50+ crowd will represent only 22% of the online population as users in their segment come online more slowly than younger groups.

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Seniors 50+ Online, 2000-2005 (in millions)



Note: Based on US Department of Commerce estimates for 2000; projections by eMarketer through 2005
 Source: US Department of Commerce, 2000; eMarketer, 2001

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In 2000, 30% of all seniors (aged 50+) in the US were internet users.

US Seniors Online 50+, 2001 (in millions and as % of total seniors)



Source: eMarketer, 2001

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Jupiter, however, finds that internet penetration among the older population will mature rapidly during the next few years, reaching nearly half of all seniors by 2005, although its estimate includes users aged 55 and older.

Internet Penetration among US Seniors, 2000 & 2005



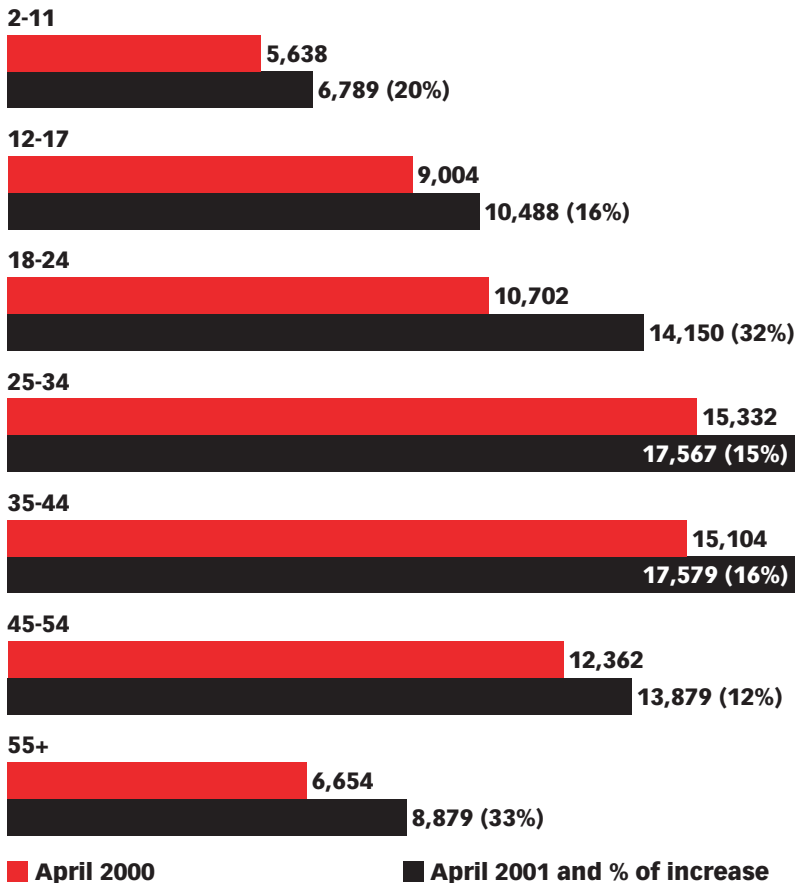
Source: Jupiter Research, 2000

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The latest Jupiter Media Metrix report shows there are more seniors online than ever before. In a comparison of visitors to the most popular websites between April 2000 and April 2001, Jupiter found a 33% increase in the number of home online users aged 55 and older, the largest percent change of all age groups.

Internet Use Among US Population Aged 2- 55+, April 2000 & April 2001



Source: Jupiter Media Metrix, 2001

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The growth rate of online users who are 65 and older is larger than the growth rate of the web's overall audience in the US, according to Nielsen//NetRatings's data from June 2000 and June 2001:

Growth Rate of US Seniors on the Web, June 2000 & June 2001 (in millions)

	June 2001	June 2000	Growth rate
Seniors (age 65+)	5.0	3.9	29%
Overall web audience	101.5	83.8	21%

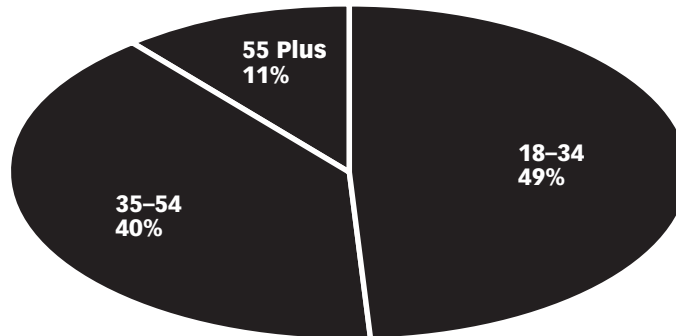
Source: Nielsen//NetRatings, 2001

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Of adults (18+) online, Angus Reid Group projects that nearly half of them are between 18 and 34. The remainder is distributed between users aged 35 and 54 and 11% are users over 55 years old.

Adult Internet Users, by Age Segment, 2000 (as a % of total online users)



Source: Angus Reid Group, Inc., 2000

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According to MRI's Cyber Stats, collected through April 2001, use of the internet among those aged 55 to 64 in the prior six months grew to 43% from 36%.

Adult Internet Users Age 55-64, 2001 (as % of total population in the age group)



Source: Mediamark Research Inc. (MRI) Cyber Stats, 2001

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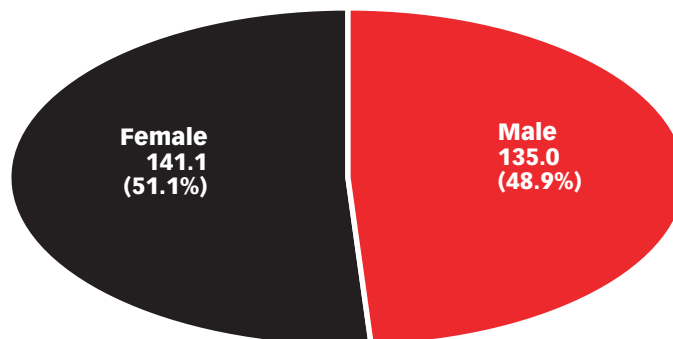
Seniors are in their peak earning years and many have substantial time to engage in web surfing, shopping, and buying. IDC predicted that the percentage of online users who fall into the senior category will more than double, from 26% in 2000 to 56% in 2005.

F. Gender

“Our profile of the online consumer is now very similar to the average American...never before has such a basic demographic shift produced such an enormous opportunity for so many companies in so many consumer markets.” – Lee Smith, COO, Insight Express

The US internet population continues to add women and now statistically mirrors the gender breakdown of the nation's population

US Population, by Gender, 2000 (in millions)



Source: US Census Bureau, November 2000

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Of the total US population, the DOC finds that in 2000 there were 57 million males and 59.5 million females online.

US Women and Men Online, 2000 (in millions)

Women	59.5
Men	57.0

Source: US Department of Commerce, 2000

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In its report “Falling Through the Net: Toward Digital Inclusion,” the DOC estimates the internet penetration rate for females at 44.2%, and, for males, at 44.2% – virtual tie between the sexes. Its total base of males and females, however, is slightly lower than the Census Bureau data since it measures internet use by individuals age 3 and older.

US Women and Men Online Aged 3+, 2000 (as a % of each gender’s population)

	Men	Women
Internet users (in thousands)	56,962	59,518
Population of gender in 2000 (in thousands)	127,844	134,776
% of gender group online	44.6%	44.2%

Source: US Department of Commerce, 2000

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If there are 59.5 million female internet users, then females comprise 51% of the total 116.5 million users in 2000.

US Women and Men Online, 2000 (as % of total internet users)

	Women	Men	Total
Internet users (in millions)	59.5	57.0	116.5
% of total internet users	51%	49%	100%

Source: US Department of Commerce, 2000; eMarketer, 2001

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A critical gap in the digital divide closed further in 2000 as the number of women online surpassed the number of online men, matching the gender distribution of the population as a whole. Through 2005, females will continue to dominate the total internet user gender pie.

US Women Online, 2000-2005 (as a % of total users)

2000	51.0%
2001	51.5%
2002	51.8%
2003	52.0%
2004	52.2%
2005	52.5%

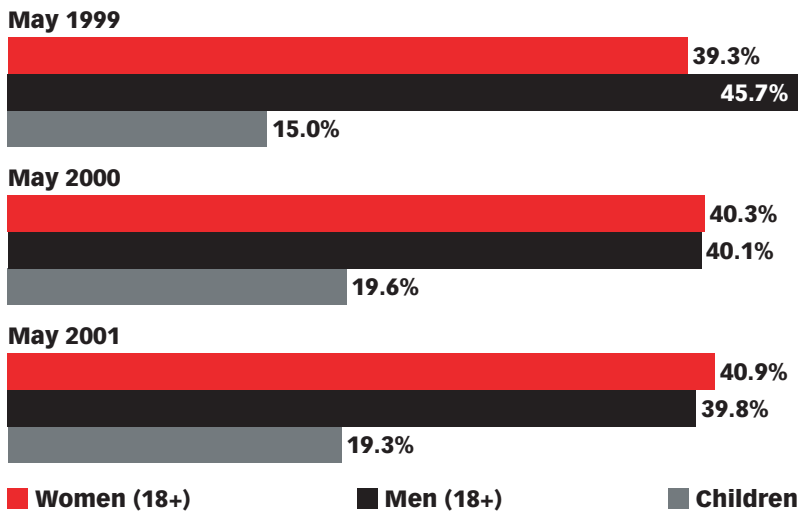
Source: eMarketer, 2001

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According to the latest online population data from Jupiter Media Metrix, adult women comprise 40.9% of all online users, compared with adult men, who make up 39.8% of all users. (Children of both genders under the age of 18 account for the other 19.3%)

Internet Penetration among US Women, Men and Children, 1999-2001



Source: Jupiter Media Metrix, 2001

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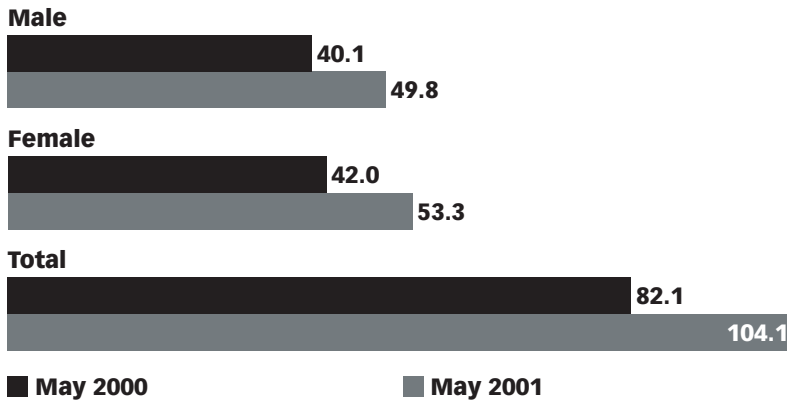
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The largest shift in gender distribution, Jupiter says, occurred in the 35-54 age bracket, with women in that group increasing from 19.0% of internet users in May 1999 to 20.1% in May 2001, while males 35-54 dropped from 20.7% to 15.6%. Women professionals should stand to benefit from this increased use of technology.

Updated figures from Nielsen//NetRatings from May 2001 found there were 53.3 million active female internet users and 49.8 million male users. Compared to May 2000, the number of internet users for both genders increased.

US Adult Internet Users, by Gender, May 2000 vs. May 2001 (in millions)



Source: Nielsen//NetRatings, 2001

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According to Nielsen's study, the average male logged on 20 times in one month, spending 10 hours and 24 minutes online, while the average woman spent 8 hours and 56 minutes on the web.

Most research firms find that there are at least as many women online as men, with many giving a slight edge to females.

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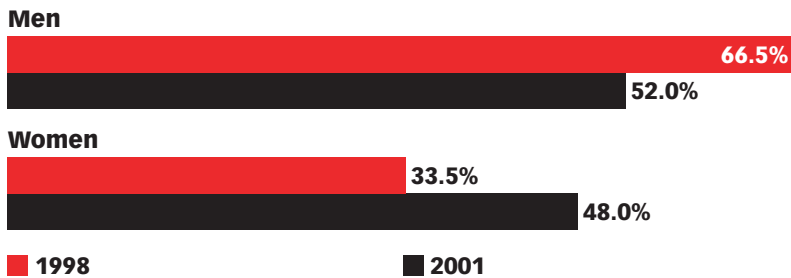
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According to The Media Audit, the US web audience is growing and diversifying. Although men age 18 and older increased by 26% since 1998, the group declined by more than 5% as a percentage of the total web audience. Women increased their presence on the web by 44% during the last three years and now make up more than 48% of the total web audience.

Women and Men Online (18+), 1998 & 2001 (as a % of total web audience)



Source: *The Media Audit, 2001*

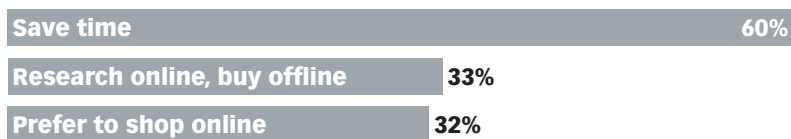
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Online Shoppers and Buyers by Gender

US B2C e-commerce companies desire to reach the female audience since women control up to 80% of all household purchasing decisions. A study by Millward Brown suggests that women take to the net to look for actionable offers or relevant product information. Like nearly all internet users, women enjoy the time-saving conveniences of the web. About 32% of 900 new mothers surveyed said they shop offline less often, preferring to shop online in many instances.

Attitudes toward Internet Shopping among US Online Women, 2001



Source: *Millward Brown, 2001*

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Disparate estimates exist on the percentage of males and females buying online. Of the seven firms compared, Netsmart is the only one that gives the edge to females while Ernst & Young is split down the middle. eMarketer finds that although more than half of internet users are female, they comprise 45% of all internet purchasers.

Comparative Estimates: Female Internet Purchasers, 2001 (as a % of all purchasers)



Source: eMarketer, various, as noted, 2001

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Women Internet Users & Buyers 14+, 2001 (in millions)

	Total internet users and buyers 14+	Total internet users and buyers 14+
Internet users	60.7	117.8
Internet buyers	35.7	79.3

Source: eMarketer, 2001

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Although women typically shop more than men, males are spending more money. In 2000, men spent more than twice the amount women spend online, according to Odyssey.

Amount Spent Online, by Gender, 2000 (in billions)

Men	\$25.1
Women	\$11.7
Total	\$36.8

Source: *Odyssey, 2000*

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Women shoppers (18+) spent an average of \$560 online in 2000. Other estimates put the total over \$1,000.

Comparative Estimates: Average Amount Spent Online by Women, 2000

Jupiter	\$439
eMarketer	\$560
NPD Group	\$830
Odyssey*	\$1,378

Note: *Interpolated from six month period

Source: *eMarketer, various, as noted, 2001*

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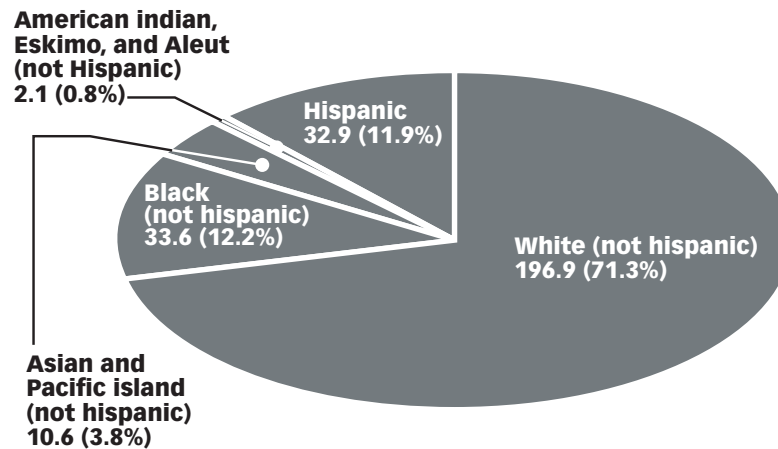
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G. Minorities Online

The 2000 Census revealed that the US population continues to become more heterogeneous. Whites continue to comprise the majority of the population. However, the Census indicates strong growth among minorities over the last 10 years, especially blacks, Hispanics, and Asians.

US Population, by Race, 2000 (in millions)



Source: US Census Bureau, November 2000

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While internet use is growing among all Americans, groups of different racial and ethnic backgrounds still use the internet to varying degrees. In “Falling Through the Net: Toward Digital Inclusion,” the US DOC found that as of August 2000, whites continued to be the most likely to use the internet, with an internet penetration rate of 50.3% (based on a total US population of 262.6 million aged three and older).

US Internet Use Rate Age 3+, 2000

Ethnic Group	Population of Ethnic Group (in thousands)	Internet Users of Ethnic Group (in thousands)	Internet use rate
White	186,439	93,714	50.3%
Black	32,850	9,624	29.3%
Hispanic	30,918	7,325	23.7%
Asian-American	10,324	5,095	49.4%

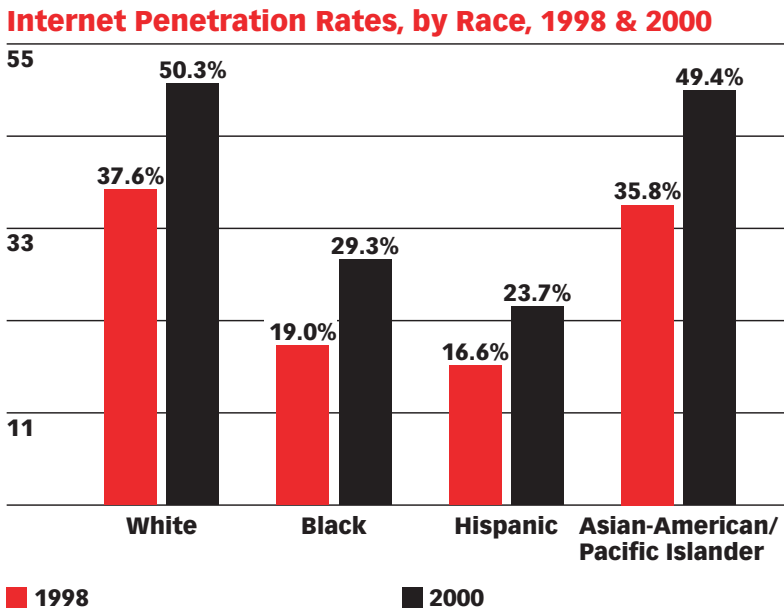
Source: US Department of Commerce, 2000; eMarketer, 2001

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Since 1998, whites continued to be the most likely to use the internet. Asian-Americans and Pacific Islanders follow closely behind.



Source: US Department of Commerce, 2000; eMarketer, 2001

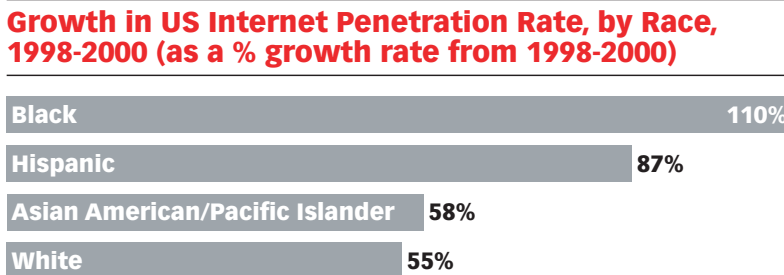
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“Americans online are not a monolithic group anymore. There are so many people using the internet in so many different ways that it’s hard to define the center of gravity.”

– Lee Rainie, director, Pew Internet & American Life Project

Although whites lead other races and ethnic groups among the online population, minorities are increasing their internet presence rapidly. Blacks have made the greatest gains in numbers online.



Source: US Department of Commerce, 2000

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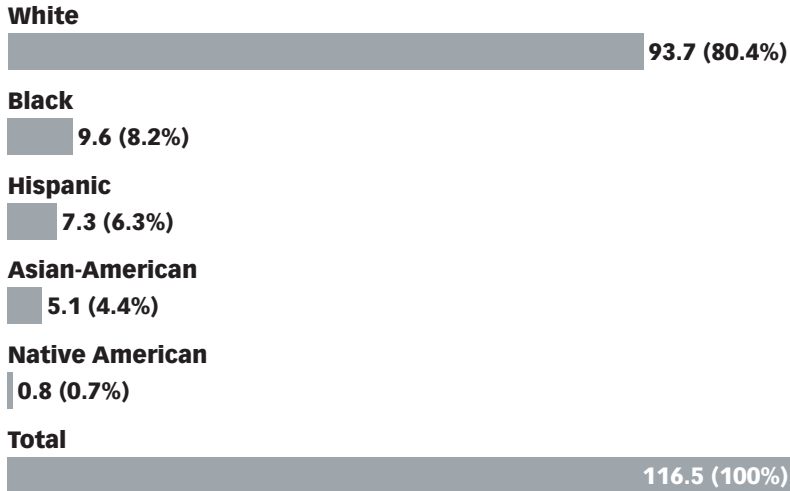
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With nearly 94 million whites online, the DOC estimates that the group comprises about 80% of the 116.5 million total internet users.

US Adult Internet Users, by Race, 2000 (in millions and as a % of total internet users)



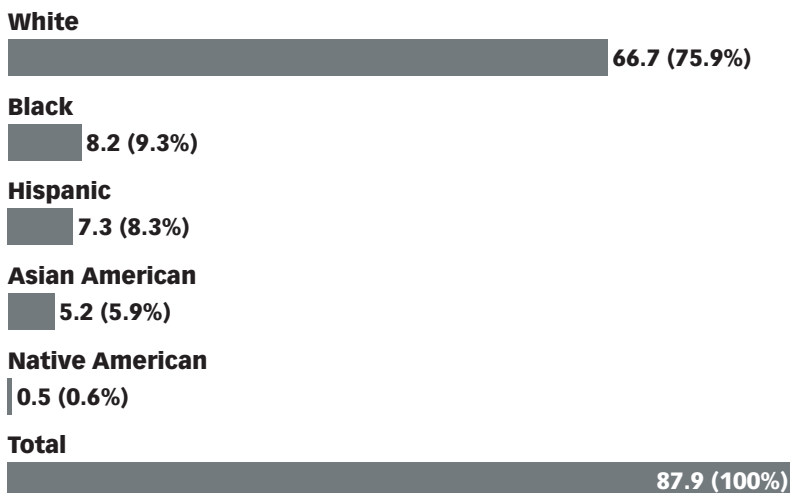
Source: US Department of Commerce, 2000; eMarketer, 2001

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Most researchers agree that all ethnicities are expected to gain in internet penetration by 2005. As a result, during the next four years, marketers will accelerate their ethnic-focused online customer acquisition strategies by targeting these households with customized messages and products.

US Adult Internet Users, by Race, 2000 (in millions and as a % of total internet users)



Source: MediaPost Communications, 2001

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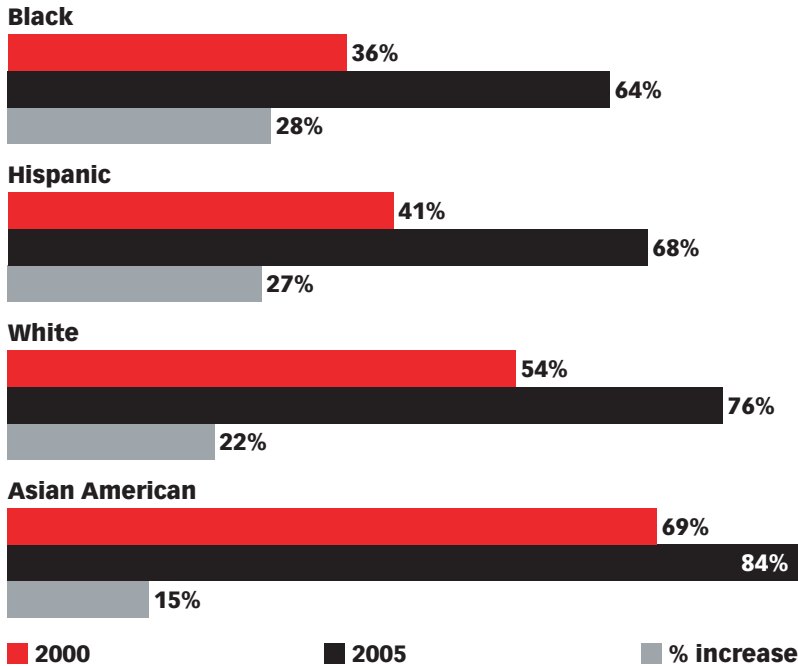
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MediaPost Communications predicts that between 2000 and 2005 blacks and Hispanics in the US will have the highest combined increases in percentage of their respective groups online.

Percentage of Ethnic Groups Online in the US, 2000 & 2005



Source: MediaPost Communications, 2001

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Comparative estimates of internet users from different research firms indicate that whites comprise at least 70% of the total.

