

# North America E-Commerce:

B2C & B2B

April 2002



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## Welcome to eMarketer

Dear Reader:

The US recession started almost a year ago to this day, according to the National Bureau of Economic Research. Slow economic growth, dot-com failures, and the tragic events of September 11th will make 2001 a year for internet marketers to remember.

As we enter the second quarter of 2002, however, it appears that the economic tide is turning. As this edition of eMarketer's report on North American e-commerce is released, there is optimistic news from the manufacturing sector, on the consumer front, and even in certain sectors of the stock market. While the recession has not yet been declared over, signs of recovery have prompted many economists to revise their economic growth forecasts for 2002 upward.

In particular, the B2C market is beginning to rebound. Online sales grew by 29% in the fourth quarter of 2001 despite gloomy forecasts of a holiday shopping season overshadowed by job losses and war. Looking into the future, we expect B2C revenue to grow to \$126 billion by 2004. We anticipate a steady growth rate as the internet population becomes more diverse, as internet users feel increasingly comfortable shopping online, and as mobile- and TV-based internet applications are marketed more aggressively.

In the B2B world, we are equally sanguine. Despite last year's slowdown in IT spending, many companies' e-business budgets are expected to grow by as much as 10% in 2002, outpacing the rate of overall IT spending growth. And although many North American companies held back on making new technology purchases last year, several took the time to digest previous technology investments, laying the foundation for growth internet-based trade in 2002.

As a result, eMarketer predicts that US B2B e-commerce will increase by more than 57% this year to reach \$482 billion by the end of 2002.

This report is an up-to-date overview of the internet marketplace as well as a glimpse into the future based on reviews of hundreds of sources of data and analytical reports. It is organized to help you to understand the big picture of e-commerce in North America, from web shopping behavior to aggregate economic trends that affect how and what people and businesses buy through the internet.

While the report addresses both the business and consumer markets, it has a heavier dose of data on B2C e-commerce. The business-to-business e-commerce market is tackled in several other new eMarketer reports, including *E-Commerce Trade and B2B Exchanges*<sup>TM</sup> and our soon to be released report on eBusiness Activity by Industry. In addition, for detailed demographic data on North American e-consumers, the just-released North America Online report provides comprehensive analysis.

**eMarketer information can be accessed in a variety of ways:**

- The eMarketer Daily: a free HTML newsletter that brings you the latest stats and relevant e-business news items five times per week.
- eMarketer Reports: comprehensive reports (average cost \$795), covering a wide range of e-business topics. They combine statistics from all the leading researchers with analysis by the eMarketer team. A full schedule of available reports is published on the eMarketer web site.
- eStat Database: The most comprehensive database of e-business statistics, with more than 250,000 data points and over 18,000 charts and tables – with hundreds more added per week. The search, advanced search and browse functions make it easy to find exactly the stat you need. Subscriptions are \$2,500 per year, or \$250 per month.
- StatAlerts: For \$39 per year, you can get stats on the subject of your choice delivered directly to your inbox as we publish them. There's no more cost-effective way to keep up with Online Advertising, Online Marketing, Demographics, Broadband, Wireless or B2C E-Commerce.
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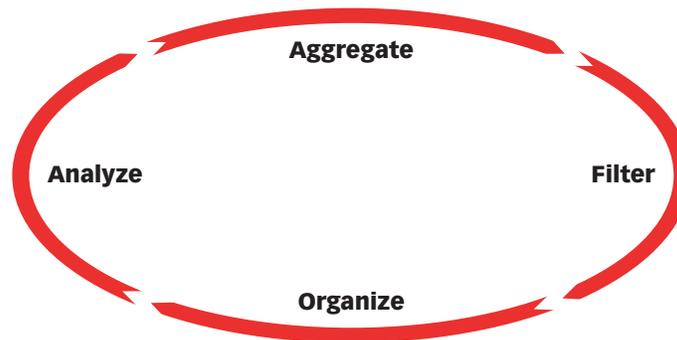
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eMarketer's approach to market research is founded on a philosophy of aggregating data from as many different sources as possible. Why? Because there is no such thing as a perfect research study and no single research source can have all the answers. 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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Using the internet and accessing a library of electronically-filed research reports and studies, the eMarketer research team first aggregates publicly available e-business data from hundreds of global research and consultancy firms. This comparative source information is then filtered and organized into tables, charts and graphs. Finally, eMarketer analysts provide concise and insightful analysis of the facts and figures along with their own estimates and projections. As a result, each set of findings reflects the collected wisdom of numerous research firms and industry analysts.