Comparative Estimates: Distribution of US Internet Users, by Race, 2000

Race	% of US population	eMarketer Department of Commerce	MediaMark	MediaPost	Forrester
White	71.3%	80.4%	86%	75.9%	73%
Black	12.2%	8.2%	9%	9.3%	10%
Hispanic	11.9%	6.3%	–	8.3%	10%
Asian-American	3.8%	4.4%	3.0%	5.9%	7%
Native American	0.8%	0.7%	–	0.6%	–
Other	–	–	2%	–	–

Source: eMarketer, US Census Bureau, various, as noted, 2000

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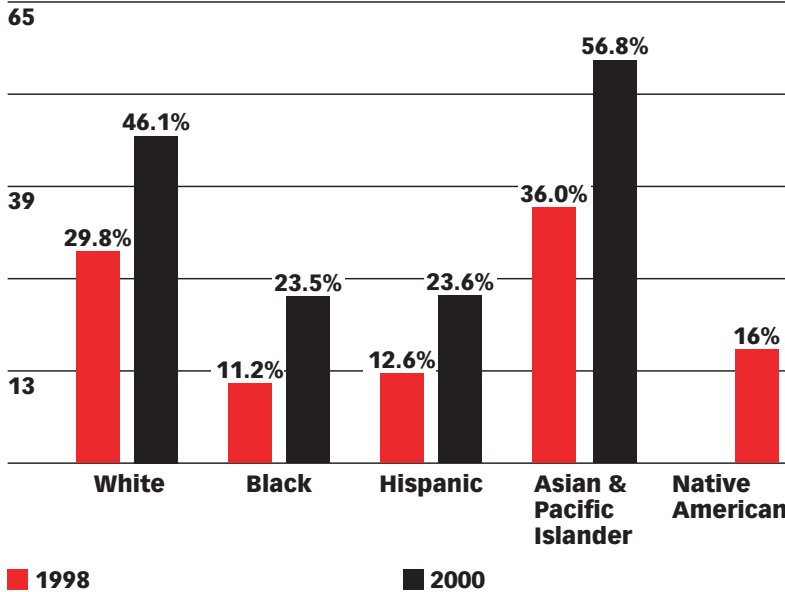
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Households Online by Race

Between December 1998 and August 2000, there has been an increase in households with internet access of different ethnic and racial origins. Households of Asian Americans and Pacific Islanders have maintained the greatest internet use rate at 56.8% in 2000. White households still have the second highest rate of access at 46.1% and experienced a growth of 16.3 percentage points (from 29.8% in 1998).

Internet Use Rate Among US Households, by Race, 1998 & 2000



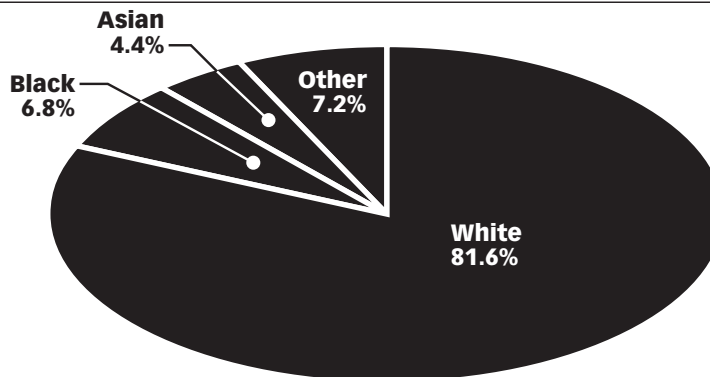
Source: US Department of Commerce, 2000; eMarketer, 2001

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Analyst firm comScore Networks finds that the vast majority of internet users are white. The firm breaks up internet users by race and ethnicity respectively, considering Hispanics an ethnic group. Note that their figure for Blacks, at 6.8%, is much lower than reported by other research firms.

US Internet Users, by Race, 2001



Source: comScore, 2001

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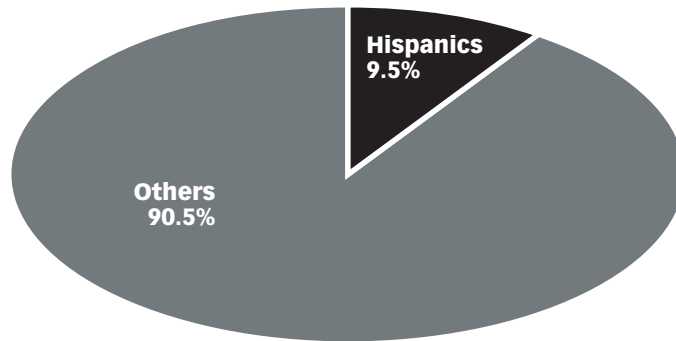
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US Internet Users, by Ethnicity, 2001



Source: comScore, 2001

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Although whites represent the largest group of US internet users, Asian-American households have the highest internet penetration rates in the nation.

Comparative Estimates: US Internet Household Penetration, by Race, 2000

	White	Black	Hispanic	Asian-American
Total population in millions (US Census)	196.9	33.6	32.9	10.6
eMarketer/ US Department of Commerce	46.1%	23.5%	23.6%	56.8%
Forrester	46%	35%	50%	74%
Market Segment	–	40%	43%	68%
ComScore Networks	–	51%	–	–
Media Audit	–	44%	42%	–

Source: eMarketer, various, as noted, 2000

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Time Spent Online Among Minorities

BIGResearch found that US working professionals with at least one child under the age of 18 – no matter what race – use the internet during the day more than other forms of media. The study found that Hispanic professionals spend 2.59 hours per day, black professionals spend 2.72 hours per day, white professionals spend 2.49 hours per day and Asian American professionals spend 3.03 hours per day online.

Time US Professionals* Spend with Selected Media, by Race, March 2001 (hours per day)

	Hispanic	Black	White	Asian
TV/Cable	2.13	2.67	1.97	2.09
Radio	2.45	2.45	2.36	1.64
Internet	2.59	2.72	2.49	3.03
Newspapers/ magazines	0.52	0.57	0.46	0.64

Note: *with at least one child under 18

Source: BIGResearch, August 2001

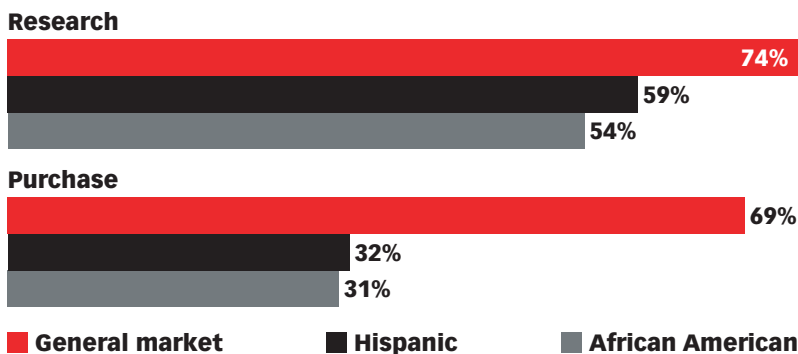
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Online Buying among Minorities

A 2001 study from Cultural Access Group, a division of Access Worldwide, finds that 31% of online blacks and 32% of online Hispanics in the US have made online purchases. These totals compare to 61% of the general US market that has made a purchase online. Cultural Access finds that overall, internet users prefer to research product information online.

US Online Product Researchers and Purchasers, by Race, January 2001 (as a % of internet users in each category)



Source: Cultural Access Group, August 2001

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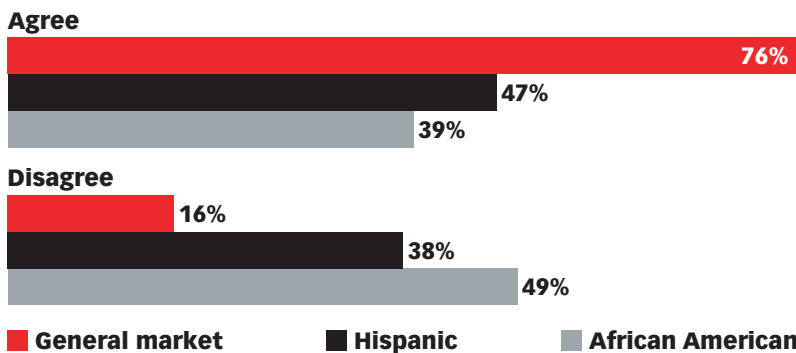
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Cultural Access gathered 3,499 surveys representing 766 online black respondents, 1,439 online Hispanic respondents and 1,294 internet users in the general US market.

The study determined that compared to the general market, a greater percentage of online blacks and Hispanics are not comfortable with using their credit cards online. 49% and 38%, respectively, disagreed with the statement “I’d be comfortable purchasing with my credit card on the internet.” Only 16% of the general online market disagreed as well.

US Internet Users Who Are Comfortable with Online Credit Card Purchases, January 2001 (as a % of internet users in each category who agree and disagree*)



*Note: *Respondents were asked if they agreed or disagreed “strongly” or “somewhat” to the following statement: “I’d be comfortable purchasing with my credit card on the internet.”*

Source: Cultural Access Group, August 2001

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A July 2001 report from the Pew Internet & American Life Project found that 41% of Hispanic internet users and 40% of black internet users have bought something online.

Ethnic Groups Purchasing Online, 2001



Source: Pew Internet & American Life Project, 2001

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Many research firms estimate e-commerce growth by looking at the supply side of the equation, which involves calculating revenues generated by individual online retailers, extrapolating these dollars to reach total category figures and then adding up the categories to compute total e-commerce revenues for each year measured. eMarketer uses this approach in combination with a demand side/consumer approach.

eMarketer's demand-side model for consumer online buying relates total (active) internet users to those shopping and buying online (as well as to average and total dollar purchases). The model is built (and continually improved upon) based on careful aggregation, weighting, and analysis of data from dozens of research firms and government sources. Each research source provides varying degrees of information on the following interrelated metrics:

- US population (from the most recent US Census figures)
- online population
- online "shoppers"
- online "buyers"
- percentage of internet users who shop online
- percentage of internet users who buy online
- percentage of all Americans who shop and buy online

eMarketer analyzes this information, accounting for differences in definitions and methodologies, to construct its model for internet purchase behavior. Note that researchers even have different definitions for online "shoppers" and "buyers." (eMarketer defines an online buyer as someone who has purchased at least one item online in the past year).

The following pages present the building blocks for our consumer online shopping model, culminating in a master grid which overlays general population numbers with estimated internet users, shoppers, buyers and, finally, total revenues generated over the web.

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Online Buying Frequency

To define “buying online,” eMarketer has identified three separate levels of user interaction with the internet, each reflecting a deeper level of involvement.

Consumer “Online Buying” Definitions

	Description	Definition
Level 0	“Active User”	Refers to those who are online at least once a week for an hour or more
Level I	“Shoppers”	Refers to those who browse, research or compare products online
Level II	“Buyers”	Refers to those who have made at least one purchase on the internet within the past year

Source: eMarketer, 2001

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Given the above definitions, and some conservative assumptions about buying behavior derived from a) numerous research studies evaluating online purchasing habits and b) historical consumer buying patterns with catalogs, direct mail and over the phone, eMarketer has developed a three-tiered breakdown of the online commerce shopping/buying population.

US Consumer Online Buying Grid, 2000-2005 (in millions)

Numbers in millions	2000	2001	2002	2003	2004	2005
Internet users (age 14+)	105.3	117.8	128.2	140.1	152.5	169.0
I. Online "Shoppers" (14+)						
Millions	76.9	90.7	101.3	113.5	125.1	143.7
(% of Total internet users)	73%	77%	79%	81%	82%	85%
II. Online "Buyers" (14+)						
Millions	64.1	79.3	91.1	104.4	116.6	130.0
(% of Total internet users)	60.9%	67.4%	71.1%	74.5%	76.5%	76.9%

Source: eMarketer, 2001

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The above figures assume that through 2005 the propensity for purchasing online will grow to exceed the penetration levels for purchasing via catalogs, mail order and over the phone today.

The last part of the demand-side model is obtained by calculating average annual expenditures made online. When these figures are multiplied by the number of online buyers forecast for each year, we arrive at total revenue figures for consumer online shopping.

Average Amount Spent Online

As the chart below illustrates, the average annual online expenditure per internet buyer was \$597 in 2000, and this figure will more than double to \$1,200 by 2005.

Average Annual Expenditures Online and Total Internet Shopping Dollars among US Population Aged 14+, 2000-2005

	2000	2001	2002	2003	2004	2005
Millions of online buyers (age 14+)	64.1	79.3	91.1	104.4	116.6	130.0
Average annual online expenditure per buyer (age 14+)	\$597.2	\$683.1	\$940.6	\$1,002.5	\$1077.2	\$1,200.0
Average annual online expenditure per adult buyer (adult 18+)	\$621.32	\$710.5	\$993.2	\$1,055.4	\$1,132.6	\$1,257.2
Total US consumer e-commerce revenues in billions	\$38.3	\$54.2	\$85.7	\$104.7	\$125.6	\$156.0

Source: eMarketer, 2001

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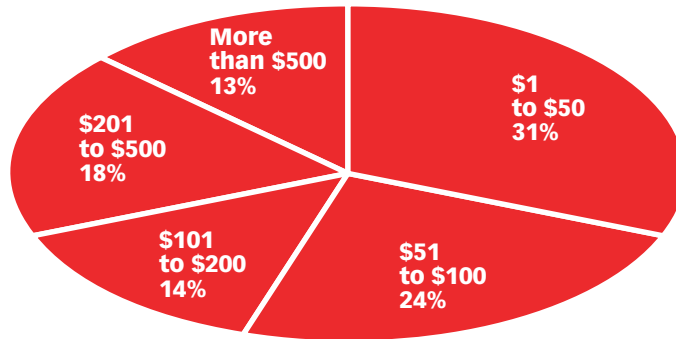
IDC predicts that the average amount spent online per e-consumer will almost double, from \$1,100 in 2000 to \$2,100 by 2005.

More than four out of 10 internet users polled by AC Nielsen said they intended to buy online during a three-month period in 2001. The 40% estimate is impressive, although the poll was commissioned by internet portal Yahoo. More than three in five said they would buy once a month or more frequently. On average, purchasers would spend an estimated \$184 each every three months.

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If the quarterly average of \$184 per spender is multiplied by four, the annual average expenditure per spender is \$744 (eMarketer's estimate for 2001 is \$683).

Average Amount Spent During Three-Month Period, by US Internet Buyers, 2001 (as % of buyers surveyed)



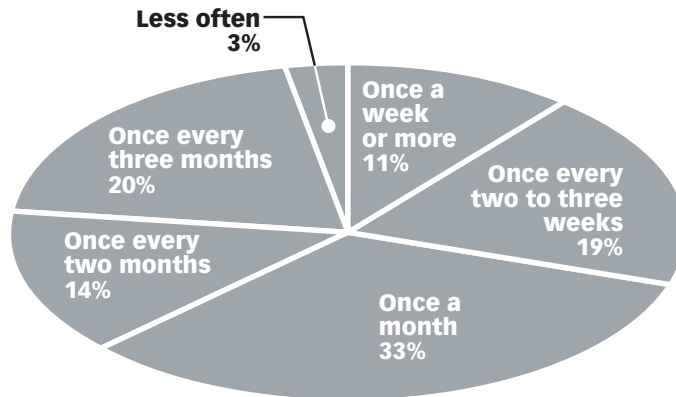
Source: Yahoo, AC Nielsen, 2001

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Yahoo and AC Nielsen found that 63% of internet buyers make a purchase online at least once a month.

Frequency of Online Buying Among US Internet Buyers, 2001



Source: Yahoo, AC Nielsen, 2001

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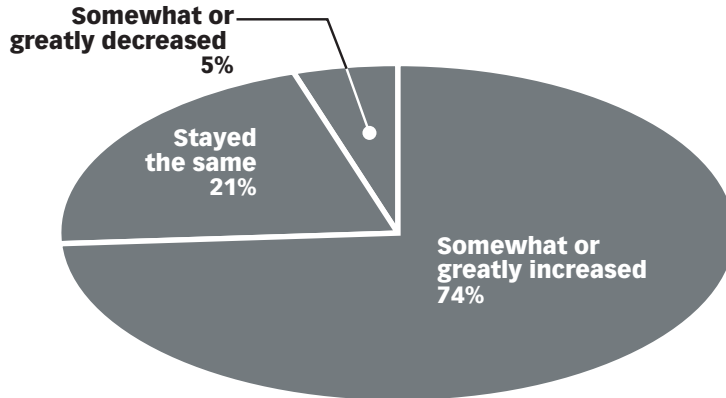
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Ernst & Young's 2000 estimate for average annual online expenditures per adult consumer was \$896 (eMarketer's was \$621). Compared with a year earlier, 74% of consumers told Ernst & Young they had increased the amount spent online in the last year.

Change in Annual Amount Spent Online Among US Consumers, 1999 vs. 2000 (as % of US consumers)



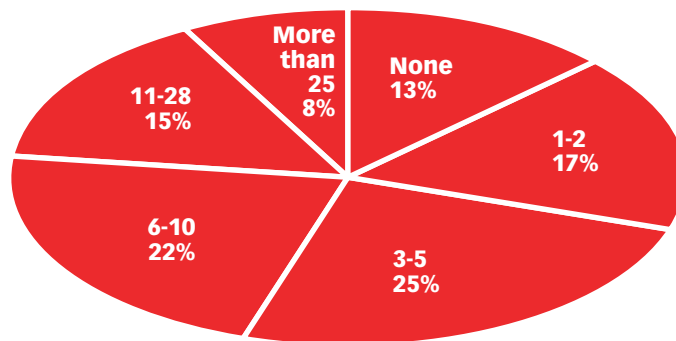
Source: Ernst & Young, 2000

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Within a six-month period, about 25% of online users bought at least three items, according to Knowledge Systems & Research, Inc. Nearly 40% of them spent between \$100 and \$499 during the period.

Number of Online Purchases Made by US Online Users in a Six-Month Period, 2001



Source: Knowledge Systems & Research, 2001

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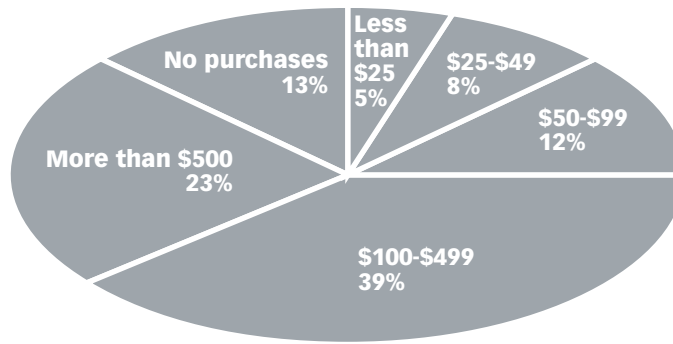
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Spending on Online Purchases Among US Online Users in a Six-Month Period, 2001



Source: Knowledge Systems & Research, 2001

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Comparative Estimates of US Online Shoppers and Buyers

Once an accurate estimate of internet users is made, our demand-side model can build projections for total online shoppers and buyers. Below is a synopsis of findings from other research firms evaluating consumer online shopping and buying behavior, both on an individual user and household basis.

The chart below suggests there is some disagreement among researchers when it comes to measuring “shopping” (browsing, researching and comparing) activity.

Comparative Estimates: % of Internet Users Age 18+ Who Have "Shopped" Online, 2000 & 2001

Source	2000	2001
Taylor Nelson Sofres	28%	33%
American Express	46%	–
Dataquest	66%	–
Intelliquest	67%	–
Roper Starch	71%	–
eMarketer	73%	77%
Pew Research	75%	–
Greenfield Online	83%	–
Forrester Research	85%	–
NPD Online	–	51%
Boston Consulting Group	–	78%

Source: eMarketer, various, as noted, 2001

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Comparative Estimates: Internet Users (age 18+) Who Have "Shopped" Online, 2000 (in millions)

	2000	2001
Intelliquest	67.0	–
eMarketer	68.0	80.9
Forrester Research	85.9	–
Boston Consulting Group	–	95.9

Source: eMarketer, various, as noted, 2001

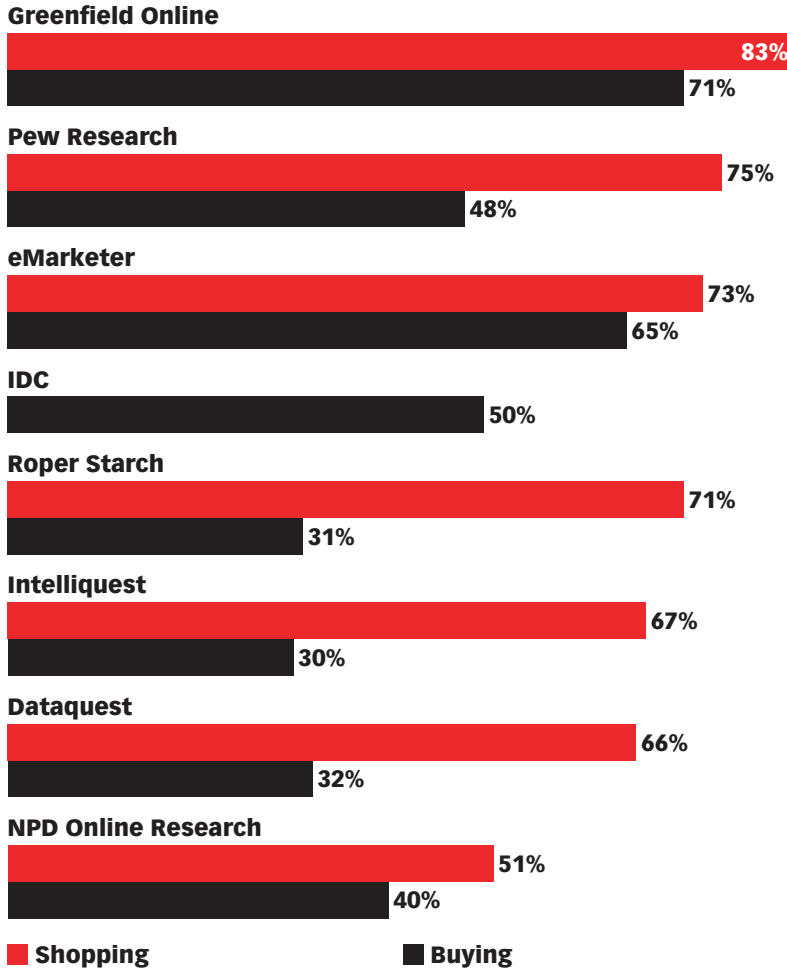
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eMarketer estimates that 73% of current adult internet users have used the web to shop. However, only 65% of adults online have actually made a purchase.

Comparative Estimates: Online Shopping & Buying among US Adults, 2000



Source: eMarketer, various, as noted, 2001

031908 ©2001 eMarketer, Inc.

www.eMarketer.com

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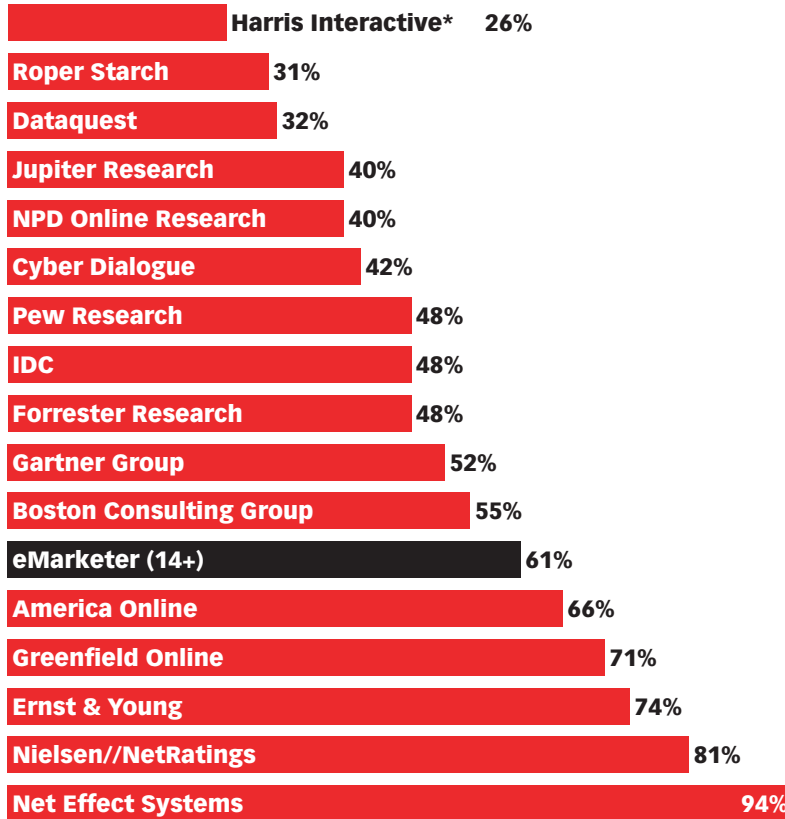
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There are 16 estimates for the percentage of internet users who have also bought online. Five of the data points converge around or equal 50%. eMarketer's estimate is for internet users aged 14 and older, the core buying community.

Comparative Estimates: % of Internet Users Who Have Purchased Online, 2000



Note: *% of internet users who have purchased during past 30 days, July 2001

Source: eMarketer, various, as noted, 2000

031915 ©2001 eMarketer, Inc.

www.eMarketer.com

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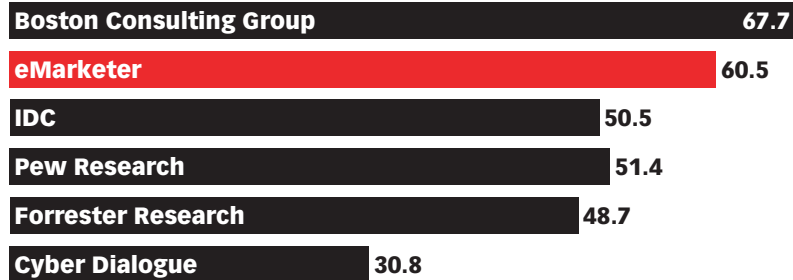
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Comparative Estimates: Number of Internet Users Age 18+ Who Have Purchased Online, 2000 (in millions)



Source: eMarketer, various, as noted, 2001

031920 ©2001 eMarketer, Inc.

www.eMarketer.com

Nielsen//NetRatings and Harris Interactive found that nearly half, or 100.2 million people, of the total US adult population, has bought online at least once in their lives. The findings are from a March 2001 survey of 39,000 online users. Its results estimated that 48.7% of Americans over 18 years old had made a purchase online. In addition, more than 81.2% of all adults with internet access have bought online since they started surfing the web.

ABCnews.com and TNS Intersearch randomly surveyed a much smaller sample of the population, 1,023 people, and concluded that 37% of all Americans (102.2 million) have made a purchase online.

Comparative Estimates: Number of Americans Who Have Purchased Online, 2001 (in millions and as a % of total Americans)

Source	2001
eMarketer (18+)	74.6 (36.0%)
ABCnews.com/TNS Intersearch (all ages)	102.2 (37.0%)
Nielsen//NetRatings (18+)	100.2 (48.7%)

Source: eMarketer, various, as noted, 2001

031922 ©2001 eMarketer, Inc.

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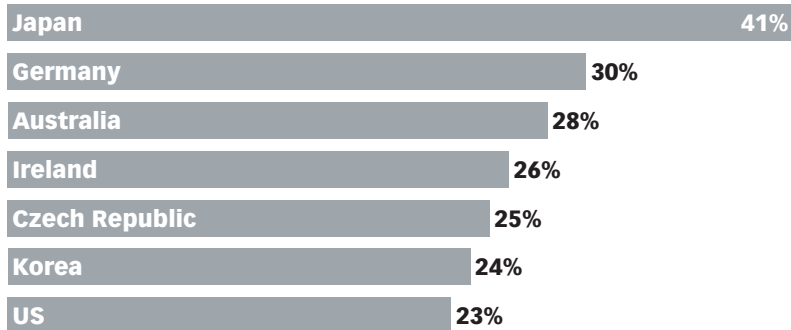
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In June 2001, TNS surveyed internet users worldwide about their intent to buy online during the next six months. Japan boasts the highest level of future online buyers with 41%, and the US was in a distant seventh place with 23% planning an online purchase, an estimate well below the 50% range of many other researchers, perhaps reflecting the fact that a higher proportion of US internet users already are online shoppers.

Future Online Shoppers in Selected Countries, 2001 (as a % of internet users)



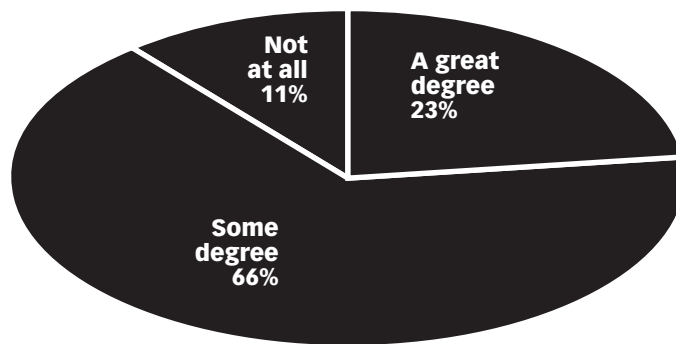
Source: Taylor Nelson Sofres, 2001

031768 ©2001 eMarketer, Inc.

www.eMarketer.com

Most online buyers surveyed by Knowledge Systems & Research believe that concerns about the economy will have some adverse affect on their online spending through mid-2002.

Negative Effect of Poor Economy on Online Spending Among US Online Buyers, 2001 (as a % of online buyers during a 12-month period)



Source: Knowledge Systems & Research, 2001

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www.eMarketer.com

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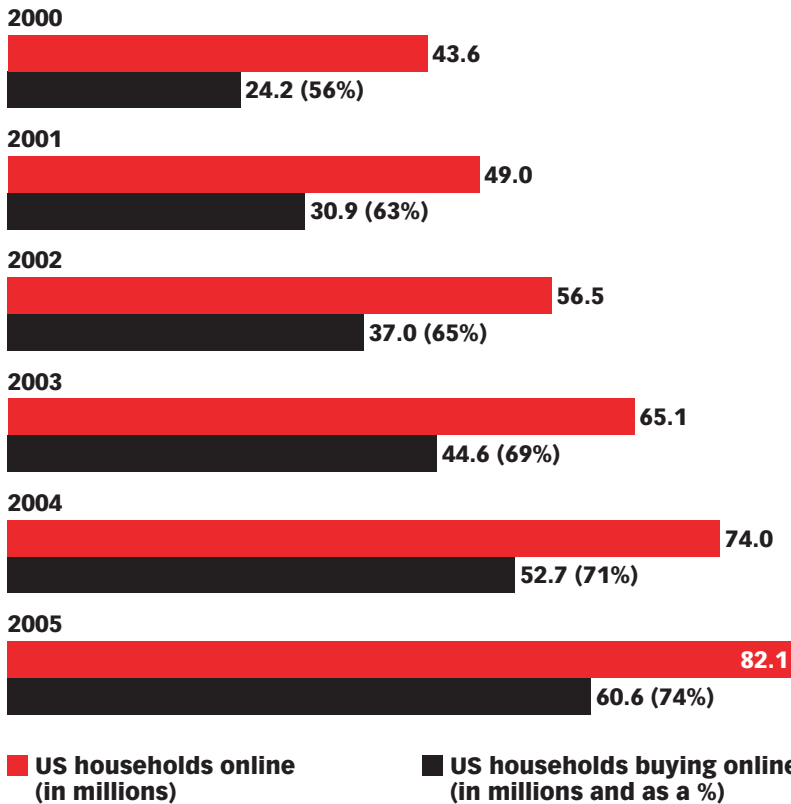
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Household Buying Trends

By year-end 2001, there will be 31 million households actively buying online. They will account for 63% of all online households and 29% of all US households. By 2005, 82.1 million households will be online, and nearly 61 million will be buying on the web.

US Households Online and Buying, 2000-2005 (in millions and as a % of households buying online)



Note: Based on US Department of Commerce 2000 estimates for households online

Source: eMarketer, 2001

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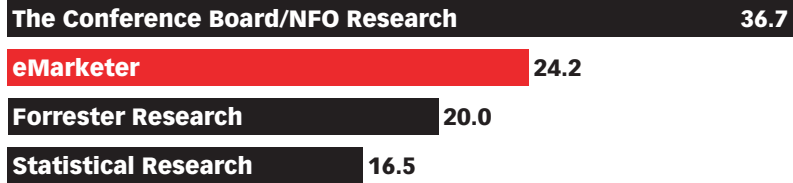
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The Forrester Online Retail Index indicates that the number of households shopping online in a given month increased from 13.1 million in June 2001 to 14.7 million in July 2001.

Comparative Estimates: US Households Buying Online, 2000 (in millions)



Source: eMarketer, various, as noted, 2001

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eMarketer Master Grid for Consumer Online Buying

The entire model for eMarketer's online consumer shopping is assembled below.

Demand-Side Model for U.S. Online Consumer Shopping Growth, 2000-2005

	2000	2001	2002	2003	2004	2005
Total U.S. population aged 14+ (millions)	221.3	223.2	225.6	228.0	230.5	233.2
Total number of internet users						
Millions online	105.3	117.8	128.2	140.1	152.5	169.0
As a % of total population 14+	47.6%	52.8%	56.8%	61.4%	66.2%	72.5%
Number of internet shoppers						
Millions online who "shop"	76.9	90.7	101.3	113.5	125.1	143.7
% of total internet users	73%	77%	79%	81%	82%	85%
Number of online buyers						
Millions who have ever purchased online (within past year)	64.1	79.3	91.1	104.4	116.6	130.0
% of total internet users	60.9%	67.4%	71.1%	74.5%	76.5%	76.9%
Average annual expenditure per teen buyer	\$195.59	\$253.16	\$257.30	\$259.37	\$282.89	\$316.46
Average annual expenditure per adult buyer (14to17)	\$621.30	\$710.46	\$993.20	\$1,055.40	\$1,132.60	\$1,257.20
Average annual expenditure all buyers (14+)	\$597.20	\$683.10	\$940.60	\$1,002.5	\$1,007.2	\$1,200.0
Total online B2C e-commerce sales in the US (billions)	\$38.3	\$54.2	\$85.7	\$104.7	\$125.6	\$156.0

Source: eMarketer, 2001

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Consumer attitudes have changed dramatically since shoppers first ventured to the web nearly seven years ago to browse and buy. As the number of online storefronts has multiplied over time, consumers have grown more sophisticated about where and how they will spend their money. Over the years, e-tailers have adapted to the changing needs of their customers and learned how to improve the overall online shopping experience. A happy customer, after all, is a customer who comes back again.

This chapter covers the dynamics of online buying from the customer's perspective. Despite overall vendor improvements in many fundamental areas of web-based selling, the US online shopping process remains fraught with logistical and customer service problems. Time and again consumers have spoken about what ails them when they buy online and what keeps them heading for the mall instead of the mouse.

A. Customer Service

“Very few retailers have made the connection between content, customer service, and loyalty. Emerging technologies support the notion that available and appropriate online content are a de facto proxy for in-store customer service. Retailers have shown progress with their websites, and we expect to see renewed emphasis on content as a driver of loyalty.”

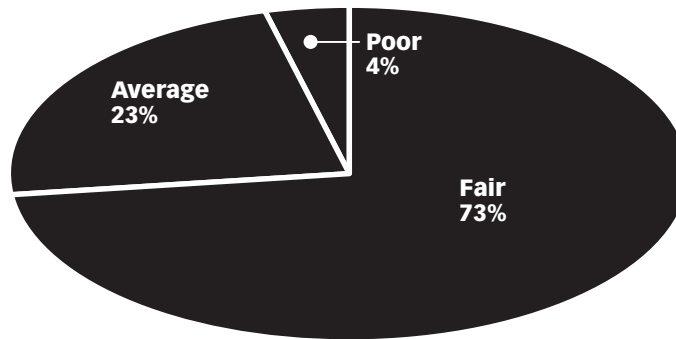
– Ken Goldberg, managing director, Retail Solutions

Effective online customer service will remain priority number one for US B2C e-commerce companies through early 2002. Profitability is more likely for e-tailers that establish a customer service model that caters to individual customers. Online merchants that can fulfill each customer's needs through personalized interactions, whether via e-mail, telephone, or online chat, take great strides toward retaining a customer for life.

Many B2C e-companies have invested heavily to improve their customer service capabilities by purchasing sophisticated customer relationship management (CRM) software and staffing call centers with knowledgeable service reps. But when it comes to improving overall customer relationship efforts, online B2C companies have a long way to go. Gartner Group examined 50 top e-retail sites and assessed the quality of their CRM efforts. The results were far from promising:

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Quality of US B2C Websites Customer Relationship Management, 2000



Source: Gartner Group, 2000

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Gartner found that pure play e-tailers were more adept at CRM than the traditionally based retailers. Most retail call centers treat internet customers as if they were strangers, and when disgruntled customers call, the service representatives are not always informed as to their web activities and previous transactions.

Satisfied online customers tend to shop more and spend more. They also buy more frequently from the same online vendor. Boston Consulting Group found that online consumers who were least satisfied with their e-shopping experience spent an average of \$428 on the web during a year-long period, whereas those who were most satisfied spent \$673. The more-satisfied group also engaged in nearly 50% more online transactions, completed an average of 9.4 purchases in the year, compared with 6.5 with the least satisfied group.

US Average Annual Online Spending, by Satisfaction Level, 2000

Most satisfied online purchasers	\$673
Least satisfied online purchasers	\$428

Source: Boston Consulting Group, 2001

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Improving customer service and satisfying customers directly affects the bottom line and can increase operating profits. BCG found that online retailers that are better customer satisfiers have higher buyer conversion rates and repeat customers.

Effect of Satisfying Online Customers on Operating Profit, 2000

	Average online retailer	Online retailer that satisfies
Conversion rate	1.8%	4.0%
Proportion of repeat customers	21%	35%
Number of orders per customer	2	3
Operating profit/loss as % of revenue	-78%	7%

Source: Boston Consulting Group, 2001

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The e-tailing group, inc., found that the amount of websites with online customer service features grew since Q4 2000. For example, first-time user tips were found on 38% of websites in Q4 2000 and 52% in Q2 2001. Order tracking was a feature found on 74% of websites in Q4 2000 and 84% of websites in Q2 2001.

US eCommerce Websites Customer Service Initiatives, Q2 2001 (as a % of 50 companies surveyed)



Source: the e-tailing group, June 2001

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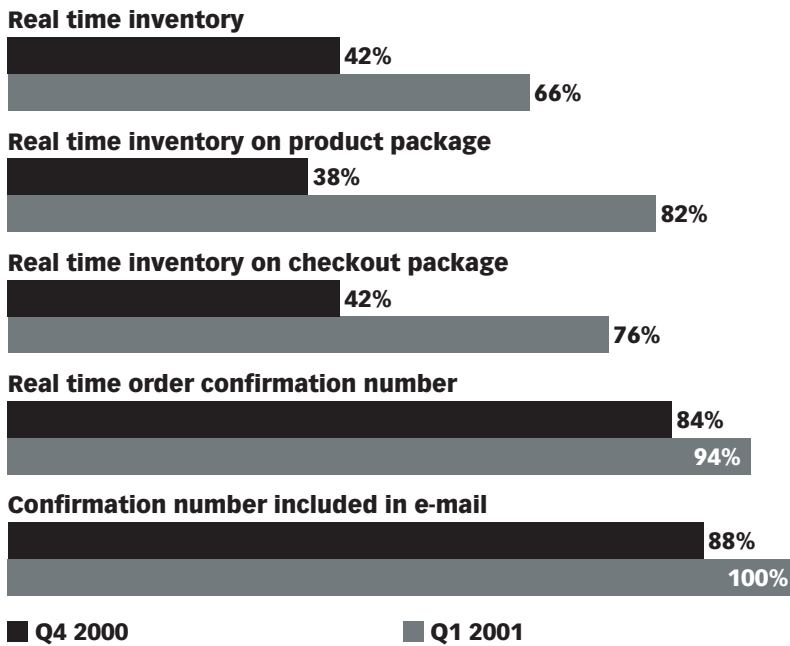
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The study notes that customer expectations raise the standards for companies that sell online. In terms of real time inventory features, the e-tailing group found that currently 100% of the websites they survey include order confirmation numbers in an e-mail to the customer.

US eCommerce Websites Offering Real-Time Inventory and Related Features , Q4 2000 & Q1 2001 (as a % of 50 companies surveyed)



Source: the e-tailing group, June 2001

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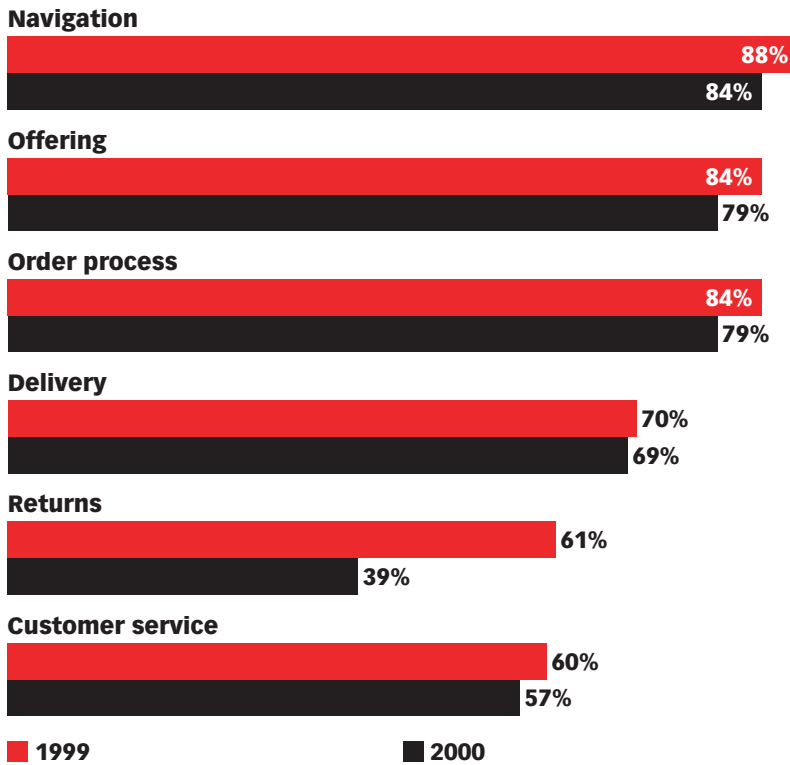
www.eMarketer.com

Of course, retail websites are always looking for ways to turn one-time buyers into regular customers. The e-tailing group found that as of Q2 2001, 90% of retail websites are asking customers to sign-up for targeted e-mails during the checkout process. This feature has also become more personalized since the end of 2000 – 9% of websites now ask the customer how frequently they would like to receive a targeted e-mail message.

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Many elements of the online purchasing process affect how satisfied a customer will be with shopping and buying from a particular site. BCG found the highest level of dissatisfaction among online shoppers in 2000 was with delivery of the goods, while the greatest improvement was with the return of goods from the home to the vendor. The customer service satisfaction level is about the same as it was in 1999.

US Online Consumers Very/Somewhat Satisfied with Elements of the Purchase Process, 1999 & 2000 (as % of consumers surveyed)



Source: Boston Consulting Group, 2001

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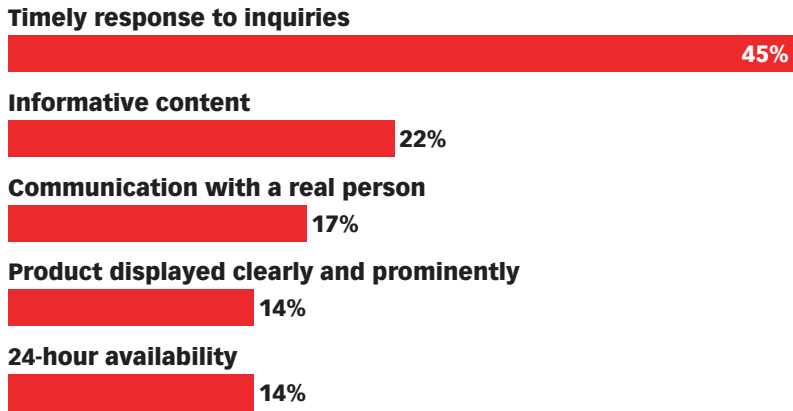
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e-Satisfy, a CRM company that measures the customer experience, found that e-customers have higher expectations for both acknowledgement and final response time than company service standards. Only 1 in 3 online customers are satisfied with their electronic contacting experience.

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In a survey of 502 online shoppers, Primus found that the number one demand by consumers was a timely response to their questions.

Service Features Demanded by US Online Shoppers, 2000



Source: Primus, 2000

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In a study of 50 sites, conducted by the E-tailing Group, Inc., the average number of hours it took for customer service to respond to an e-mail inquiry decreased by nearly two hours since Q4 2000. The increased use of technologies such as auto responders may be helping to improve response rates.

eMail Response Rates and Auto Response Use Among 50 US eTailers, Q4 2000 & Q2 2001

	Q4 2000	Q2 2001
Avg. number of hours to respond to customer e-mail	14.13	12.63
Auto responses (% of sites)	23%	38%

Source: e-tailing group, inc., 2001

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Harris Interactive finds that consumers are generally satisfied with customer service at e-commerce sites and that excellence in customer service has a significant impact on customer spending. Online consumers are willing to give sites up to a day to respond to and resolve their requests. According to Harris, 70% of consumers whose customer service request was responded to within 24 hours gave the site a high satisfaction rating on customer service and 8 in 10 said they would be very likely to repurchase from the site.

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Along these lines, many e-customers polled by Knowledge Systems & Research said that their online customer service experience has improved compared to a year ago.

Online Retail Experience Among US Consumers, 2000 & 2001 (as a % of consumers surveyed)

	Not applicable	Much/Somewhat Worse	The Same	Somewhat/Much Better
Obtaining customer service or support	11%	10%	44%	35%
Shopping for or buying products	10%	3%	41%	46%

Source: Knowledge Systems & Research, 2001

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About six out of ten online consumers are satisfied with customer service when doing things online. Nearly half indicated to Knowledge Systems & Research that their overall customer service experience is better than in 2000.

Online Customer Service Satisfaction Among US eConsumers, 2000 & 2001

	2000	2001
Somewhat/Very satisfied	51%	58%
Neither dissatisfied nor satisfied	44%	22%
Somewhat/very dissatisfied	5%	20%

Source: Knowledge Systems & Research, 2001

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About one-in-four online users told Knowledge Systems & Research that they had major problems with customer service, including no telephone number listed on the site, or very slow response times.

Problems US Online Consumers Experience with Customer Service, 2001

	Not a problem	Somewhat of a problem	Major problem
No phone number listed	27%	44%	29%
Lack of coordination between different parts of a company	30%	46%	24%
Slow response time	25%	54%	21%

Source: Knowledge Systems & Research, 2001

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Almost half of online users perceive that companies that do business both online and at physical locations are better at providing customer service than those who are purely online.

Consumer Attitudes Toward Customer Service, by Sales Channel, 2001 (% of online users' surveyed)

Companies that sell online and at physical locations are better at customer service

49%

Companies that only conduct business online are better at customer service

9%

No difference between online and offline customer service

42%

Source: Knowledge Systems & Research, 2001

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When it comes to online customer service formats, four out of five online shoppers rate toll-free calls to a live customer service person as either “extremely” or “very” helpful in improving satisfaction with online shopping.

Customer Service Formats Preferred by US Online Shoppers, 2000

Format	Extremely helpful	Very helpful	Somewhat helpful	Not helpful	Not sure
Toll-free call to live service person	55%	28%	10%	6%	1%
"Speak to me" button to speak to service person online	31%	32%	21%	14%	2%
Frequently asked questions page on site	23%	35%	26%	14%	2%
"Call-me" button to have service person call back within 24 hours	23%	30%	26%	19%	2%

Source: *Cyber Dialogue, 2000*

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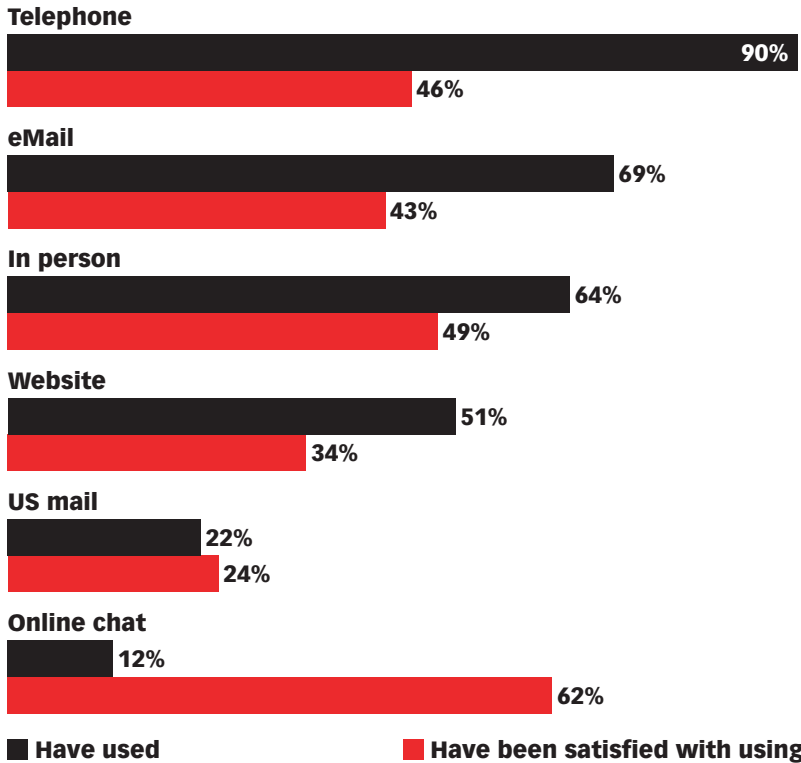
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Modalis Research Technologies found that 90% of US consumers have used the phone to obtain customer service, but only 46% grade its effectiveness with high satisfaction. The study found, however, that 12% of consumers have used online chat for help and 62% grade it with high satisfaction. Of note is that the study was commissioned by telecommunications giant WorldCom.

US Consumers Who Have Used and Have Been Satisfied* with Customer Service Vehicles, 2001 (as a % of consumers)



Note: *Top 3 box score on a scale of 1-10 in which top box (10) is "completely satisfied" and lowest box (1) is "not at all satisfied"

Source: Modalis Research Technologies, Inc., August 2001

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Modalis surveyed 1,000 consumers between April and May 2001 and found that 98% of respondents have used the internet for some form of customer service help. The most popular customer service element consumers desired on a company's website was the general telephone number.

US Consumers Who Have Used Online Customer Service and Elements They Have Used, 2001 (as a % of consumers*)

Used some form of online customer service



Visited website for customer service phone number



Looked for specific information to trouble shoot problem



E-Mailed a company



Used website's FAQ or accessed help guides



*Note: *1,000 survey respondents*

Source: Modalis Research Technologies, Inc., August 2001

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To learn more about Customer Relationship Management, see eMarketer's eCRM Report. To order copies, visit the eMarketer website (www.emarketer.com) or send an e-mail to sales@emarketer.com.

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B. Shopping Carts, Out-of-Stock Merchandise

“People use shopping carts to earmark products so they can get back to them quickly, just as they would put Post-It notes next to catalog items they like. We will never see a shopping-cart-abandonment rate of zero.”

— Terry Nelson, e-commerce marketing manager, Land’s End (emarketing Magazine, July 2001).

The reasons shoppers avoid buying over the web have changed over the past couple of years. Concerns over secure transactions were a major roadblock early on, and continue to trouble online shoppers. But now other factors such as poor customer service and invasion of privacy have taken the spotlight.

Main Reasons US Internet Users Do Not Buy Online, 2001

- 1 Poor/slow/non-existent customer service options
- 2 Privacy: fear or reluctance to disclose personal info and data
- 3 Higher total order prices than offline (including high shipping charges)
- 4 Security: potential for credit card fraud, hackers, etc.
- 5 Confusing site structure/cannot find product info
- 6 Not able to see/feel/test merchandise (where applicable)
- 7 General lack of trust in vendor
- 8 Inability to return goods
- 9 Site pages take too long to download
- 10 Out-of-stock merchandise

Source: eMarketer, 2001

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As they strive to keep customers and attain profitability through early 2002, e-tailers will focus on how they can improve many of the critical components that comprise the online shopping experience.