**"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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## The Benefits of eMarketer's Aggregation Approach

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**Objective:** information is more objective than that provided by any single research source

**Comprehensive:** gathered from the world's leading research firms, consultancies and news organizations

**Authoritative:** quoted in leading news publications, academic studies and government reports

**All in one place:** easy to locate, evaluate and compare

**Readily accessible:** so you can make quick, better-informed business decisions

**Above the hype:** accurate projections that business people can use with confidence

**Time saving:** there's no faster way to find internet and e-business stats, online or off

**Money saving:** more information, for less, than any other source in the world

## "Benchmarking" and Future-Based Projections

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Until recently, anyone trying to determine which researcher was most accurate in predicting the future of any particular aspect of the internet did not have a definitive source with which to do this. For instance, over 10 firms predicted e-commerce revenues for the fourth quarter 1998 online holiday shopping season, and yet no single source could be identified after the fact as having the "correct" number. In the Spring of 1999, however, the US Commerce Department finally began measuring e-commerce B2C activity so business people and others could have a benchmark with which they could compare and evaluate projections.

eMarketer has adapted its methodology to recognize that certain government and other respected, impartial sources are beginning to provide reliable numbers that can be consistently tracked over time. Most of these established sources, however, only measure past results; typically, they do not make future-based predictions.

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Today, eMarketer formulates its Essential E-Business Numbers by first identifying the most established, reputable source for a given sector being measured and then adopting that organization's figures as *benchmarks* for the historical/current period. For instance, eMarketer's US internet user figures will be based on a combination of the most recent data from the US Census Bureau (August, 2000 survey) and the International Telecommunication Union (ITU). Using this data as the benchmark for 2000, eMarketer will make projections for subsequent years based on the following factors:

- a comparative analysis of user growth rates compiled from other research firms
- additional benchmark data from internet rating firms, e.g., Nielsen//NetRatings and Jupiter Media Metrix, which use panels to measure internet user activity on a weekly and monthly basis
- an analysis of broader economic, cultural and technological trends in the US

Similarly, US e-commerce revenues are being "benchmarked" using historical data from the US Department of Commerce, and broadband household and penetration rate forecasts are being built off baseline data from the Organization for Economic Cooperation and Development (OECD).

Through this benchmarking process, eMarketer will be holding itself – and our projections – accountable.

**“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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## A. Economic Rebound

### **“The recuperative powers of the US economy... have been remarkable.”**

– Federal Reserve Chairman Alan Greenspan, testifying before Congress

After more than a year of rather bleak economic news, the US economy appears to be heading out of a recession, to the pleasant surprise of many forecasters. The most recent evidence comes from a report that manufacturing surged in February – the first time in roughly a year and a half. The Institute for Supply Management’s (ISM) manufacturing index jumped from 49.9 in January to 54.7 in February, above the expectations of many economists. (Index levels below 50 indicate shrinking factory activity while readings above 50 indicate growth.)

Household spending has also been rising. On the retail front, the Commerce Department released fourth quarter retail data on February 20, 2002 showing that consumers, despite predictions that they would curtail spending, continued to purchase clothing, electronics and home furnishings – and other goods – at a rate that prevented a significant drop in retail sales in 2001. The Commerce Department figures showed that sales at retailers increased by 9.5% in December 2001, a healthy turnaround from November’s 2.6% drop.

A careful look at the fourth quarter 2001 sales figures bodes well for online retailers in 2002. Quarterly e-commerce sales grew by 34.4% from third to fourth quarter, 2001. Moreover, the drag on December’s overall retail sales came from lower revenue at gasoline stations, reflecting lower crude oil prices, and slower automobile sales, not from a drop in consumer confidence.

### **“Consumers’ short-term optimism is no longer at recession levels, and the upward trend signals that the economy may be close to bottoming out and that a rebound by mid-2002 is likely.”**

– Lynn Franco, Director of The Conference Board’s Consumer Research Center

In fact, the Conference Board’s Consumer Confidence Index *increased* significantly in December 2001 after three months of sharp declines. Consumers reported being more optimistic about economic prospects six months into the future: those expecting an improvement in business conditions increased from 17.7% in November 2001 to 22.2% in December 2001. Those anticipating conditions to worsen fell to 9.6%, down from 11.6% in November. The index rose for the second consecutive month in January, 2002, and after a small dip in February, surged in March to 110.2 (1985=100). While we cannot wish ourselves out of an economic recession, a return in consumer confidence is a precursor to recovery.