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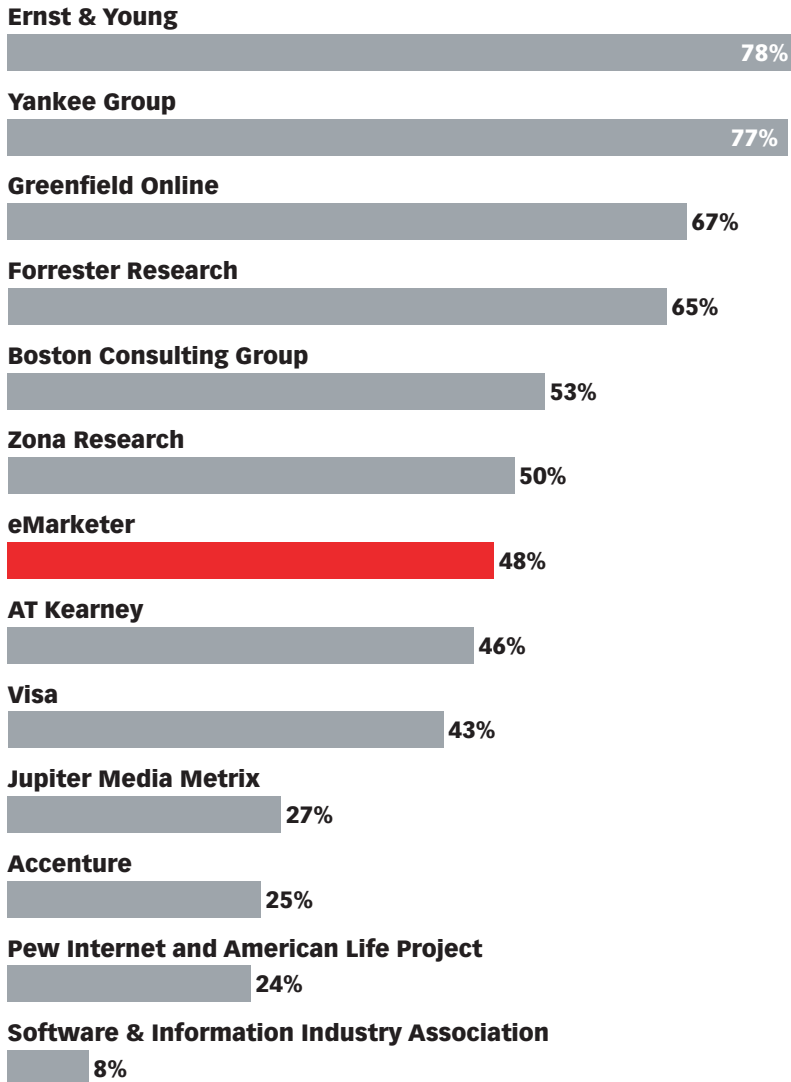
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There is a wide range of estimates on the percent of consumers who abandon their transactions online because of difficulties and frustrations with the shopping process. eMarketer puts the abandoned shopping cart rate at 48%:

Comparative Estimates: % of Online Shopping Carts That Are Abandoned, 2000



Source: eMarketer; various, as noted, 2000

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Pew Internet and American Life Project found that nearly one quarter of US internet users shopping for the holidays abandoned their transactions before checking out.

Online Shopping Behavior among US Consumers, December 2000

Used the internet to look for holiday gifts	32%
Used the internet to compare prices	32%
Purchased a gift online	24%
Abandoned transaction online	24%

Source: Pew Internet and American Life Project, 2000

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Dean and Co. examined the reasons consumers abandon their online purchases in four separate shopping stages. The reasons differ in each stage.

Reasons Why US Online Shoppers Leave eCommerce Sites, 2000

Stage	Reason	% Lost
Acquisition	Wrong audience	9%
	Unclear message	2%
	Slow page loading	15%
First impression	Clumsy site	15%
	Poor presentation	7%
Merchandise sale	Poor selection	13%
	No access in real time	4%
	Pricing	12%
Checkout	Ineffective tools	4%
	Long delivery times	9%
	Excessive shipping and handling	6%

Source: Dean and Co., 2000

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Impact of Abandoned Shopping Carts on Revenues

Abandoned shopping carts have eroded individual e-tailer sales and adversely affected overall online revenues. BizRate.com revealed that the average online shopper abandoned two or three web shopping carts during a 90-day period, each representing lost sales of \$175. Other findings of the study included:

- 55% of online abandoners left their carts prior to checkout
- 32% left their purchases at the point of sale when entering billing and shipping information, or after the final sale calculation
- 40% of shoppers abandoned carts because of expensive shipping and handling charges
- 75% of online shoppers abandoned a shopping cart at sometime or another

eTailers worldwide lose \$6.1 billion in sales due to an 80% failure rate among online purchase attempts, according to a survey of 1,241 online shoppers conducted by AT Kearney.

Researchers differ as to the reasons why online shoppers do not complete the sale on the web. Zona Research found that poor site performance is the primary reason for abandoning carts. It places the value of lost potential business at more than \$25 billion a year worldwide. Many online shoppers abandon their carts simply because they believe they can find a better deal elsewhere. Forrester Research discovered that of the 65% of web shoppers who fail to complete a web-based transaction, 40% leave to compare shipping costs at other e-tailers, and 35% leave because they are looking for a lower price on the product. The most unfortunate revelation is that of those who go comparison shopping elsewhere, 70% never return to the site again.

Comparative Estimates: Why US Online Shoppers Abandon Transactions, 2000

	Boston Consulting Group	Ernst & Young	AT Kearney	Forrester Research
Invasive information requests	–	–	52%	–
Reluctance to enter credit card data	–	–	46%	–
Poor site design	45%	18%	–	–
Site takes too long to load	48%	–	–	–
Changed mind about purchase	–	34%	–	–
Shipping costs too high	–	45%	–	40%
Compare prices elsewhere	–	–	–	35%
Website malfunction	–	–	42%	–

Source: AT Kearney, Boston Consulting Group, Ernst & Young, 2000

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The most likely reason for bailing out of a web purchase that did not make the chart above is that the merchandise is nowhere to be found on the site.

Out-of-Stock Merchandise

Out-of-stock merchandise is a major reason why e-customers abandon a site before buying. After all, if you cannot buy what you came for, there is no reason to keep looking around the site. Throughout 2000, e-tailers assessed how they managed their inventory and kept tabs on the most popular toys and gifts to ensure they would be in stock when customers arrived at their virtual doors during the year-end holidays. However, despite the improvements, some consumers looking for gifts online still came up empty handed and decided not to make a purchase.

In a post-holiday season survey conducted by PC Data Online, among those that were critical of the holiday buying experience, 51.6% said items of choice were sometimes out of stock. Another 8.6% said that items were frequently or always out of stock.

Harris Interactive/Boston Consulting Group, Jupiter Media Metrix, and NPD Group released their own laundry lists of causes of dissatisfaction among holiday shoppers, and out of stock items topped the lists, with near agreement between Harris/BCG and Jupiter:

Comparative Estimates: Top Online Shopping Problems Among US Consumers, Holidays 2000 (as a % of shoppers)

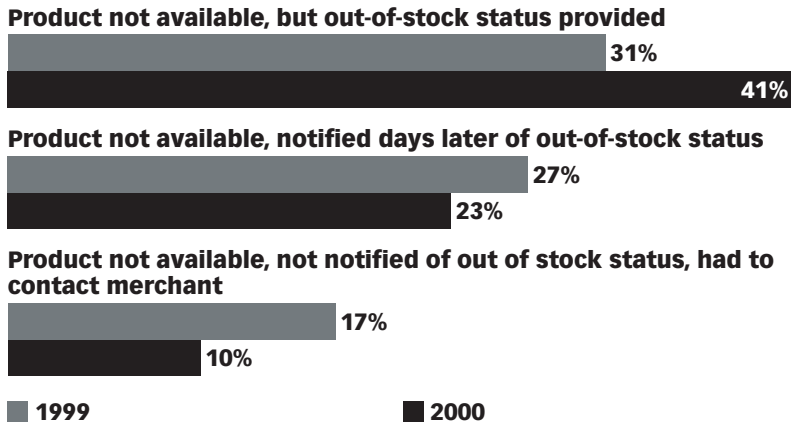
Problem	Harris/BCG	NPD	Jupiter
Gift out of stock	22%	31%	24%
Shipping & handling costs	–	–	21%
Slow site performance/site down	–	23%	18%
Long shipping time	14%	14%	15%
Did not receive item	7%	6%	–
Slow e-mail response	–	–	10%
Credit card security	–	–	9%
Concerned about returns	–	–	8%
Prices too high	–	–	7%
Could not find product	7%	21%	6%
Could not speak with person	–	–	5%
No gift wrap	–	–	3%

Source: Harris Interactive/Boston Consulting Group, NPD Group, Jupiter Media Metrix, 2000

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BizRate.com’s survey of US consumers found that although product availability continued to be a significant problem for consumers, e-tailers have improved their ability to provide shoppers with inventory information at the time of purchase.

Product Availability Problems Encountered Among US Consumers, Holidays 1999 vs. 2000



Source: BizRate.com, 2000

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C. Privacy and Personalization

“People are telling government and industry that they want the most control and responsibility for protecting their privacy, and that they are prepared to exercise that responsibility when given the tools to do so.”

— John Kamp, acting executive director, Privacy Leadership Initiative (eCommerce Times, July 11, 2001).

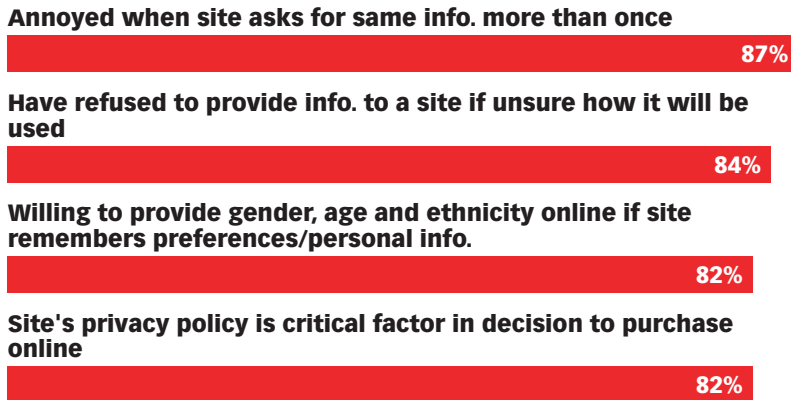
Online companies continue to gather data about their customers to understand each of their individual needs and preferences. By gaining a clearer picture of each customer, the online merchant can customize some form of its offerings or service and increase the likelihood the customer will return and spend again. The Catch-22 is that many consumers remain fervently protective of their personal information. eTailers face the daunting task of earning the customer’s trust by protecting his privacy online

Web personalization technologies have improved the overall online shopping experience by creating dynamic pages that sell products and display ads tailored and targeted to the individual.

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The Personalization Consortium reported that 63% of US consumers are more likely to register at a website that accommodates content customization and offers personalization features. The study also reports that 40 million adults age 18 and up who have been online for at least two years now customize their internet experience in some way – representing 47% of these specific adult users. Additionally, 82% of online adults consider a site’s privacy policy to be a key factor in the decision to purchase online.

US Consumers’ Attitudes toward Personalization Online, March 2001 (as a % of consumers surveyed)



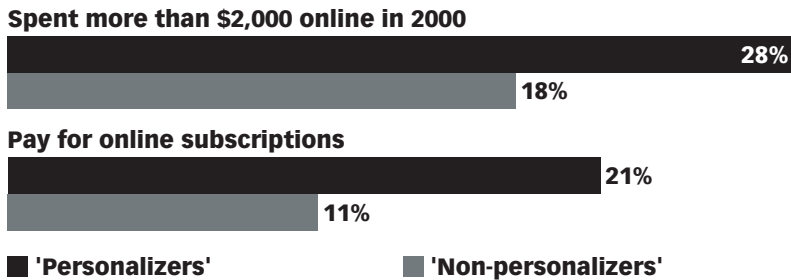
Source: *Cyber Dialogue, The Personalization Consortium, 2001*

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Commissioned by the Consortium and conducted by Cyber Dialogue, the study found that 53% of consumers are more likely to purchase from a website with personalization features.

US Consumers Who Do and Do Not Value Personalization Online, March 2001 (as a % of consumers surveyed)



Source: *Cyber Dialogue, The Personalization Consortium, 2001*

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Supporting data from a Jupiter Media Metrix survey indicate that most US online buyers are not hesitant to register and reveal personal information to retailers. About 70% register to receive e-mail for new products and special offers, while 68% register prior to making a purchase.

Attitudes among US Online Buyers toward Registering at B2C Websites, 2001

Register to receive e-mails for new products/special offers

70%

Register prior to making a purchase

68%

Register to store personal information on the site

50%

Register to receive physical mail

41%

Source: Jupiter Media Metrix, 2001

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In a conflicting view of personalization, Statistical Research, Inc. (SRI) revealed in its study “How People Use the Internet 2001” that two-thirds of active internet users typically abandon a site that requests personal information. About 65% of experienced users and 72% of internet newbies do not buy from sites that require registration. In addition, 21% of web users have entered false information to gain access to a site.

Another contrasting survey, by Yankelovich Partners, finds that consumers are hesitant about releasing information such as telephone numbers, addresses, and credit card numbers on the web. Out of the 1,173 surveyed, 90% said they felt protection of privacy of personal information is the most important issue. Additionally, 46% think the government needs to regulate privacy more carefully and 79% leave websites when they require personal information to proceed.

“People are not concerned about privacy. They’re hysterical about privacy.”

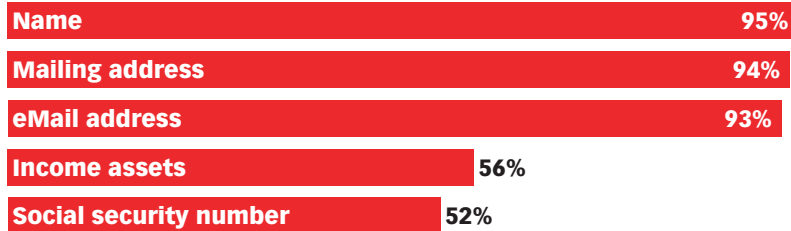
– John Palafoutas, head of the American Electronics Association

The findings of a Harris Interactive survey show that while an increasing number of US adults are spending time online, there continues to be significant concern about sharing personal information online and offline.

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Unlike the Yankelovich survey, however, Harris found almost all online users are willing to provide websites with basic information such as their name and address.

Personal Information US Online Users are Willing to Reveal to Websites, 2001 (as a % of adult online users)



Source: Harris Interactive, 2001

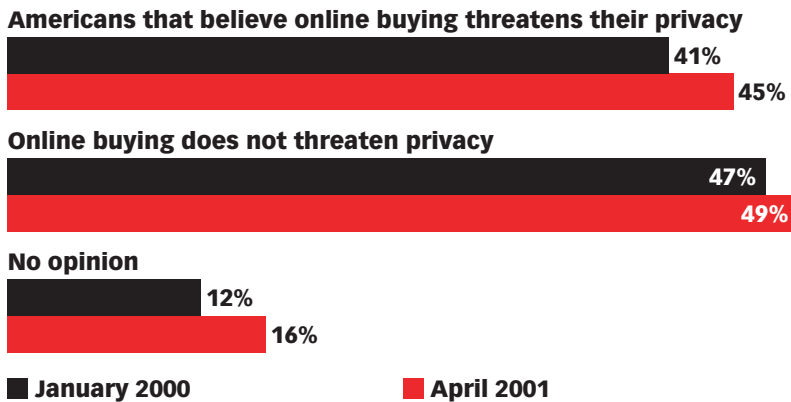
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Harris found that 83% of online users and 77% of non-online users have refused to reveal information to a business they considered too personal.

ABCNews.com found that American attitudes toward online privacy have not changed much in a little more than a year. Nearly half of Americans believe online buying does not threaten their privacy.

US Attitudes toward Online Privacy, 2000 & 2001 (as % of all Americans)



Source: ABCNews.com, 2001

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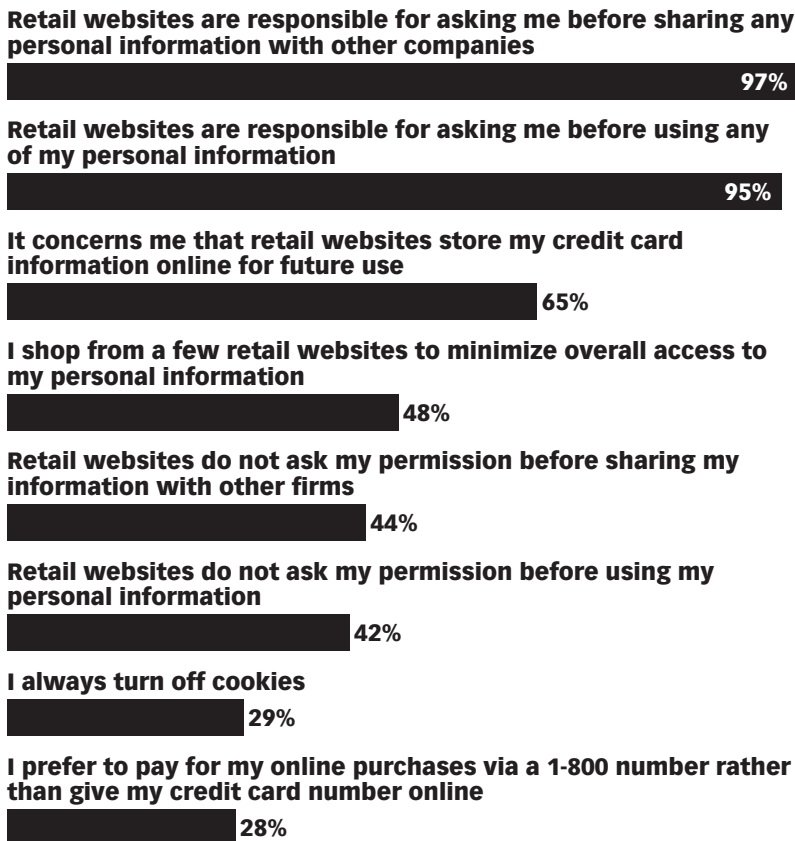
“The vast majority of consumers are comfortable with sites they recognize and brands they’re familiar with. A small minority don’t want to disclose any information, online and offline. But most people are comfortable providing information if they see some value for it.”

– Jules Polonetsky, chief privacy officer, DoubleClick

Close to 60% of US internet users surveyed by PricewaterhouseCoopers said they would buy online more frequently if they knew retail sites would not do anything with their personal information. Furthermore, 40% would purchase more online if they knew how the websites were using the necessary checkout information they supplied.

The following chart indicates the attitudes PWC found online Americans have toward supplying personal information online.

US Online Privacy Attitudes, 2000 (as a % of internet users who agree)



Source: PricewaterhouseCoopers, 2000

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Nearly all online users surveyed by Harris Interactive believe it is imperative that a site contain a clearly identifiable and easy to understand privacy statement.

Attitudes Toward Online Privacy Statements by US Online Adult Users, 2001

Have seen privacy notices on websites

73%

Actively read information in privacy notices

78%

Always read information in privacy notices

26%

Rarely or never read information in privacy notices

22%

Source: Harris Interactive, 2001

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Harris found that while 45% of online users think sites have gotten better at providing policy notices, about 59% said companies still need to make considerable improvements in informing users what the businesses do with their personal information.

D. Online Security and Fraud

Although more US consumers are buying online, the fear of security and credit card fraud has not vanished. Despite improvements in secure internet transaction technology, such as digital signatures, and a greater selection of alternative online payment mechanisms, consumers are still leery about giving out their credit card information over the web.

While online credit card fraud is a real problem, its frequency has been greatly exaggerated, according to “Overhyped and Misunderstood: The Fraud of Online Fraud,” a Jupiter Media Metrix report. The attention focused on web-based security incidents, Jupiter said, has led consumers to believe that fraud is about 12 times more prevalent on the internet than offline. However, Jupiter found that online credit card fraud rates are about three or four times that of overall commerce fraud.

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Visa International places online credit-card fraud rates between 25 cents and 28 cents per every \$100 charged, significantly higher than the 7 cents for all transactions.

US Online Credit Card Fraud Rates, 2001

Fraudulent amount per every \$100 charged	
Online	25-28 cents
Offline	7 cents

Source: Visa International, 2001

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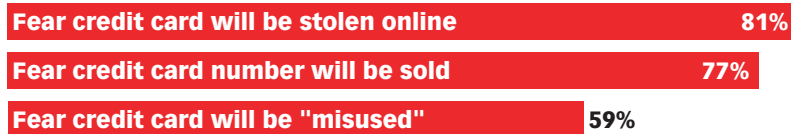
Ipsos-Reid released a study supporting the idea that the biggest barrier to online buying is credit card theft. The survey polled 8,500 adults in 16 countries and found 46% of them said the potential for credit card fraud is their top concern. In the US, 45% of users who have not yet made a purchase on the web gave fear of credit card use as their main reason for abstaining.

A recent ePulse survey found that 89% of online buyers are not comfortable providing credit card information online. However, ePulse found they feel less anxious about buying from sites that tout they have been approved by a third-party security firm.

Jupiter found that consumers are “overwhelmingly” fearful about the theft of credit-card data online. Nearly 81% of US consumers are afraid that their number will be intercepted online. Meanwhile, a similar study by Pew Internet Project revealed that 82% of Americans fear their credit card information will be stolen or abused, so there is apparent convergence of opinion on this topic.

In contrast, however, of the 3,000 US online users that Harris Interactive polled, only 29% said they are most concerned about credit card theft.

Concerns about Credit Card Theft Online, 2001 (as % of online users and % of Americans)



Source: Jupiter Media Metrix, 2001

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The internet is a breeding ground for fraudulent transactions, according to US Search. Its survey found that nearly 35% of internet users described internet fraud as a “severe or significant” problem.

US Online User Perception of Internet Fraud, 2001 (as % of internet users surveyed)



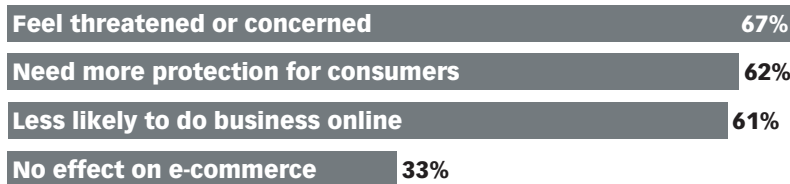
Source: US Search, 2001

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According to a recent poll conducted by the Information Technology Association of America (ITAA) and EDS, Americans are exhibiting a high level of concern about cybercrime. The survey of 1,000 individuals nationwide also showed many people believe not enough is being done to protect internet consumers. Of course, not all consumers shared these worries: one-third of Americans say that cybercrime has no effect on their e-commerce activities.

Attitudes toward Cybercrime among Consumers in the US, 2000



Source: Information Technology Association of America, 2000

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Security issues over using credit cards on the web stood out as a major barrier in a recent survey of internet users by PricewaterhouseCoopers. More than 79% of respondents agreed they were concerned about credit card security. In a similar survey conducted by Greenfield Online for Parade magazine readers, only 47% expressed concern about credit card theft, although the sample group was likely much larger than PWC's given the audience of Parade readers.

Comparative Estimates: Barriers to Online Purchasing in the US, 2000 (as a % of respondents)

Concerns	Greenfield Online	PricewaterhouseCoopers
Credit card security	47%	79%
Disclose personal information	53%	77%
Lack of trust in online merchants	-	48%
Cannot see or feel merchandise	54%	65%
Shipping and handling charges	-	55%
Ordering process is complex	-	21%
Too time consuming to place orders	-	20%
Difficult to find products	-	23%
Difficult to find websites	-	24%
Unfamiliar with online shopping sites	-	40%

Source: PricewaterhouseCoopers; Greenfield Online, 2000

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E. Shipping and Handling

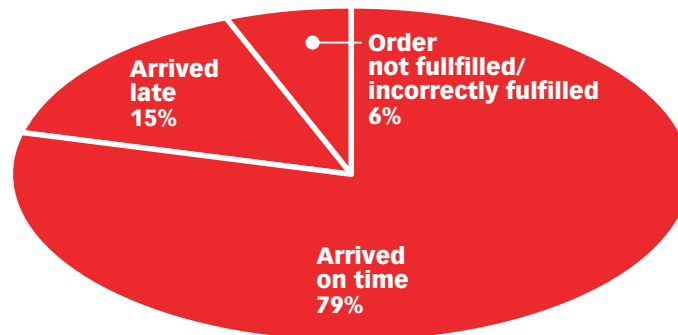
“Online retailers must begin basing their shipping charges on weight and distance because that is what customers are familiar with. Retailers that believe that they’re simplifying matters for their customers by charging based on the dollar size of an order or on the number of items in the order are making a mistake that may undermine the relationship that they’re trying to build.”

– Ken Cassar, Jupiter analyst

US e-tailers continue to tussle over the final mile problem and the complexities associated with getting the goods to the customer efficiently and quickly.

Online order fulfillment is plagued by very real problems. In fact, a study conducted by Electron Economy found that over one-fifth of all online orders in 2000 arrived late or were not correctly fulfilled.

US Online Orders Delivered on Time, Late or Not at All, 2000



Source: Electron Economy, 2000

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Fulfillment problems have been an ongoing nightmare for many e-tailers. A report released by Accenture found that during the 2000 year-end holiday season, as many as 67% of online deliveries were not received as ordered and 12% were not received in time for the holidays, or 88% made it in time. Similarly, a study from PricewaterhouseCoopers said the most persistent frustration for online holiday shoppers in 2000 involved order fulfillment, the same issue that plagued e-tail heavyweights and fledglings alike in 1999.

Harris Interactive and Boston Consulting Group reported nearly the same results in their assessment of the holidays, during which they believed the delivery process overall was much improved. The research firms found that an overwhelming 90% of gifts ordered online were delivered on time.

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Comparative Estimates: Delivery Status of Gifts Ordered Online by US Consumers, Holidays 2000

Delivered on time



Delivered late but before Christmas



Delivered late and after Christmas



Never delivered



■ Harris/Boston Consulting ■ Accenture

Source: Accenture, Harris Interactive/ Boston Consulting Group, 2000

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Click-and-mortar businesses have a substantial advantage over web-only retailers in order fulfillment when it comes to distribution. Catalog companies have made the smoothest transition thanks to the easy adaptation of their business model to internet commerce.

Fulfillment Metrics for Online Orders in the US, 2000

	Cost	Fulfillment time	On-time success rate
Catalog firms	\$10.30	1.5 days	91%
Internet pure plays	\$12.50	1.8 days	86%

Source: Boston Consulting Group, 2000

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BizRate.com's on-time order fulfillment metric increased 13 percentage points from 1999 even as total number of online orders increased by 19 million. The number of late deliveries actually decreased by 2 million:

On-Time Delivery of US Holiday Online Orders, 1999 vs.2000

	1999	2000
% of orders delivered on time	74%	87%
Total number of online orders	34 million	53 million
Number of late orders	9 million	7 million

Source: BizRate.com, 2001

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Bizmetric also examined online order fulfillment during the 2000 holiday shopping season. It found that the average time to pick, pack and deliver an order to a doorstep was 4 days, 8 hours and 46 minutes.

Fulfillment Times Based on US Holiday Orders , Nov. 27-Dec. 3, 2000

Site	Fulfillment time
Outpost.com	2 days, 10 hours, 8 minutes
Walmart.com	3 days, 13 hours, 47 minutes
800.com	5 days, 13 hours, 10 minutes
Amazon.com	5 days, 15 hours, 13 minutes
EToys.com	5 days, 17 hours, 20 minutes
Barnesandnoble.com	6 days, 11 hours, 41 minutes
Average	4 days, 8 hours, 46 minutes

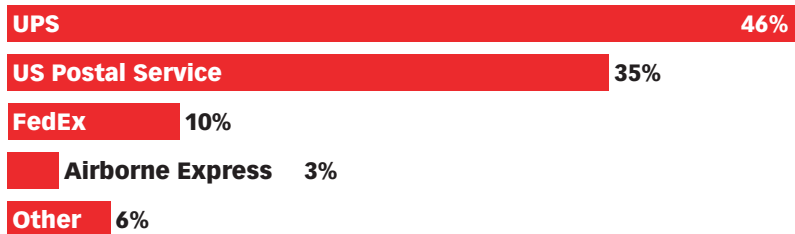
Source: Bizmetric.com, 2000

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When placing their orders, online buyers rely on UPS and the US Postal Service, which have cornered the market in total deliveries.

US Consumer Deliveries by Carrier (Online and Offline Orders), 2000



Source: McKinsey & Co., 2000

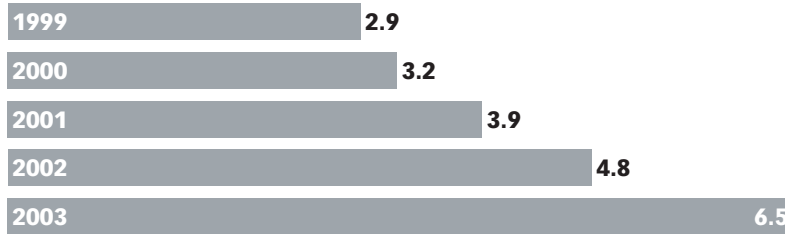
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eTailers have learned that not all products sold online are conducive to home delivery. Successful online goods are those that carry large profit margins and low fulfillment costs, such as apparel and commodity-like items (CDs, videos, and DVDs). Still, e-tailers have diversified their product offerings and the volume of online shipments has never been higher.

Average Number of Online Orders Delivered Per Day in the US, 1999-2003 (in millions)



Source: Forrester Research, 2000

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eTailers also are accelerating their pace in order delivery reducing the average number of days a customer must wait for their shipment.

Average Days US eCustomers Must Wait for an Order, 1999 & 2000 (in days)



Source: Accenture, 2000

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Overall order fulfillment accuracy, however, has declined as e-tailers have struggled to ensure that customer deliveries arrive early or on time. Many lack the infrastructure to pick, pack and ship orders themselves and rely on a third-party vendor to complete this critical task.

US Online Orders Delivered On Time or Early, 1999 & 2000



Source: Accenture, 2000

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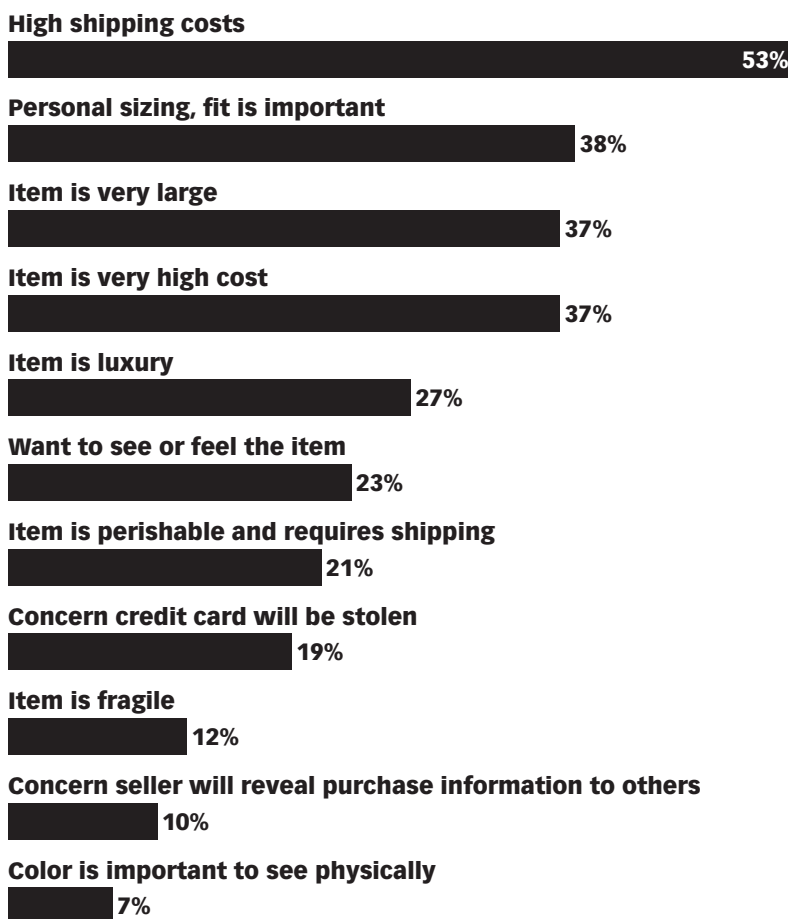
Shipping the Goods

“Customers want realistic time frames for delivery. Retailers should clearly state their delivery policies in their online catalogs and stick to them.”

– Chris Newton, senior analyst, AMR Research (*in Business 2.0*, March 6, 2001)

According to a 2000 Ernst & Young survey, the high cost of shipping tops the list of factors that inhibit internet users from buying online.

Factors Discouraging US Internet Users from Buying Online, 2000



Source: Ernst & Young, 2000

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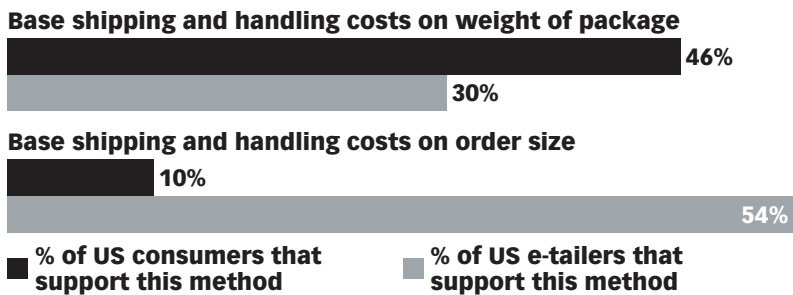
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While free shipping can be a potent customer acquisition tool, eMarketer finds that the long-term use of such a program will be limited to those e-tailers with margins of at least 30%, such as those selling apparel, electronics and furniture.

Consumers are becoming increasingly frustrated over shipping and handling of their online orders. The returns process is no different. A new study by Jupiter Media Metrix argued that the return of paid shipping is driving away online shoppers. Almost two-thirds of consumers have been deterred from completing online purchases because of shipping and handling charges.

Many online retailers have been unprofitable to date partly because shipping and handling remains one of their greatest business expenses. Jupiter Media Metrix recently reported that while high shipping and handling charges have dissuaded 63% of consumers from completing their online transactions, nearly 45% of retailers are losing money on shipping and handling costs. According to Jupiter, 46% of consumers believe that shipping costs should be based on the weight of the packages, while 10% said that price and order size should determine the cost of shipping and handling.

Factors That Determine Online Shipping and Handling Costs, 2001 (% of online consumers and % of e-tailers)



Source: Jupiter Media Metrix, 2001

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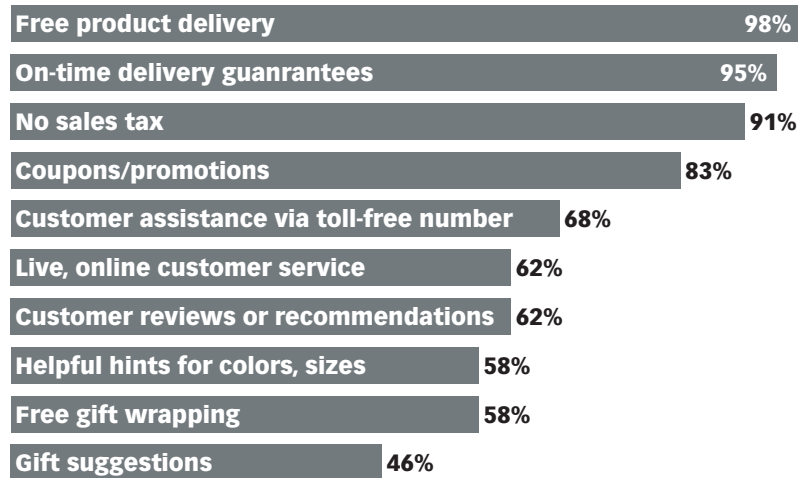
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To alleviate their rising cost of shipping the goods and accelerate order processing times, Jupiter forecast that one-third of all web-based retailers will outsource their shipping to third-party merchandise suppliers, internet-based fulfillment networks and drop shippers over the next year.

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To increase online spending, Accenture found that consumers want free and on-time delivery the most.

Features That Would Encourage US Consumers to Spend More Online, 2000



Source: Accenture, 2000

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F. Return Policies

Returning unwanted merchandise ordered online remains a logistical hassle for many consumers and even deters them from shopping on the web again. US B2C e-commerce companies have made great strides to streamline the return process. Some provide a postage pre-paid return label for the customer. Other merchants provide only a return address. In most cases, the customer is left holding the bag on how best to re-wrap the order, seal it, insure it, and ship it back to the e-tailer for a refund or exchange.

An effective returns management procedure has burdened e-tailers across all shopping categories as the amount of goods being returned skyrockets. Jupiter Media Metrix finds that the number of online returns by US consumers will reach an astounding 90 million by 2005, representing merchandise worth \$5.8 billion. To realize financial benefits, Jupiter analysts believe online B2C companies must maximize the value of reclaimed goods by improving their reverse-logistics systems, including the collection and analysis of customer data.

Nearly 25% of merchandise bought online is returned, with averages higher in certain categories, such as apparel, at 35%. Many returns result from the e-tailer shipping the wrong merchandise. McKinsey & Co. estimates that the additional fulfillment expense from inaccurate order fulfillment totals \$2.5 billion.

Impact of Poor Order Accuracy in the US, 2000 (in billions)

Value of goods shipped (incorrect products)

\$6.7

Value of goods shipped (incorrect address)

\$2.2

Additional fulfillment expense

\$2.5

Source: McKinsey & Co., 2000

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Online retailers experienced higher return rates during Q4 2000 than in prior holiday seasons, according to Yankee Group. Between 20% and 30% of all sales were returned for exchange or refund, totaling about \$1 billion worth of merchandise.

The reason for the higher return rates likely stems from online buyers ordering the same product from more than one site to guarantee that they would receive what they wanted. Online shoppers wanted to avoid the delivery snafus that occurred during the 1999 holiday season when several e-tailers failed to ship orders on time.

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But online purchasers are still frustrated over the return process. In the run-up to last year's holiday season, return difficulty ranked second after security issues in a Jupiter Media Metrix poll:

Online Consumer Concerns During Holiday Season, 2000



Source: Jupiter Media Metrix, 2000

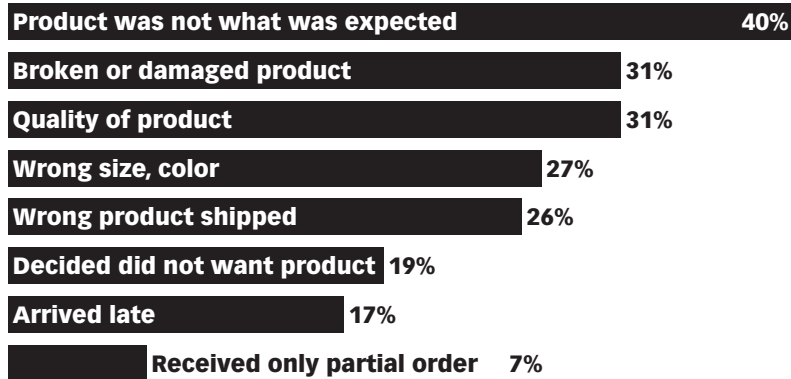
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PricewaterhouseCoopers found that 29% of internet shoppers have returned an item that was bought online. Another 4% had returned their most recent online purchases. On the other hand, 41% of shoppers have wanted to return an item bought on the web but considered it too much trouble.

Among online consumers who returned products, the most frequent reason cited was that the product was not what they expected.

Reasons Why US Online Buyers Returned Purchases, 2000



Source: PricewaterhouseCoopers, 2000

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Once they return the item, e-consumers are left wondering if the item indeed arrived back to the e-tailer safely, and if they will be issued a refund or exchange. Customers often send an e-mail to the merchant inquiring about the status of their return; however, their message could fall on deaf “eyes.” Broadbase Software discovered that 29% of sites providing e-mail inquiry options took more than two business days to respond to the customer. What is worse is that 64% of the returns took more than two weeks to be credited to the customer’s account. On the plus side, however, is that customers frequently controlled how they could return their purchases and they were often given special offers after their initial purchase.

Return Policies of US Online Retailers, 2001 (% of sites)

Allowed customers to return their purchases by method of choice	89%
Provided an option to check the status of a return	83%
Took more than two weeks to credit customer’s account after they received returned goods	64%
Gave offers to customers after their initial purchase	60%
Took more than two business days to respond to inquiries	29%

Source: Broadbase Software, 2000

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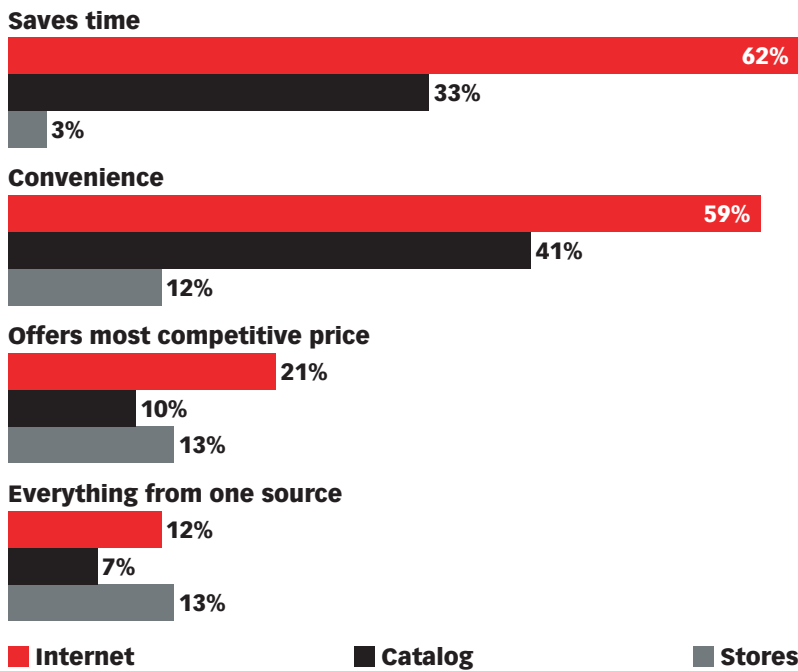
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G. Convenience, Rewards, and Comparison Shopping

Experienced online buyers and new internet purchasers alike say the sheer convenience of buying on the internet is one of the leading reasons why they do it. The amount of time saved from avoiding traffic and crowds at the shopping mall is worth the extra price of shipping to many.

Wired consumers rate the e-commerce experience higher than store or catalog shopping experiences on critical metrics such as competitive pricing and convenience, according to an Andersen Consulting survey.

Performance of Channels and Attributes Important to Overall Shoppers in the US, 2000



Source: Accenture, 2000

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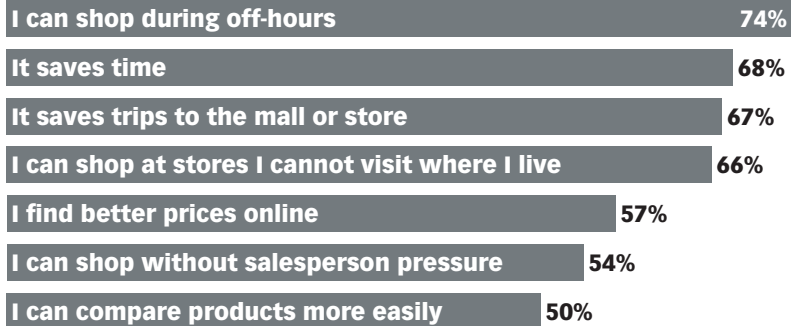
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When asked what motivates internet users to shop online, respondents to a *Parade* magazine and Greenfield Online survey included several convenience-related reasons, such as “shop during off-hours,” “saves time,” and “shop at stores I cannot visit where I live.”

Reasons Why US Internet Users Shop Online, 2000



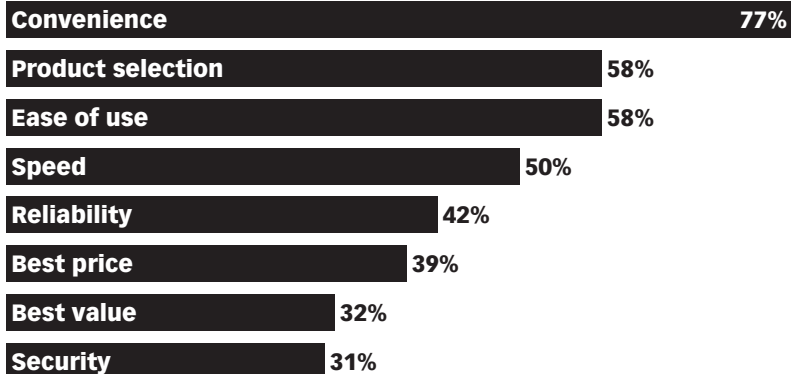
Source: *Parade Magazine/Greenfield Online, 2000*

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During a six-month period, Odyssey found that the majority of online buyers find online shopping to be convenient and easy.

Perceived Attributes of Online Shopping, 2000



Source: *Odyssey, 2000*

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The web has become a Mecca of for shoppers of consumer packaged goods, such as frozen foods and household supplies, once thought to be a category that would never translate well to online selling. Information Resources, Inc. (IRI), Harris Interactive and PERT Survey Research recently released information from the report "CPG Online: What's Not Clicking for Manufacturers, Retailers and Consumers." IRI found that 23% of online consumers in the US have bought consumer packaged goods (CPG) online and a whopping 99% of those buyers plan to maintain or increase their level of spending over the coming year.

IRI found that convenience was a top reason why consumers turn to the web to buy these goods. The following table lists other discrepancies between what consumers do and do not want and what CPG e-retailers perceive to be important to consumers:

Reasons Why Consumers in the US Do or Do Not Shop Online for CPG* Products and Corresponding Perception of CPG eRetailer, November 2000- February 2001 (as a % of primary shoppers and CPG e-retailers)

	CPG consumers	CPG eRetailers placing importance on this factor
Shop online for CPG products because internet is always open	64%	55%
Shop online for CPG products because it "saves time"	47%	36%
Do not shop online for CPG products because of delivery costs	68%	22%
Do not shop online for CPG products due to inability to review products in person	57%	18%

Note: CPG stands for 'consumer packaged goods' and is defined as products in the following categories: healthcare, vitamin, beauty care, food and beverages, perishables, frozen foods, household supplies, baby care and pet food

Source: Informations Resources, 2001

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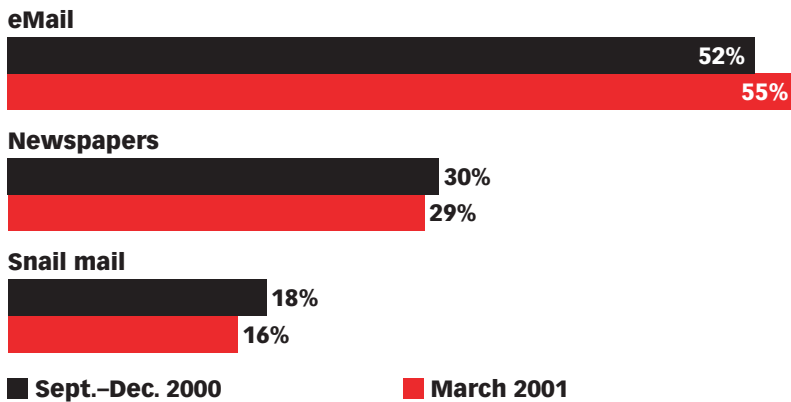
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Rewards

Despite the hassle-free environment that online shopping creates, consumers say they browse and buy on the web to get a better price. Many have come to expect to find a better discount on merchandise sold on the web than in the store. According to the latest iCustomer Observer, a quarterly study from Valentine Radford, 92% of online consumers in the US still expect more discounts from the internet than from traditional retailers. Additionally, Radford found that as of March 2001, 55% of online shoppers prefer to receive coupons via e-mail. Only 29% prefer newspaper coupons and just 16% prefer receiving coupons through the mail.

US Online Consumers' Preference of Coupon Delivery, Sept.-Dec. 2000 and March 2001 (as a % of respondents)



Source: Valentine Radford, 2001

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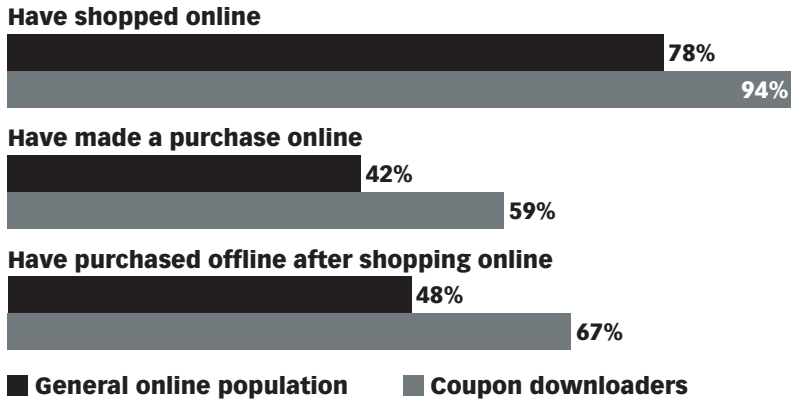
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In a 2001 study, Cyber Dialogue finds that 14.9 million US adults, or one-fifth of the country's online population, downloaded online coupons within the last three months. Nearly 57% of those who downloaded coupons ended up redeeming them. About 48% redeemed coupons offline, while 24% did so over the internet.

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According to the study, 94% of adult internet users in the US who download or “clip” coupons online have shopped on the internet, compared to 78% of the general online population. Cyber Dialogue estimates that there are 84.9 million adults currently online in the US, and that 14.9 million have downloaded an e-coupon in the past three months.

Shopping Habits of General Online Population and Online Coupon Downloaders in the US, May 2001 (as a % of each)



Source: Cyber Dialogue, 2001

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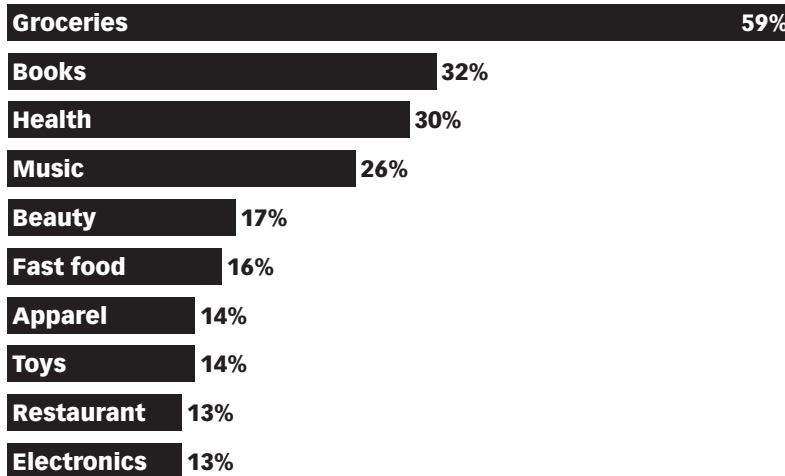
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E-coupons are now 10% of all coupons used, up from 5% in the fall of 1999, according to NPD Group, which also concludes that 27% of people online are using e-coupons. Use of e-coupons is most popular among grocery shoppers. The NPD Group found that 59% of online grocery shoppers use online coupons, and nearly half as much redeem online coupons for books and health-related products.