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And so are reports of profitability in the B2C sector. Leading online retailer Amazon.com posted its first-ever quarterly net profit in the fourth quarter of 2001. Although the figure was a measly \$5 million, it does suggest that this company has found stability in the marketplace, in part by trimming its costs, increasing efficiency, establishing partnerships with other leading retailers and expanding internationally. Similarly, Priceline.com, the name-your-own-price travel site, managed to narrow its fourth quarter 2001 loss to \$1.3 million.

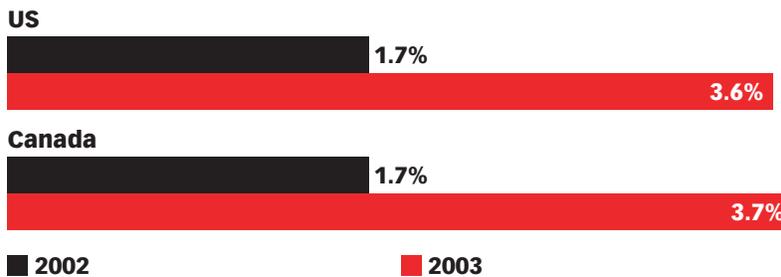
**“The biggest sites continue to get bigger.”**

– Lisa Strand, Nielsen//NetRatings

In fact, the largest e-commerce companies, such as Amazon and eBay, are growing faster than the overall market. Overall retail e-commerce sales rose an annual 13% in fourth quarter 2001, according to the US Commerce Department, while Amazon.com’s revenues rose 15% and eBay’s rose 64%.

And, according to a panel of economic forecasters assembled by *The Economist* magazine, the consensus predictions for economic growth in North America is promising. The average forecast for GDP growth in both the US and Canada grew measurably. In the US, the forecast for year 2002 GDP growth was raised from 0.7% in January to 1.7% in March. For 2003, forecasters predict a 3.6% growth in GDP for the US and a 3.7% growth rate for Canada.

**Change in GDP in the US and Canada, 2002 & 2003**



Source: *Economist.com*, 2002

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It is too soon to declare the recession over, in part because consumers spent relatively freely throughout the recession, leaving little pent-up demand to prompt a surge in spending this Spring. Consumer debt remains high and corporate profits and investment remains tepid. Nevertheless, our forecasts for the e-commerce market are based on cautious optimism about growth in the US and Canadian economies.

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## B. US B2C E-Commerce Market Growth

Since our last B2C e-commerce report, three new trends have come to the fore that will have an important effect on e-commerce growth: (1) experience online has become a major influence on shopping and purchasing behavior; (2) the broadening of the demographic and socioeconomic composition of internet users is affecting buying behavior; and (3) the shake-out among online retailers has meant that surviving firms are those with better sites, more effective marketing, and higher levels of customer service.

Although the “hockey-stick” shaped growth in new internet users that occurred in the late 1990’s has passed, many of those users are now turning into online consumers, according to research from the Pew Internet and American Life Project. As internet users gain one to three years of experience online, they become much more likely to shop or conduct other financial-related activities on the web. As a result, it is likely that e-commerce activities will grow at a faster pace than internet adoption in the US.

Jupiter Media Metrix research suggests that as online users become more comfortable with the idea of shopping, and as newcomers to the internet do the same in the next few years, the internet shopping population will not only grow, but will also begin to reflect offline demographics much more closely than today. That should help mass-market online retailers, including those who cater to middle class Americans and older people. It may also suggest new marketing niches for retailers catering to consumers who don’t fit the stereotypical young, male, educated, early internet adopter mold.