Online Coupon Use Among US Online Shoppers, by Category, 2000



Source: NPD Group, 2000

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eCommerce category coupons tend to be redeemed online more frequently than other coupon categories. NPD found that toy e-coupons posted the highest online redemption rate at 87%, followed by books at 83%.

Channels in Which eCoupons Are Redeemed, in the US, 2000

Item	Retail Store	Catalog	Online	Phone	Other
Apparel	45%	2%	39%	1%	13%
Beauty	29%	1%	58%	11%	1%
Books	4%	1%	83%	–	12%
Electronics	23%	1%	60%	–	16%
Fast food	96%	–	–	–	4%
Groceries	94%	–	4%	–	2%
Health	42%	–	55%	–	2%
Music	4%	1%	80%	–	15%
Restaurant	81%	14%	2%	–	2%
Toys	12%	–	87%	–	1%

Source: NPD Group, 2000

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BizRate.com found that repeat online customers enjoy clipping e-coupons. However, for first-time online buyers, free shipping was the greatest incentive to make a purchase.

Factors That Encourage US Internet Users to Buy Online, 2000

Incentive	Repeat buyer with merchant	First-time buyer with merchant
Online Coupon	37%	24%
Free shipping	27%	32%
Satisfaction guarantee	17%	14%
Discounted shipping	15%	15%
Product guarantee	13%	13%
Price guarantee	12%	12%
Rebate	7%	7%
Gift Certificate	7%	7%
Club rewards program	6%	5%
Airline miles	3%	3%
First-time buyer discount	2%	13%
Charitable donations	1%	1%

Source: BizRate.com, 2000

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Comparison Shopping

The web affords consumers the luxury of comparing products and prices among sites before buying in a more highly efficient manner than they could experience offline. Most shoppers often do not have time to run around looking to save a few bucks and the web enables them to find what they need at a price they are willing to pay.

Since the US economic downturn began in early 2001, consumers have been more price conscious and their level of comparison shopping has increased. Knowledge Systems & Research discovered in its survey that online buyers are doing more comparison shopping now than six months ago.

Amount of Comparison Shopping Done among US Online Buyers, 2001 (as % of online buyers for a six-month period)



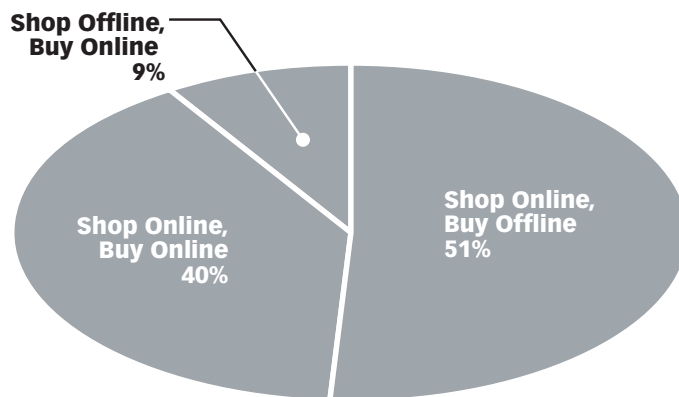
Source: Knowledge Systems & Research, Inc., 2001

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An impressive 92% of online consumers use the net to shop and or purchase online, according to NPD Online's report, "E-Tailers vs. Retailers," released in May 2001. The study shows that even those consumers who are not making purchases online are influenced by what they find on retailers' websites. A little more than half of online shoppers say they shop online but end up buying at the store.

Channel Choices of Online Shoppers, May 2001 (as % of survey respondents)



Source: NPD Online Research, May 2001

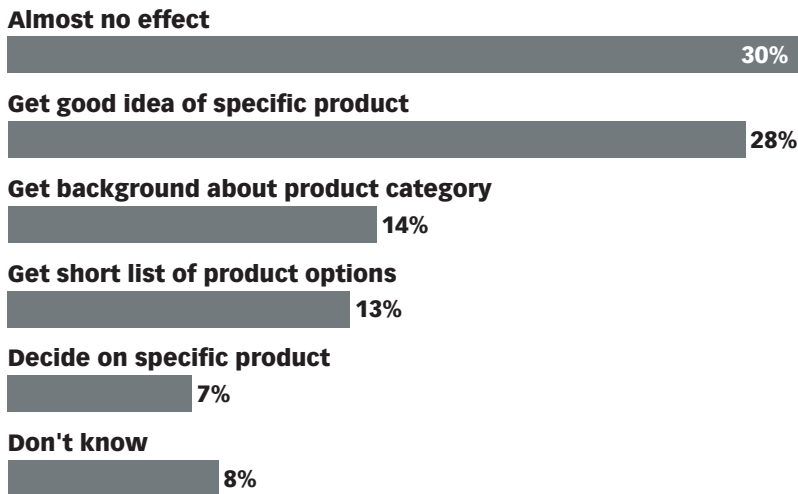
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Boston Consulting Group's latest study reveals that shoppers rely on the internet for research and ideas about the products they want to buy, but many typically end up making the purchase in a real store.

Role of Internet in Shopping Process, 2000



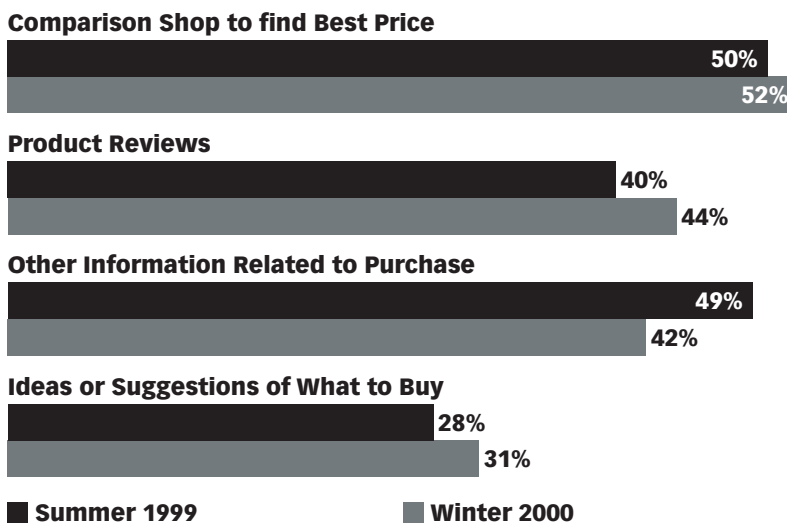
Source: Boston Consulting Group, 2000

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Three-quarters of online buyers do some research of products or services online, according to Odyssey. More than half of all online users (52%) comparison-shop online to locate the best price, the most common information for which online shoppers search.

Information Searched for Prior to Buying Online, 1999 & 2000



Source: Odyssey, 2000

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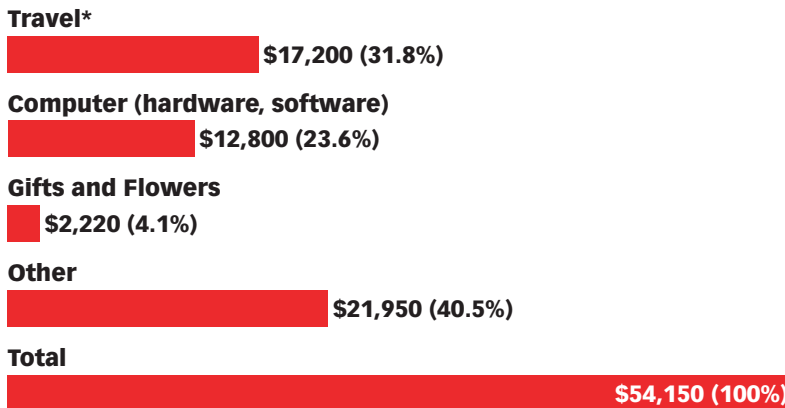
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The demand-side model of US online consumer shopping depicts who is accessing the internet, who is buying online, and how much they are spending. On the other side of the fence are the suppliers of the goods and services that online consumers demand. eMarketer has aggregated data from numerous research firms across the most popular shopping categories. By sorting through the hype, weighting credible information more heavily, and estimating projections into an overall statistical model, eMarketer has been able to project revenues for some of the leading “killer” categories through 2005.

Travel, computers and gifts/flowers are the top three B2C e-commerce categories for 2001, comprising nearly 60% of total revenues for the year.

US B2C eCommerce Revenues, by Category, 2001 (in millions)



Note: *Includes airfare as well as hotels and packaged tours
 Source: eMarketer, 2001

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Forrester Research data indicate popular categories such as electronics and apparel will see the most growth between 2000 and 2004, due in part to the continued increase in the number of new shoppers coming online.

B2C eCommerce Revenue Projections, by Category, 2000-2005 (in billions)

Category	2000	2001	2002	2003	2004	2005
Leisure travel	\$13.1	\$16.7	\$21.0	\$25.2	\$28.9	\$32.7
Electronics	\$6.1	\$11.9	\$18.3	\$24.1	\$28.8	\$33.2
Apparel	\$4.5	\$8.9	\$14.5	\$22.2	\$32.0	\$43.1
Health & Beauty	\$1.6	\$2.7	\$4.5	\$6.6	\$8.7	\$10.9
Food and beverage	\$1.9	\$2.5	\$5.1	\$10.4	\$18.0	\$31.4
Flowers	\$0.7	\$1.3	\$1.8	\$2.4	\$2.9	\$3.6
Event tickets	\$0.4	\$0.9	\$2.0	\$3.3	\$4.5	\$5.6

Source: Forrester Research, 2001

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The Forrester Online Retail Index totaled \$48.3 billion in online sales for 2000. Small-ticket items, such as books, music, and videos, totaled \$21.4 billion while big-ticket items, such as computer hardware and airline tickets, totaled \$26.9 billion.

Forrester Online Retail Index, "Small-Ticket" Items, by Category, 2000 (in thousands)

Software

\$1,848,025

Books

\$2,486,734

Music

\$1,798,739

Videos

\$1,223,555

Office supplies

\$1,471,069

Apparel

\$2,848,742

Footwear

\$679,089

Jewelry

\$952,172

Flowers

\$716,721

Linens/home decor

\$893,996

Health and beauty

\$1,624,842

Small appliances

\$658,244

Toys/videogames

\$2,493,735

Sporting goods

\$894,277

Tools and hardware

\$575,914

Garden supplies

\$228,452

Total

\$21,394,307

Source: Forrester Research, 2000

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Forrester Online Retail Index, "Big-Ticket" Items, by Category, 2000 (in thousands)

Computer hardware

\$4,318,711

Consumer electronics

\$2,504,196

Appliances

\$312,653

Furniture

\$543,449

Food/beverages

\$1,887,631

Air tickets

\$7,547,559

Car rental

\$1,914,301

Hotel reservations

\$3,738,520

Other

\$4,133,192

Total

\$26,890,213

Source: Forrester Research, 2000

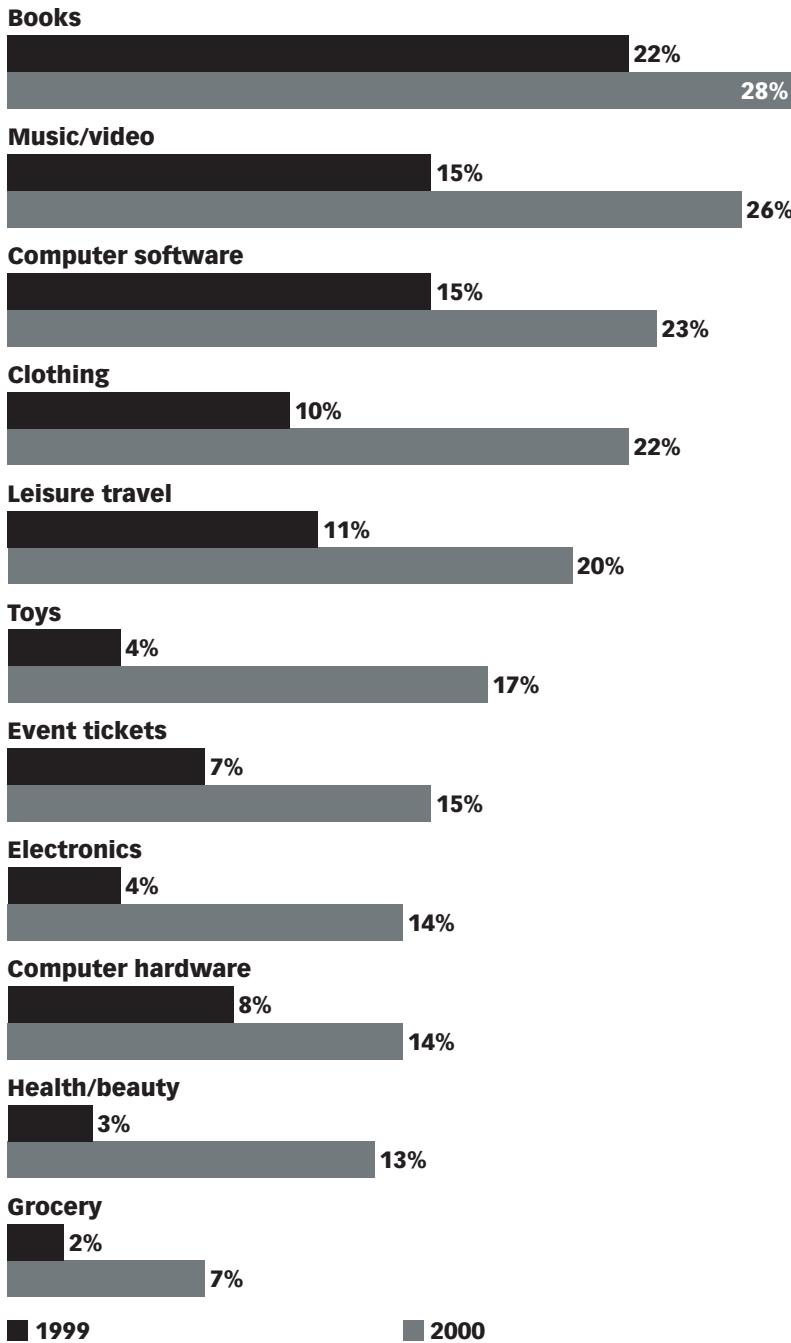
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The increase in internet shopping since 1999 is evident across all product categories. According to Boston Consulting Group/Shop.org, books are the most popular category with 28% of online consumers purchasing a book during a 12-month period. Music and video came in a close second, followed by computer software.

US Online B2C Purchasing Activity, 1999 & 2000 (% of online consumers who have purchased in a category)



Source: Boston Consulting Group/ Shop.org, 2001

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A. Category-by-Category Review

In this section, eMarketer examines some of the leading online retail categories in greater detail.

Except for computers, books, and music, online revenues are a small fraction of the total (including offline) market for each of the shopping categories. Below we provide analysis and projected growth figures, along with selected comparative source data, for some of the top consumer online shopping categories.

Travel

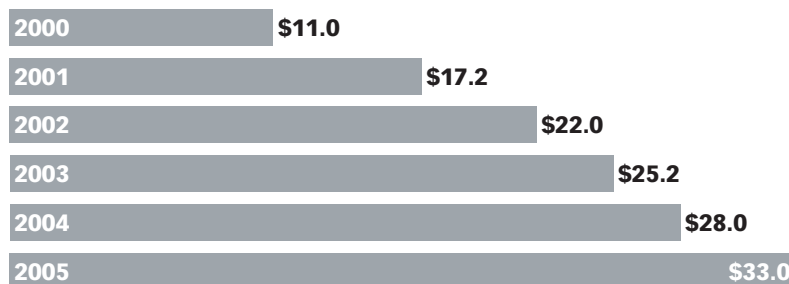
“The tremendous increase in internet usage by travelers signifies a major shift in consumer preference when it comes to planning and booking travel. The internet has put consumers in control of their plans and they like it. They’re able to gather all the facts they need and compare prices and options to obtain what they feel is the best deal possible.”

– William S. Norman, president and CEO, Travel Industry Association of America (TIA press release, Feb. 27, 2001)

Travel-related purchases are soaring above all of the other online B2C shopping categories. Consumers enjoy booking and buying their vacation plans on the web because of the ease with which they can compare airline ticket prices and hotel room rates, and even rent cars.

eMarketer sees continued rapid growth for online travel sales. The market will take off from \$17.2 billion in 2001 and reach \$33 billion in 2005. eMarketer forecasts a healthy online consumer travel market that will more than double in revenue during the next three years.

US Online Travel Revenues, 2000-2005 (in billions)



Note: Includes airfare, accommodations, car rentals, packaged tours and related travel and tourism services.

Source: eMarketer, 2001

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Other research firms tracking the travel sector also predict accelerated growth through 2003. Keenan Vision's estimates indicate rapid growth from 2000 to 2004, although its 2000 estimate of \$1.5 billion is much lower than all others.

Comparative Estimates: Online Travel Revenues in the US, 2000-2005 (in billions)

Source	2000	2001	2002	2003	2004	2005
eMarketer	\$11.0	\$17.2	\$22.0	\$25.2	\$28.0	\$33.0
Keenan Vision	\$1.5	\$3.9	\$12.0	\$22.3	\$36.2	-
Forrester Research	\$13.1	\$16.7	\$21.0	\$25.2	\$28.9	\$32.7
Gomez Advisors	-	\$20.0	-	-	-	-
Jupiter Media Metrix	\$11.0	\$14.8	\$18.3	\$21.7	\$25.0	\$28.2
PhoCusWright	\$13.0	\$20.2	-	-	-	-
Travel Industry Association	\$4.7	\$6.5	\$8.9	-	-	-

Source: eMarketer; various as noted, 2001

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Airline tickets remain the most popular travel-related purchase online. According to IDC, 31% of all US air tickets are sold over the internet, up from 10% in 2000. The growth is partly driven by the increasing willingness of consumers to buy online from home, and from the continued growth in the number of internet users in general. US online sales of airline tickets are growing at a faster rate than offline sales, according to IDC. In 2004, online sales will be 17.9% of total ticket sales.

Forrester predicts online revenues from airline tickets will more than double in 2001 from 1999's estimate:

US Online Airline Tickets Sales of Leisure Travel, 1999-2001 (in billions)

1999	\$4.9
2000	\$8.5
2001	\$11.9

Source: Forrester Research, 2000

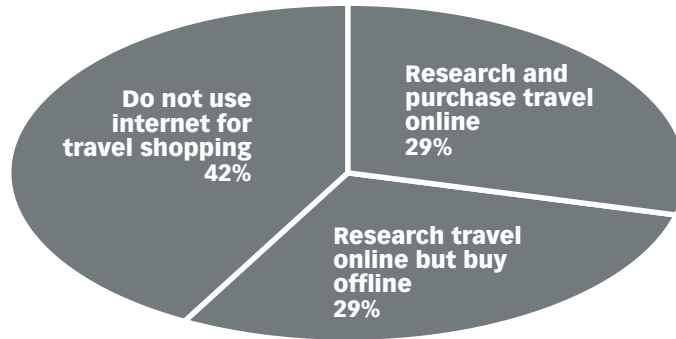
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The internet continues to play a significant role in consumers' overall travel-shopping experience but many have yet to book their travel plans online. According to Jupiter Media Metrix, 29% of US online consumers research and purchase travel online; another 29% research travel online but ultimately buy offline; and 42% are not yet using the internet for travel shopping.

US Online Consumer Attitudes Toward Online Travel Buying, 2001 (as % of online consumers)



Source: Jupiter Media Metrix, 2001

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The online leisure travel market in the US is clearly growing fast, in terms of both the number of buyers and gross bookings online. According to PhoCusWright, both nearly doubled in 2000 with respect to 1999 (bookings rose from \$7.0 million to \$12.9 million), and the pace is expected to continue as more online booking options become available.

The Travel Industry Association of America (TIA) estimates that 59 million people in the US used the internet to get travel-related information in 2000, while 25 million actually make travel-related purchases online. According to the TIA, the number of frequent online travelers (those who book five or more trips over the internet each year) doubled from 7.5 million in 1999 to 15 million in 2000.

Gómez Advisors estimates that 34% of the US internet user population is currently buying some kind of travel service (air, car rental, hotel, etc.) online and expects that the number of online travel buyers will swell to 48 million in 2001.

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Based on eMarketer's estimate of 61 million adult online buyers, travel purchases represent about half of the total.

Comparative Estimates: Online Travel Buyers in the US, 2000 in millions



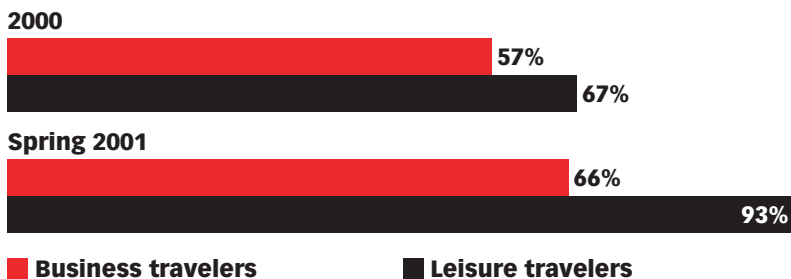
Source: Gomez Advisors, PhoCusWright, 2000; Travel Industry Association of America (TIA), 2001; eMarketer, 2000

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A 2001 study by NFO Plog Research finds that 93% of US internet users who travel for business or leisure use the web to plan their vacations.

US Business and Leisure Air Travelers Who Have Been Online for Travel Information, 2000 & Spring 2001 (as a % of respondents)



Source: NFO Plog/NFO Worldwide, 2001

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In contrast, the percentage of leisure air travelers who used a travel agent decreased slightly between 2000 and 2001 – from 56% to 55%, respectively. NFO surveyed 2,100 business and leisure air travelers and found that leisure air travelers also used other means to obtain travel information in 2001. For example, 65% called toll-free numbers (compared to 62% last year) and 35% got referrals from friends and family (compared to 22% last year).

NFO reports that Travelocity, Expedia, Priceline and Yahoo! Travel remain the top travel sites among online US air travelers. Reviewing travel destination sites in particular, NFO finds that one in every five online air travelers visits a destination site. Of these visitors, 43% have gone to Mapquest for information.

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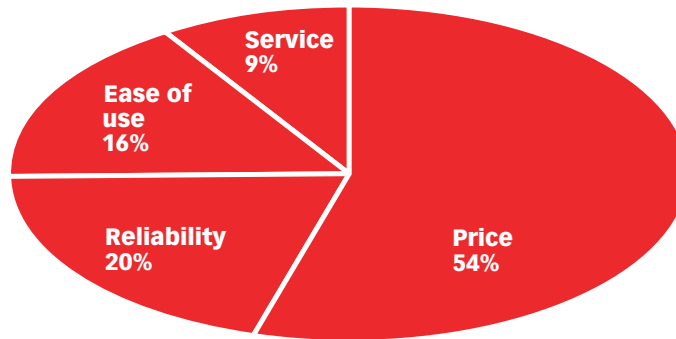
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More people are relying on the web to plan their travel getaways, according to a PhoCusWright survey. It found that 21 million Americans bought travel online in 2000, nearly doubling the online travel market for the second consecutive year. Results show cost savings as the main reason why more people are buying their travel online. At least 54% say price is the most important factor in purchasing travel over the web, followed by reliability (20%), ease-of-use (16%) and customer service (9%).

Reasons Why US Online Travelers Buy Travel Products on the Internet, 2000



Source: PhoCusWright, 2000

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According to IDC, total online airline ticket sales will grow from \$8.7 billion in 2000 to nearly \$33 billion in 2005.

To learn more about the internet and the travel market, see eMarketer's eTravel Report. To order copies, visit the eMarketer website (www.emarketer.com) or send an e-mail to sales@emarketer.com.

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Computer Hardware and Software

Slumping demand for home PCs and computer-related products during the first half of 2001 should improve as consumers look to upgrade their machines to the new Windows XP operating system, scheduled for an October 2001 release. eMarketer forecasts steady online revenue increases for the computer products category, although year-to-year growth will subside by 2003.

US Online Computer Hardware and Software Sales, 2000-2005 (in billions)



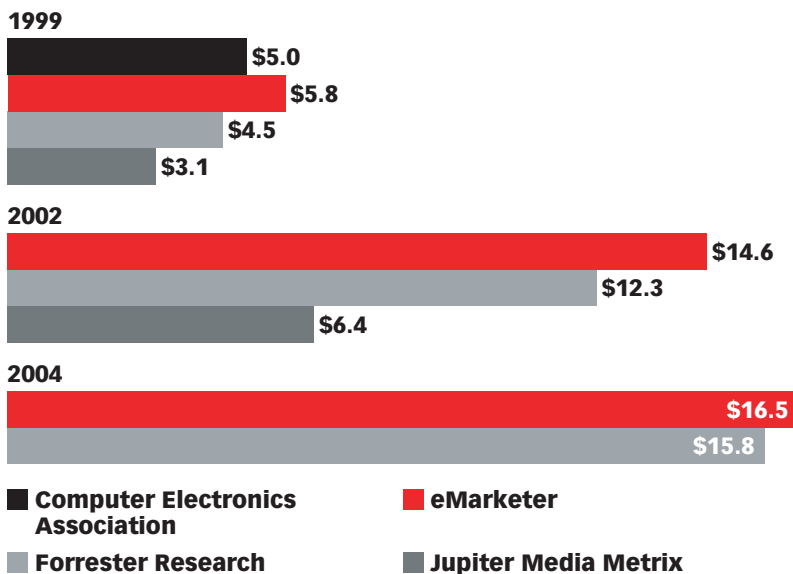
Source: eMarketer, 2001

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By 2004, Forrester Research forecasts the computer category's worth will more than triple its 1999 estimate.

Comparative Estimates: US Online Computer Hardware and Software Sales, 1999, 2002 & 2004 (in billions)



Source: eMarketer, 2001; various, as noted, 2000

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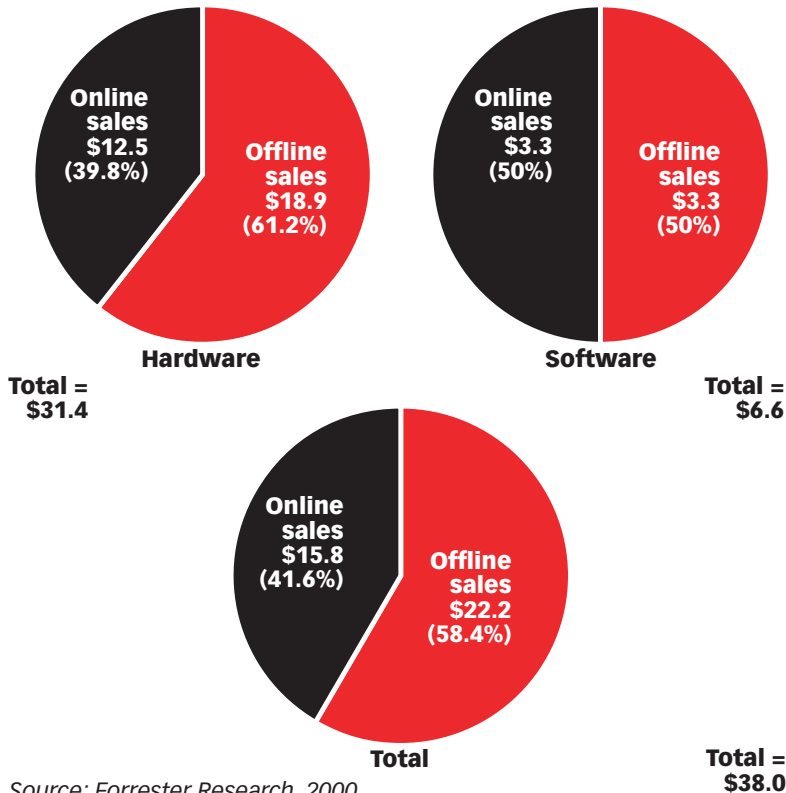
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Jupiter Media Metrix projects PC and peripheral sales of \$12.3 billion by 2003, with the bulk of those sales coming from PC's. Forrester Research projects that in 2004, half of software and 40% of PC hardware sales will be done online.

US Online and Offline Computer Sales, 2004 (in billions and as a % of total)



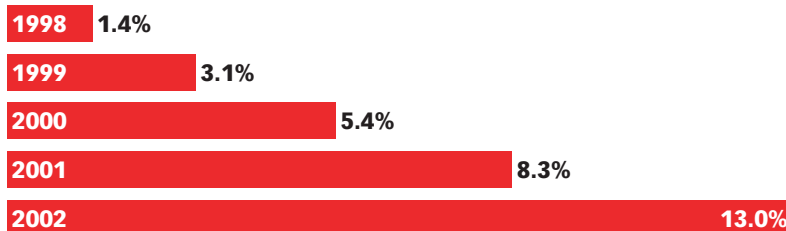
Source: Forrester Research, 2000

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Consumers typically opt to buy a PC online because they can easily compare brands and prices. By 2002, Forrester finds that the total share of online sales of PC hardware could reach 13%:

US Market Share of Online B2C PC Hardware Sales, 1998–2002



Source: Forrester Research, 2000; Deutsche Bank Estimates, 2000

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How US Internet Users Shop for PCs Online, 2000

Research information on products

61%

Compare prices of different brands

41%

Compare prices of different reseller channels

22%

Purchase desktop PC

17%

Do not use internet for purchasing/evaluating PCs

24%

Source: *CMP Media, 2000*

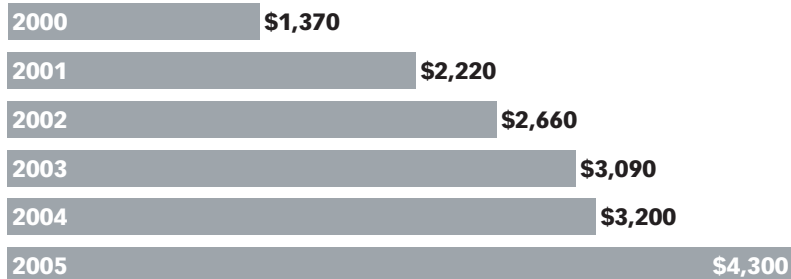
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Gifts and Flowers

eMarketer projects that online sales of gifts and flowers will continue to grow through 2005. Sales for 2001 will exceed \$2.2 billion but will not double until after 2005.

US Online Sales of Gifts and Flowers, 2000-2005 (in millions)



Source: *eMarketer, 2001*

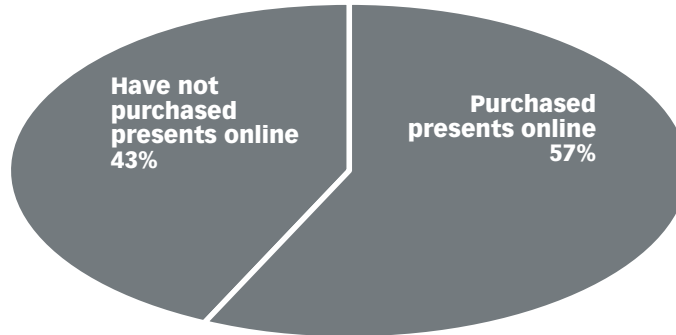
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Online retailers are failing to tap into the gift sales market by wasting resources on shopping tools and services that are of little interest to potential buyers, according to Forrester Research. As part of its report on “The Hidden Value in Gift Sales,” Forrester concluded that on-time delivery, rather than gift-wrapping options, has a greater effect on gift e-tailer success. Forrester found that one online shopper’s small gift purchase can lead to more than \$2,000 in sales.

US Internet Users Buying Gifts Online, 2000



Source: Forrester Research, 2000

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The sector appears primed for growth due to the increasing popularity of ordering flowers and gifts online. Estimates from several research firms vary significantly, largely because of how the firms define “gifts.” Forrester, for example, seems to subscribe to a much broader definition of a gift than Keenan Vision, and thus has substantial higher projections. eMarketer’s numbers for the sector also skew higher because it weighed Forrester’s figures more heavily when making projections.

Comparative Estimates: US Online Sales of Gifts and Flowers, 2000-2005 (in millions)

Source	2000	2001	2002	2003	2004	2005
BancAmerica RS	\$559	–	–	–	–	–
eMarketer	\$1,370	\$2,220	\$2,660	\$3,090	\$3,200	\$4,300
Keenan Vision	\$81	\$221	\$420	\$630	\$820	–
Forrester Research	\$998	\$1,788	\$2,853	\$3,923	\$4,659	–
Jupiter Media Metrix	\$564	\$882	\$1,357	\$1,800	–	–

Source: eMarketer, various, as noted, 2001

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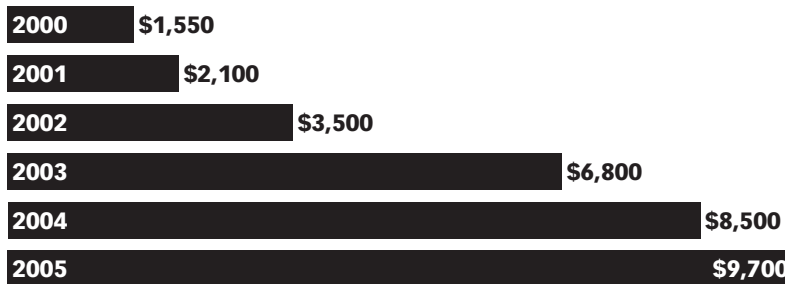
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Apparel and Footwear

Clothing could be well-suited to succeed as an online retail category. But consumers have been reluctant to buy a new shirt or pair of shoes without trying it on first. The good news is that apparel retailers are tailoring their sites with virtual dressing rooms that enable customers to preview their merchandise.

Still, as apparel sales are a mostly seasonal purchase, many e-tailers in the category remain "profitability challenged." eMarketer expects apparel sales to reach \$2.1 billion in 2001 and to grow to \$9.7 billion in 2005.

US Online Sales Of Apparel and Footwear, 2000-2005 (in millions)



Source: eMarketer, 2000

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Of all the researchers following the online clothing market, Forrester Research is by far the most bullish. The firm predicts that by 2005, apparel and footwear sales will be nearly ten times the 2000 total of \$4.5 billion.

Comparative Estimates: US Online Sales Of Apparel and Footwear, 2000-2005 (in millions)

Source	2000	2001	2002	2003	2004	2005
BancAmerica RS	\$361	-	-	-	-	-
eMarketer	\$1,550	\$2,100	\$3,500	\$6,800	\$8,500	\$9,700
Forrester Research	\$4,500	\$8,900	\$14,500	\$22,200	\$32,000	\$43,100
Jupiter Media Metrix	\$1,114	\$1,566	\$2,844	\$6,700	-	-
NPD Group	-	-	-	-	-	-
Xceed Intelligence	-	-	-	5,000	-	-

Source: eMarketer, 2001

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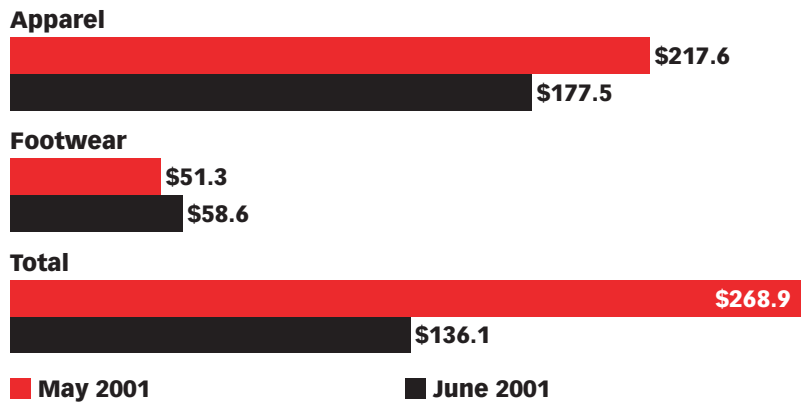
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Online apparel and footwear retailers have been making efforts to overcome consumer skepticism by providing three-dimensional e-dressing rooms that enable consumers to preview the goods before buying. This attempt to transform the shopping experience appears to have improved sales somewhat. A study by Nielsen//NetRatings and Harris Interactive found that online clothing and apparel sales increased 122% from April 2000 to March 2001, the year during which the technology appeared on the popular apparel sites.

Meanwhile, a Forrester Research and Greenfield Online survey revealed that online apparel sales declined in the month between May 2001 to June 2001, while footwear sales increased during the same period. Overall, despite a slowing economy in the US, online sales are far from sluggish. In fact, online consumer spending per person has increased, rising from \$248 in February to \$263 in March.

US Online Apparel and Footwear Sales, May & June 2001 (in millions)



Source: Forrester Research, Greenfield Online, 2001

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Financial reports from popular apparel sites indicate the web is increasingly contributing to their top line growth, albeit a small amount. The internet accounted for 15% of Bean’s sales in 2000, or roughly \$167 million.

Online Revenues of Popular Apparel Retailers, 2000 (in millions and as % of total revenues)

	Online revenues	% of total revenues
Land’s End	\$218.0	15.6%
LL Bean	\$167	15.0%

Source: Land’s End, LL Bean annual reports, 2001

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Despite improvements in site presentation, apparel e-tailers are challenged to sway new online clothing buyers. According to Bain & Co. and Mainspring, 85% of online shoppers have yet to buy apparel online. About 62% of them said the main reason was that they could not try on the clothes before buying them online. Studies by PricewaterhouseCoopers and Greenfield Online agree that the “touch and try” aspects of clothing shopping that so many shoppers are accustomed to are the greatest impediments to buying online.

US Consumer Attitudes Toward Shopping for Apparel Online, 2000

Unable to try on clothes	73%
Online apparel shopping avoids crowds	58%
Online apparel shopping saves time	57%

Source: Greenfield Online, 2000

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US Consumer Opinions About Shopping for Clothing Online, 2000

Unable to try on clothes

81%

Unable to feel clothes for quality of material

45%

Concerned about return difficulty

44%

Concerned about privacy of personal information

32%

Total cost of purchasing products is more expensive online

25%

Difficult to browse

14%

Like to shop with friends/family

11%

Difficult to get customer service

8%

Source: PricewaterhouseCoopers, 2000

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PricewaterhouseCoopers found that the two most popular roles apparel sites play among internet clothing purchasers relate to price shopping or doing price research.

Role Websites Play among Internet Apparel Purchasers in the US, 2000

Search for special sales/promotions

58%

Look for product prices

58%

Request a catalog

54%

Look for ideas for clothes

47%

Compare product prices across retailers

39%

Look for brands

27%

No role played 10%

Track fashion trends/read articles 10%

Source: PriceWaterhouseCoopers, 2000

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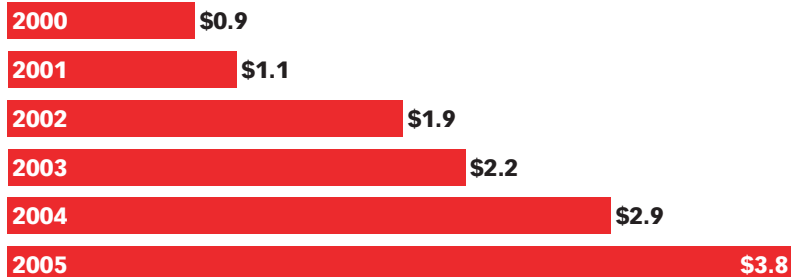
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Music

Downloading music from the web is hurting online sales of CDs and tapes now that portable electronic music devices are more affordable.

Still, sales of music over the internet will continue to grow, but not spectacularly – from \$920 million in 2000 to \$3.8 billion in 2005. Year-over-year sales from 2000 to 2001 are flat, due to the softening economy and a heightened consumer demand for free downloadable music.

US Online Sales of Music, 2000-2005 (in billions)



Source: eMarketer, 2001

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www.eMarketer.com

Except for Keenan Vision, which defines the segment as “recorded music,” there is a consensus among researchers that online music sales will reach the \$2 billion mark between 2001 and 2003.

Comparative Estimates: Online Music Sales in the US, 2000-2005 (in millions)

Source	Scope	2000	2001	2002	2003	2004	2005
eMarketer	US	\$920	\$1,100	\$1,900	\$2,150	\$2,900	\$3,800
Forrester	US	\$1,799	\$2,067	\$3,213	\$3,946	\$4,286	–
Gomez	US	–	\$3,000	–	–	–	–
Jupiter	US	\$836	\$1,000	\$2,259	\$3,181	\$4,219	–
Music Theater International	World	\$550	–	–	–	\$3,900	–
Keenan Vision	US	\$95	\$225	\$510	\$640	\$800	–
Zona	US	–	–	\$2,500	–	–	–

Source: eMarketer, various, as noted, 2001

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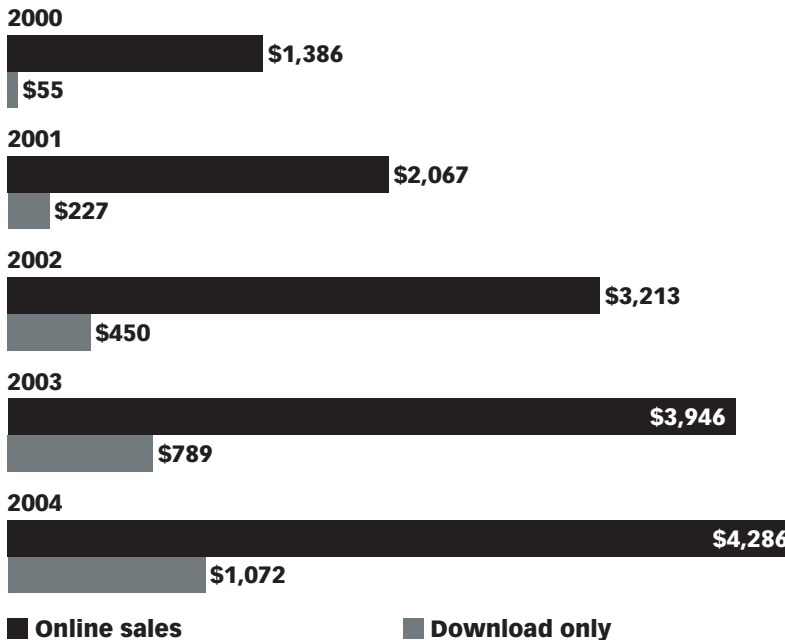
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Digital Music

The instant availability of digital music and the proliferation of start-up online music subscriptions services are adversely affecting sales of CDs and other music online. Forrester Research projects \$1.1 billion in digital download sales by 2004 and that almost 25% of media products sold online will be digitally downloaded by 2004. Three million tracks are downloaded each day to computers and portable MP3 players.

Download Music Sales, 2000-2004 (in millions and as a % of online music sales)



Source: Forrester Research, 2000

031858 ©2001 eMarketer, Inc.

www.eMarketer.com

Another potential blow to online music sales is the creation of online music subscription services that provide access to the music catalogs of leading recording industry companies. Projections of online subscription music sales are scarce but Jupiter Media Metrix expects sales to climb from \$29 million in 2001 to \$789 million in 2004.

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eMarketer finds that sales of downloaded music sold will increase more than five-fold between 2000 and 2004. Jupiter reports that digitally downloaded music will account for about 3% of sales in 2001, or about \$29 million. That share will grow to 32% by 2006, when online sales will be worth \$1.9 billion.

Comparative Estimates: US Download Music Sales, 2000-2004 (in millions)

Source	2000	2001	2002	2003	2004
Forrester	\$55	\$227	\$450	\$789	\$1,072
International Data Corp.	\$6.5	–	\$173.8	–	\$1,237
eMarketer	\$7.1	\$48	\$97.6	\$170	\$350
Jupiter	\$9	\$29	\$151	\$470	\$920

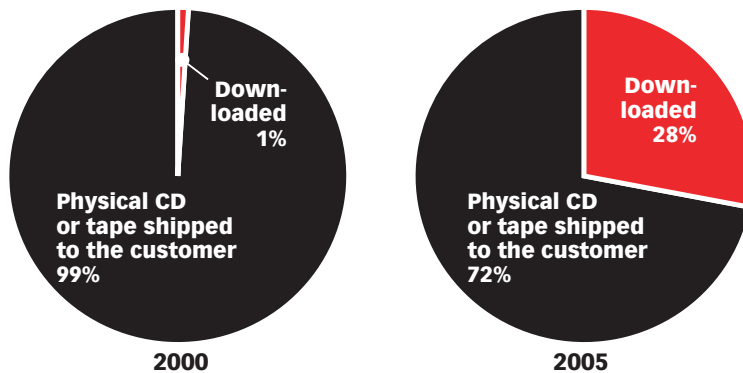
Source: eMarketer, various, as noted, 2001

031859 ©2001 eMarketer, Inc.

www.eMarketer.com

While nearly all music bought online today is in the form of CDs or tapes, Jupiter Media Metrix forecasts a rapid increase in the sale of downloadable music. The share of physical recorded products will account for 72% of all online sales in 2005.

Product Share of US Online Music Segment, 2000 & 2005



Source: Jupiter Media Metrix, 2000

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Books

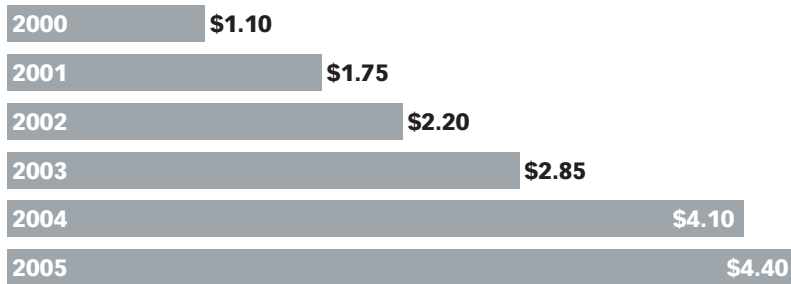
“Maybe some customers are going back to the brick-and-mortar stores, at least for bestsellers. The mix is changing. The online sales may be coming down a little bit compared to an author’s last book.”

— Richard Hefferman, president for hardcover and children’s sales, Penguin Putnam

The sale of books online has played out like a real love story among consumers since the first bookseller opened shop several years ago. The next chapter might be a bit less dramatic as sales are slowing progressively among the big e-tailers, such as Amazon and Barnesandnoble.com.

Book sales online will stack up to \$1.8 billion in 2001. The revenue total by 2005 will read \$4.4 billion.

US Online Book Sales, 2000-2005 (in billions)



Source: eMarketer, 2001

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Forrester Research reported the largest 2000 estimate for the category, but indicates a slight dip in online sales of books for 2001. Overall, eMarketer concludes that the sales of books will account for a little less than 3% of total online revenues by 2005.

Comparative Estimates: US Online Book Sales, 2000-2005 (in millions)

Source	2000	2001	2002	2003	2004	2005
eMarketer	\$1,100	\$1,750	\$2,220	\$2,850	\$4,100	\$4,400
Forrester Research	\$2,487	\$2,200	\$2,724	\$3,152	\$3,300	-
Gomez advisors	-	-	-	-	\$5,000	-
Keenan Vision	\$165	\$360	\$574	\$776	\$1,020	-
Jupiter Media Metrix	\$1,751	\$2,557	\$3,661	\$4,900	-	-
Veronis Suhler & Associates	\$1,440	-	-	\$2,700	-	-

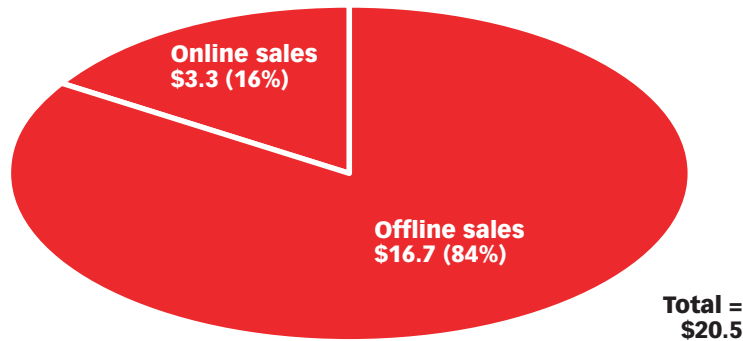
Source: eMarketer, 2000

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Forrester Research projects that in 2004, 16% of all books will be purchased online.

US Online and Offline Book Sales, 2004 (in billions)



Source: Forrester Research, 2000

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www.eMarketer.com

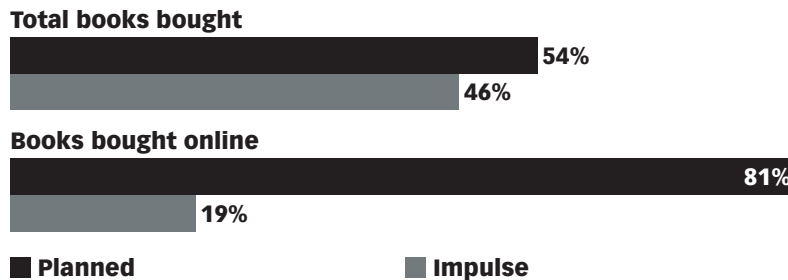
Online book sales have basically leveled off for now, at about 7% of domestic consumer sales of adult books, according to research firm Ipsos-NPD.

Part of the decline results from the proliferation of retail book superstores, where consumers can leisurely preview the books they want to buy while sipping lattes in comfortable chairs. Greenfield Online found that about 63% of consumers still go to a local bookstore to make a purchase, but they do an equal amount of browsing for availability and price online (64%) as they do at their local bookstore.

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After reading through the book at the local store, consumers hop on the web to get the lowest price. NPD Group found that the majority of books bought online were planned purchases.

US Book Sales, by Purchase Method, 2000



Source: NPD Group, 2000

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www.eMarketer.com

Click-and-mortar booksellers are exploring the benefits of integrating their in-store inventory with online browsing. That way a customer will know whether the book they find online is available at the local store before they make the trip to buy it.

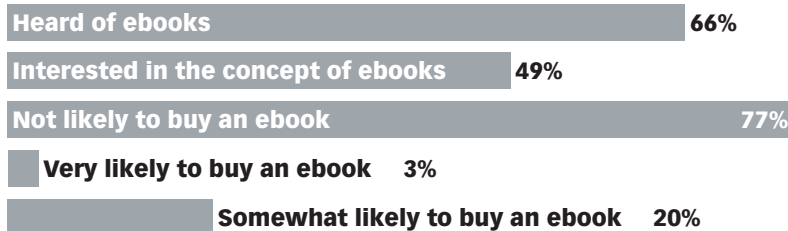
eBooks

“We’re in the early stage of acceptance. I think eBooks are ahead of their time.”

— Barrie Rappaport, senior account executive, Ipsos-NPD BookTrends

eBooks pose another threat to the growth of online book revenues. The downloadable versions of books are more popular now that their electronic readers are more affordable. Ipsos-NPD BookTrends found that two-thirds of US online consumers had heard of eBooks and nearly half are “interested in the concept.” But the bad news is not many are likely to buy an eBook in the near future.