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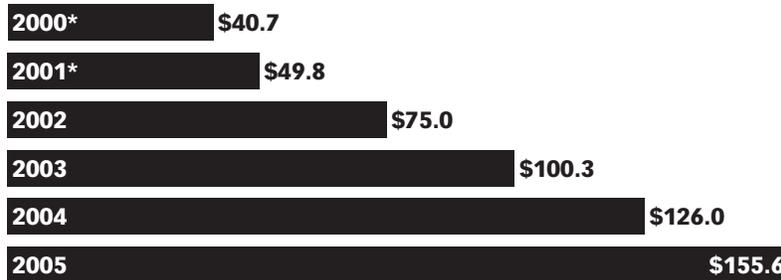
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As a result of growing consumer confidence in the economy, as well as confidence in the future of e-commerce, we have calculated that total B2C e-commerce spending in 2001 (including retail sales and travel purchases) rose to \$49.8 billion from \$40.7 billion in 2000. We estimate that, of this total amount, \$32.6 billion represents retail sales and \$17.2 billion represents travel purchases.

**Total US E-Commerce B2C Revenues, 2000-2005 (in billions)**



*Note: \*eMarketer's year 2000 and 2001 baselines are derived from US Department of Commerce figures and eMarketer travel estimates. (US Department of Commerce does not include travel in its B2C figures)  
Source: eMarketer, March 2002*

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Our 2001 estimate is derived from two components: (1) data from the US Department of Commerce, which reports e-commerce revenues on a quarterly basis derived from surveys of a sample of some 11,000 retail firms; and (2) estimates of online travel revenue based on aggregated data from numerous private market research and investment firms.

Total retail e-commerce sales for 2001 were approximately 22% higher than in 2000. (By comparison, total retail sales in 2001 increased 3.3% from 2000.) Projecting to 2005, we expect that the compound annual growth rate for B2C e-commerce revenues will be 30.8%. This rate of growth is more modest than rates forecast by companies like IDC and Gartner Group. It is significantly smaller than rates that were being predicted by market research firms during the internet heyday of 1999-2000. However, we believe it is a reliable estimate grounded in a couple of years of historical reality. And, in contrast to *total* retail and food services sales in the US this growth rate is quite impressive.

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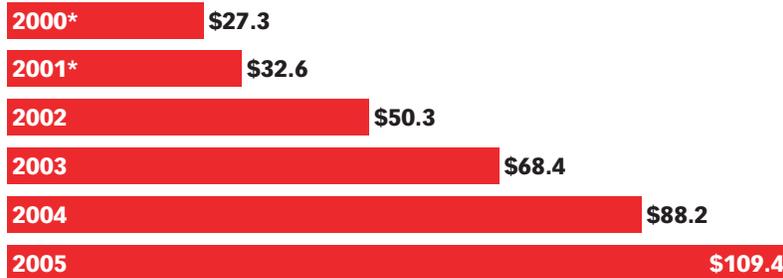
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As noted above, the US Department of Commerce recently reported that in 2001, online retail commerce amounted to \$32.6 billion, *excluding* travel spending. Using the 2001 figure as a benchmark, we project a 32% compound annual growth rate for non-travel B2C expenditures over the period 2002 through 2005.

**US Online Retail Revenues, 2000-2005 (in billions)**



Note: \*eMarketer's year 2000 and 2001 baselines are derived from US Department of Commerce figures. (US Department of Commerce does not include travel in their retail figures)  
Source: eMarketer, March 2002

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A large percentage of the online B2C market consists of travel-related purchases. As the following table illustrates, in 2002, online travel represents approximately one-third of total B2C e-commerce revenues.

**US Online Retail and Leisure Travel Revenues, 2000-2005 (in billions)**

	2000	2001	2002	2003	2004	2005
Online retail sales*	\$27.3	\$32.6	\$50.3	\$68.4	\$88.2	\$109.4
Online travel	\$13.4	\$17.2	\$24.8	\$31.9	\$37.8	\$46.2
<b>Total B2C revenues</b>	<b>\$40.7</b>	<b>\$49.8</b>	<b>\$75.1</b>	<b>\$100.3</b>	<b>\$126.0</b>	<b>\$155.6</b>

Note: \*eMarketer's year 2000 and 2001 baselines for retail sales are derived from US Department of Commerce figures, with an estimate made for Q4 2001 travel (US Department of Commerce does not include travel in its B2C figures)  
Source: eMarketer, March 2002

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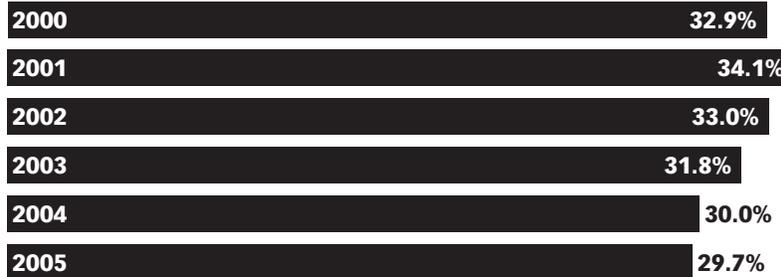
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We expect retail sales of consumer items to grow steadily over the next several years. In fact, as a percentage of total B2C revenues, travel revenues will decrease slightly, as the following figure illustrates.