Interest in eBooks Among US Online Consumers, 2001



Source: NPD Group, 2000

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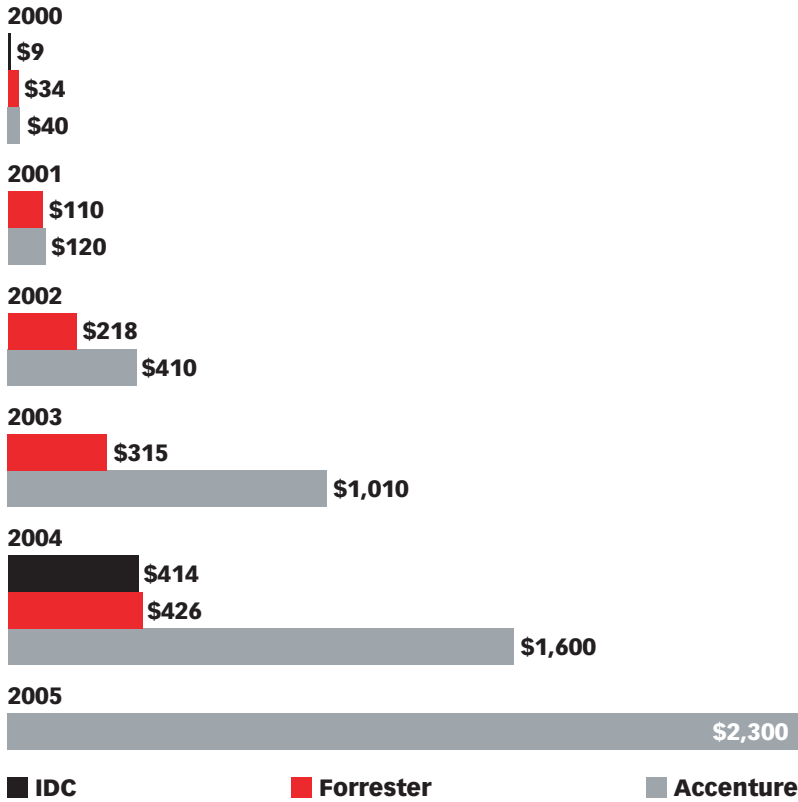
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eMarketer marks the e-book revenue total increasing from \$6 million in 2000 to \$1.8 billion by 2005. IDC projects the e-book market will grow from \$9 million in 2000 to \$414 million by 2004. Accenture, meanwhile, finds that e-book sales will grow from \$40 million to \$2.3 billion by 2005.

Comparative Estimates: eBook Revenues in the US, 2000–2005 (in millions)



Source: various, as noted, 2000

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Groceries

“Grocery executives are not accustomed to building brand awareness and marketing on the internet. Traditionally, they have limited marketing to a localized audience. In order to exploit the market potential of online grocery, grocery executives should begin to build brand awareness and consumer demand in preparation for online grocery developments in the future.”

—Erlina Hendarwan, consumer analyst, Datamonitor

Pioneers of the US online grocery segment filled their final orders during late 2000 and early 2001. Webvan, Streamline.com, and Shoplink.com were among those that checked out early, mainly because they could not bag profits before running out of cash. Webvan, in fact, closed soon after it began to auction off its office property in a last ditch effort to raise funds.

Some of the few remaining pure play e-grocers have aligned with their real-world counterparts to stay afloat. They also are thinking of ways to broaden their virtual shelf appeal to an increasingly skeptical consumer.

Although shoppers have said convenience is a key reason to buy groceries on the web, product quality remains a critical e-grocery success factor. But online grocers are still figuring out how to make rudimentary foodstuff like an apple appear fresh when there is no ability to touch or smell it.

The shakeout among e-grocers will further slow the growth in the category. Online sales of groceries will comprise only about 1% of all grocery sales by 2004, when sector growth will accelerate.

Sales of leading e-grocers show how the sector has struggled of late.

Online Sales of eGrocers, 2000 (in millions)

	Sales
Webvan	\$178.5
Peapod	\$93.4

Source: eMarketer, various, as noted, 2001

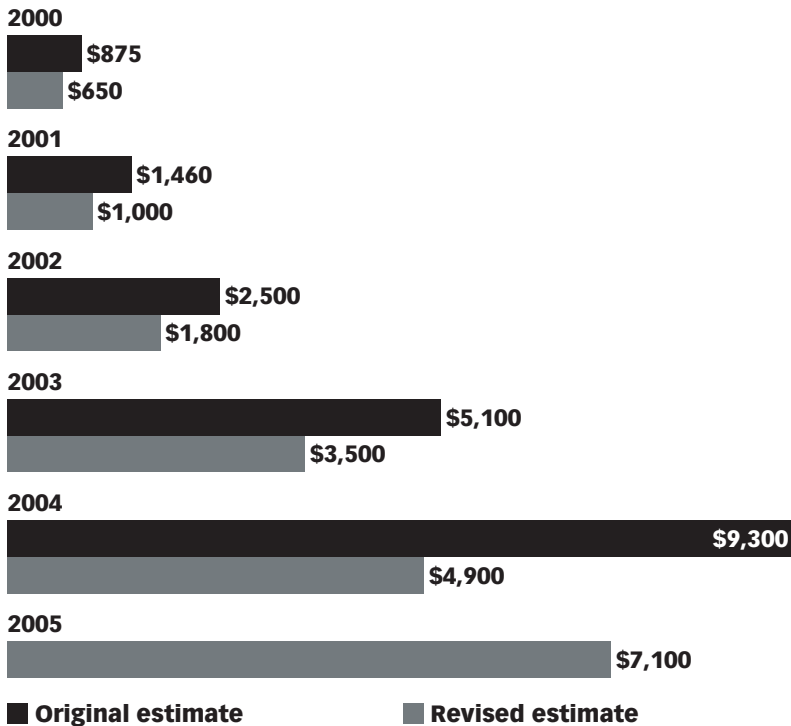
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Despite the dwindling number of pure-play e-grocers, consumers will continue to buy groceries online in increasing numbers through 2005. However, eMarketer has revised its revenue projections for this category to reflect a slower growth rate. It will take a few years before the click-and-mortar players penetrate local markets and win customers.

Revised Estimates of US Online Sales of Food, Beverages and Groceries, 2000-2005 (in billions)



Source: eMarketer, 2001

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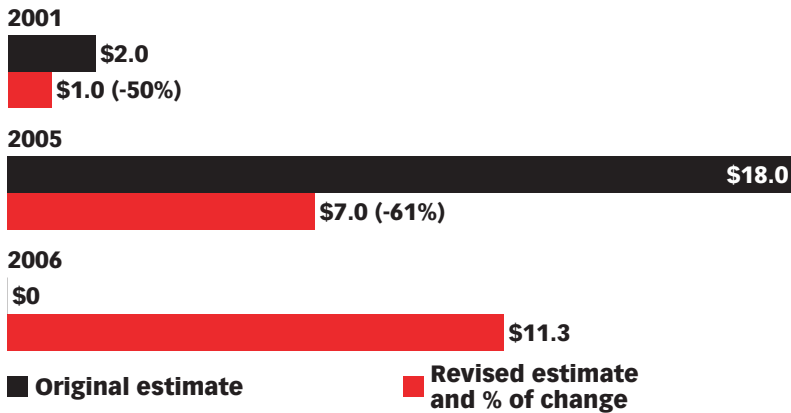
www.eMarketer.com

Research firms that chimed in with their online grocery revenue estimates remain cautiously optimistic. Datamonitor, however, found that the sector is growing strongly, with total consumer expenditures increasing at a compound annual growth rate of 108.6% from \$0.8 billion in 1996 to \$1.5 billion in 2000. But consumers are often deterred from using online grocery services simply because they are unaware of their availability in their local neighborhoods.

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Jupiter Media Metrix reported that Webvan likely accounted for 46% of the sector's revenue, so its bankruptcy delivered a crippling blow to the sector's growth potential. Jupiter predicts that the online grocery channel will still command close to 2% of total US grocery sales by 2006, despite pessimism about the channel's future. Online grocery sales according to Jupiter will rise from \$1 billion in 2001 to \$11.3 billion in 2006. The sector grew by nearly 200% between 1999 and 2000, but the cost of rapid expansion coupled with a turbulent economy caused Jupiter to lower its 2001 grocery sales forecast by half, from \$2 to \$1 billion.

US Online Grocery Revenues, 2001, 2005 & 2006 (in billions)



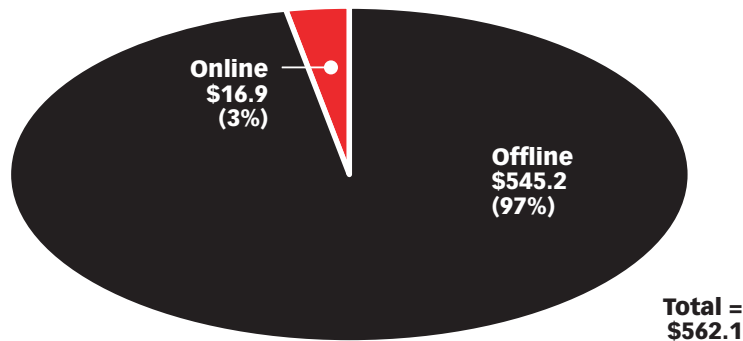
Source: Jupiter Media Metrix, 2001

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By 2004, Forrester Research projects that food and beverage sales online will account for a mere 3% of total grocery sales by 2004.

US Online and Offline Sales of Food and Beverage, 2004 (in billions)



Source: Forrester Research, 2000

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Salomon Smith Barney finds that online grocery sales will account for 4% of the total grocery market by 2005. Gomez Advisors forecasts that internet grocery services will grow to an almost \$2 billion market by 2001.

eMarketer's projections skew towards Jupiter's estimates for the most part, since most sector growth will occur after click-and-mortar e-grocers have increased their customer base, market share, and "mind share" by 2003.

Comparative Estimates: US Online Sales of Food, Beverage and Groceries, 2000-2006 (in millions)

Source	2000	2001	2002	2003	2004	2005	2006
ActivMedia	\$2,000	-	-	-	-	-	-
Datamonitor	\$1,500	-	-	-	-	\$26,800	-
eMarketer	\$950	\$1,000	\$1,800	\$3,500	\$4,900	\$7,100	-
Forrester Research	\$1,878	\$2,459	\$5,009	\$10,836	\$16,863	-	-
Gomez Advisors	\$590	\$1,891	\$4,727	\$8,271	\$14,061	-	-
International Data Corp. (IDC)	-	-	-	-	\$8,800	-	-
Keenan Vision	\$300	\$1,680	\$4,250	\$7,800	\$9,240	-	-
Jupiter Media Metrix	-	\$1,000	-	-	-	\$7,000	\$11,300
Salomon Smith Barney	\$600	-	-	-	-	\$37,000	-
The Yankee Group	\$1,900	-	\$6,400	-	-	-	-

Source: eMarketer, various, as noted, 2001

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A. Valentine's Day

Consumers expressed their love and appreciation for one another by going online in droves to buy a St. Valentine's Day gift in 2001. More than 11 million Americans made an online Valentine's Day purchase, according to Ernst & Young.

Rising prices for typical gifts such as flowers and candy helped to drive up total online sales for the holiday. Gartner estimated that the total North American sales (offline and online) for Valentine's Day 2001 was \$2 billion, a 25% increase over 2000.

The first two weeks of February saw online sales increase by more than \$450 million from 2000 to \$2.02 billion, according to BizRate.com. Significant growth (8.7 million orders) occurred in Food and Wine, Gifts, and Home and Garden categories.

Comparative Estimates: US B2C eCommerce Revenues for Valentine's Day, 2001 (in billions)

BizRate.com	\$2.02
Gartner*	\$2.00

*Note: *for all of North America (online and offline)
Source: eMarketer, various, as noted, 2001*

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B. Mother's Day and Father's Day

US children honored their parents this year by buying them gifts for their respective holidays. The International Mass Retail Association (IMRA) found that 72% of Americans would purchase a present for mothers, spending an average of \$90.7 each. The most popular gifts were cards (47%), flowers (36%), and gardening items (22%). Each shopper would go to various locations to buy their Mother's Day gifts. About half (51%) would buy from a specialty store, such as a gift shop, and the rest said they would buy from department stores or category dominant stores. IMRA found that the internet was the least popular venue for Mother's Day gift buying.

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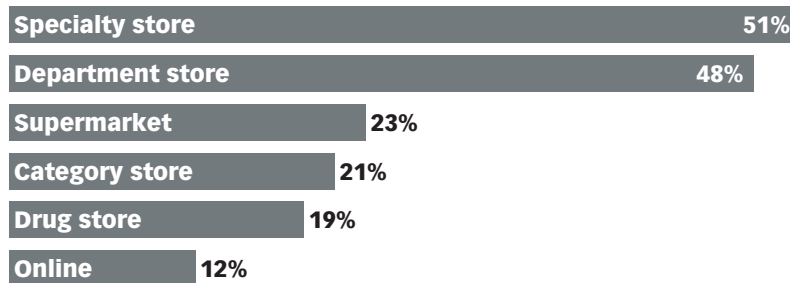
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Where Americans Buy Mother's Day Gifts, 2001 (as % of US consumers)



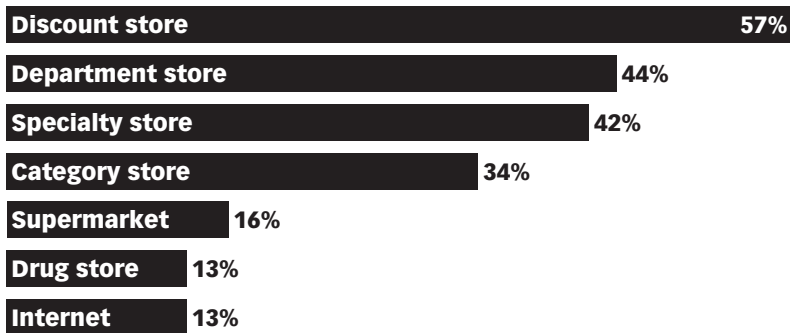
Source: International Mass Retail Association, 2001

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IMRA found that nearly six in 10 Americans would buy at least one Father's Day gift, spending an average of \$107.50, up from \$94 in 2000. The internet's popularity as a place to buy gifts for dad gained this year, with 13% of shoppers saying they would buy online, compared to 3% in 2000.

Where Americans Buy Father's Day Gifts, 2001 (as % of US consumers)



Source: International Mass Retail Association, 2001

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According to data from Nielsen//NetRatings, FTD.com saw a 290% increase in traffic, while 1-800Flowers.com had a 79% jump and ProFlowers.com climbed 73%.

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C. Fourth Quarter Holidays

Online shoppers can look forward to a much-improved experience at their favorite websites during the year-end holidays. US e-tailers prudently plan for the December onslaught of shoppers by keeping tabs on the most popular gift items and ensuring they are fully in stock until the last order is picked, packed and delivered on time.

Come late October 2001, a host of research firms will likely chime in with their predictions for how well those sales will be for the fourth quarter, a time when online merchants ring up the bulk of their annual sales.

Last year saw a tizzy of holiday numbers with a wide degree of variance. By November 9, 2000, there were almost a dozen different estimates projecting substantial online revenue increases from the same period in 1999. The big question was whether those remaining online merchants had learned their lessons from all that went wrong in 1999, such as missed deliveries, out of stock merchandise and poor customer service. Would consumers still boot up the PC and click their holiday budget away?

The following chart shows projections for the year 2000 online holiday shopping season – as provided by numerous research firms. However, since the researchers use different measurement periods to define the “holiday shopping” period, with some counting the five weeks before Christmas, others November-December and still others October-December or other periods, the projections are not truly comparable (apples to oranges).

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Comparative Estimates: Projected US B2C eCommerce Revenues, Q4 2000 vs. Q4 1999 (in billions)

Source	Measurement period	Q4 2000	Q4 1999	% change
Computer Economics	Q4	\$19.2	-	-
PC Data	Q4	\$13.2	-	-
NPD Group	November and December	\$12.5	-	-
eMarketer	Q4	\$12.5	\$7.3	71.2%
IDC	Q4	\$12.0	\$7.1	69.0%
Jupiter Research***	November and December	\$11.6	\$7.0	65.7%
Gomez Advisors	Q4	\$11.4	\$5.7	100%
Ernst & Young**	November and December	\$11.0	-	-
Gartner Group*	Q4	\$10.7	\$4.5	137.8%
Forrester Research	Last 5 weeks through Dec. 31, 2000	\$10.0	\$5.0	100.0%
Pricewaterhouse-Coopers	November and December	\$10.0+	\$10.0	-
Yankee Group	Q4	\$9.0	\$8.0	12.5%
ActivMedia Research	December only	\$8.0	-	-
BizRate.com****	Q4	\$6.1	\$4.4	38.6%
Purdue University's Retail Institute	Nov. 23 - Dec 31	\$6.0	\$2.0	200.0%
America Online	Novemeber and December	\$4.6	\$2.5	84%
Visa International	Nov. 24 - Dec. 20	\$2.5	\$1.2	108%

*Note: *For North America; eMarketer interpolation for U.S. only is \$9.65 billion; **Does not include online travel revenues; ***Jupiter Media Metrix measures November and December; ****BizRate measures Nov. 25 to Dec. 25*

Source: eMarketer, various, as noted, 2000

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eMarketer was able to normalize this data, at least in terms of measurement period, by using actualized sales data from measurement firm PC Data (the firm provided weekly sales estimates for the holiday period based on surveys of online consumers). eMarketer normalized the comparative source data to the 12-week period of October-December. The following chart shows adjusted numbers for each of the researchers based on extrapolating their figures to the full 12-week period.

Adjusted US B2C eCommerce Holiday Revenue Projections, 2000 (in billions)

Source	Measurement period	Unadjusted Q4 2000	Adjusted Q4 2000	Difference vs. PC Data
Computer Economics	4th Quarter	\$19.2	\$19.2	-
PC Data	4th Quarter	\$13.2	\$13.2	-
NPD Group	November to December	\$12.5	\$15.5	\$2.3
eMarketer	4th Quarter	\$12.5	\$12.5	-\$0.7
IDC	4th Quarter	\$12.0	\$12.0	-\$1.2
Jupiter Media Metrix***	November and December	\$11.6	\$14.4	\$1.2
Gomez Advisors	4th Quarter	\$11.4	\$11.4	-\$1.8
Ernst & Young**	4th Quarter	\$11.0	\$13.6	\$0.4
Gartner Group*	4th Quarter	\$10.7	\$6.2	-\$7.0
Forrester Research	Last 5 weeks through Dec 31, 2000	\$10.0	\$17.3	\$4.1
Yankee Group	4th Quarter	\$9.0	\$9.0	-\$4.2
ActivMedia Research	December only	\$8.0	\$16.6	\$3.4
Bizrate.com****	4th Quarter	\$6.1	\$9.2	-\$4.0
Purdue University's Retail Institute	Nov. 23 to Dec. 31	\$6.0	\$10.4	-\$2.8
America Online	4th Quarter	\$4.6	-	-
Visa	Nov. 24 to Dec. 20	\$2.5	-	-
PricewaterhouseCoopers	November and December	\$10.0+	\$12.4	-\$0.8

Note: *For North America; eMarketer interpolation for U.S. only is \$9.65 billion; **Does not include online travel revenues; ***Jupiter Media Metrix measures November and December; ****BizRate measures Nov. 25 to Dec. 25

Source: eMarketer, various, as noted, 2000

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Online holiday shopping was strong for many brick-and-mortar players during 2000. BizRate.com found that orders placed at web sites of offline retailers surged 135% for the season, while orders at pure-play e-tailers grew an average of 25%.

Increase in US Online Orders, Holidays 2000



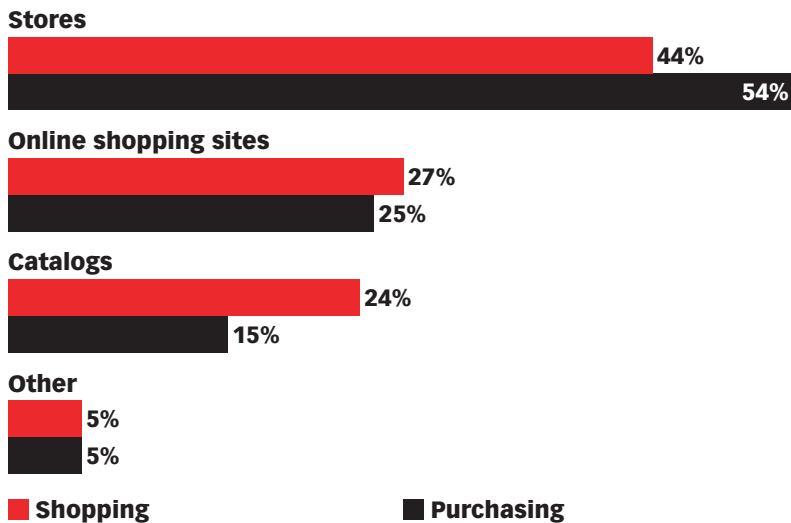
Source: BizRate.com, 2000

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According to PricewaterhouseCoopers, although most internet users had been buying their gifts at brick-and-mortar stores, e-tailers were able to convert some early holiday shoppers into buyers. In fact, early November e-shopping results indicated more than half of all net users started their holiday shopping. And, of those, nearly eight out of 10 have made purchases – about 20% of them online.

Holiday Shopping and Purchasing among US Internet Users, by Channel, Nov 2000



Source: PricewaterhouseCoopers, 2000

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US B2C e-commerce merchants are likely in store for their busiest fourth quarter ever. The word has spread fast that shopping for multiple holiday gifts is faster, easier, and often cheaper on the web than the old fashioned way. Those e-tailers that enter the season prepared with fully stocked virtual shelves and prompt delivery service will look forward to a happier new year.

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Online Buyers and Average Purchase Amount

On average, robust research predictions emerged about spending per holiday shopper, online and offline. Estimates ranged from \$660 to \$1,684.

Comparative Estimates: Average Consumer Holiday Spending, 2000

Greenfield Online	\$664
Deloitte & Touche/NRF	\$957*
American Express	\$1,684

Note: *For internet users only, for non-internet users amount is \$836
Source: eMarketer, various, as noted, 2000

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eMarketer had forecast that online holiday buyers would spend \$280 on average over the web during the fourth quarter – a healthy 30% increase over the \$215 spent by the average consumer online fourth quarter 1999.

Average Online Holiday Spending per US Buyer, 1999 vs. 2000

2000	\$280.27
1999	\$215.00

Source: eMarketer, 2000

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By the end of the 2000 holiday shopping season, the number of consumers who had purchased a gift online increased 28% from the 1999 holiday season, according to The Boston Consulting Group and Harris Interactive. Almost half of these consumers were buying holiday gifts online for the very first time. On average, online holiday shoppers spent \$276 online – 43% more than they had anticipated on spending going into the holiday season, and 62% more than the average online holiday shopper spent in 1999.

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Comparative Estimates: Average Online Holiday Spending per Buyer, Q4 2000

American Express

\$585

International Communications Research

\$488

Active Research

\$388

Pew Internet & American Life Project

\$330

Digitrends.net/AudienceProfiler

\$305

Jupiter Media Metrix

\$304

eMarketer

\$280

Boston Consulting Group/Harris Interactive

\$276

Maritz Marketing Research

\$251

Deloitte & Touche

\$264

Forrester*

\$232

*Note: *Forrester number based on household spending of \$603 divided by the average household size of 2.6 persons.*

Source: eMarketer, 2001; various, as noted, 2000

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Fourth quarter revenue increases came largely from experienced online shoppers who spent more during 2000, rather than first-time buyers.

In 1999, 45% of the year's new buyers made their first purchases during the holiday season. In 2000, 18.7 million internet users became new online buyers – 5.8 million (31%) did so in Q4.

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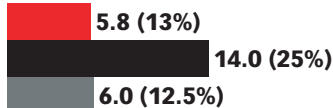
Other estimates of how many new buyers came online include Jupiter Media Metrix, quite close to eMarketer's, and Nielsen//NetRatings.

Comparative Estimates: New Buyers, Q4 2000 (in millions and as % of total quarter buyers)

All Buyers in 4th Quarter



First-time Buyers in 4th Quarter



■ eMarketer ■ Nielsen//NetRatings ■ Jupiter Media Metrix

Source: eMarketer, various, as noted, 2000

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Digitrends.net found that 22% of web users planned to purchase online for the first time in 2000. Active Research found that 45% of holiday online shoppers were new.

Crowds of experienced buyers came back to buy their gifts on the web and most will increase their spending. More than 80% of holiday shoppers returned to at least some of the same merchants they purchased from in 1999, according to BizRate.com.

Less bullish on the 2000 holiday season was Pew Internet and American Life Project, which revealed that only 22% of Americans who bought gifts online during 1999 decided against buying online in 2000. The Pew survey also suggests that the 2000 holiday shopping season only enticed 6% of internet users to test the e-commerce waters for the first time.

The Pew survey, which was based on consumer telephone interviews between November 22 and December 1, 2000, found that 45% of online Americans used the internet to look for holiday gifts and 32% logged on to compare prices, but only 24% actually purchased their gifts online.

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A CBS News/New York Times poll of more than 1,000 adults found the 35% of Americans who had access to the internet that planned to buy holiday gifts online was virtually unchanged from 1999's 33%. However, the poll did contain a few bright spots for e-tailers. In 1999, only 23% of those who said they intended to purchase a gift online actually did so, compared to 32% in 2000. Results further showed only 5% said shopping on the web was worse than shopping at a traditional store, while 24% said it was the same. The poll concluded of those surveyed, 97% said they would buy gifts online again.

Online Shopping During Year-End Holidays, 1999 vs. 2000

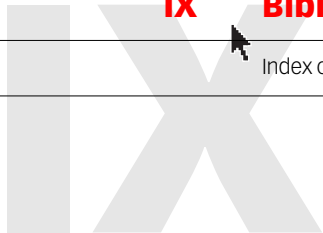
Question	1999 % of US Consumers	2000 % of US Consumers
I plan to buy gifts online	35%	35%
I purchased a gift online	23%	32%

Source: CBS/New York Times, 2000

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