**US Online Leisure Travel Revenues, 2000-2005 (as a % of total US online retail revenue)**



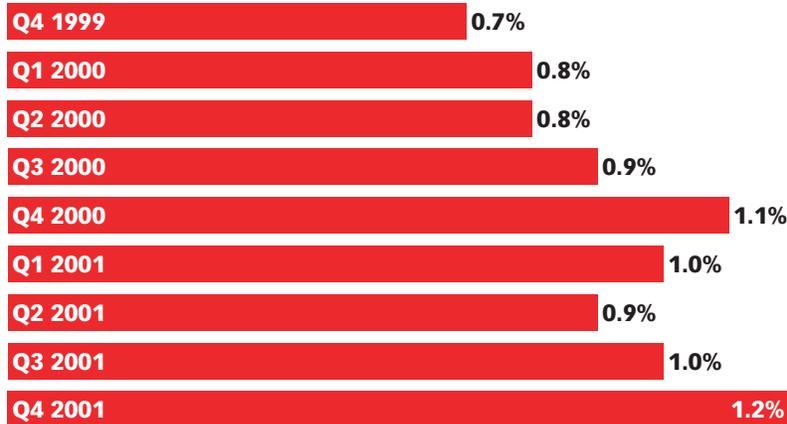
Source: eMarketer, January 2002

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B2C e-commerce continues to grow rapidly – much faster, in fact, than total retail and food sales, according to US Commerce Department figures. However, internet-based sales remain at only about 1% of total US retail sales.

**B2C E-Commerce Sales as a Percent of Total Retail Sales, by Quarter, Q4 1999-Q4 2001**



Note: E-commerce sales are sales of goods and services where an order is placed by the buyer or price and terms of sale are negotiated over an internet, extranet, Electronic Data Interchange (EDI) network, electronic mail or other online system. Payment may or may not be made online  
Source: US Department of Commerce, February 2002

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## Quarterly B2C Revenues

On a quarterly basis, B2C revenues increased steadily throughout 2000, and then dipped 14.5% in the first quarter of 2001, the first drop in retail e-commerce spending since the internet boom began.

### Estimated Quarterly US Retail E-Commerce Sales, Q4 1999-Q4 2001 (in billions)

<b>Q4 1999</b>	<b>\$5.27</b>
<b>Q1 2000</b>	<b>\$5.53</b>
<b>Q2 2000</b>	<b>\$5.98</b>
<b>Q3 2000</b>	<b>\$6.90</b>
<b>Q4 2000</b>	<b>\$8.88</b>
<b>Q1 2001</b>	<b>\$7.59</b>
<b>Q2 2001</b>	<b>\$7.46</b>
<b>Q3 2001</b>	<b>\$7.47</b>
<b>Q4 2001</b>	<b>\$10.04</b>

*Note: Does not include Food Services. The Census Bureau defines e-commerce sales to be the sales of goods and services where an order is placed by the buyer or price and terms of sale are negotiated over an Internet, extranet, Electronic Data Interchange (EDI) network, electronic mail, or other online system; payment may or may not be made online*  
 Source: US Census Bureau, February 2002

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### Estimated Quarterly US Retail\* and E-Commerce Sales, Q4 1999-Q4 2001 (in millions)

	<b>Total</b>	<b>E-commerce**</b>
Q4 1999	\$785,869	\$5,266
Q1 2000	\$714,425	\$5,526
Q2 2000	\$777,819	\$5,982
Q3 2000	\$772,796	\$6,898
Q4 2000	\$817,715	\$8,881
Q1 2001	\$728,662	\$7,592
Q2 2001	\$807,409	\$7,458
Q3 2001	\$786,364	\$7,473
Q4 2001	\$860,828	\$10,043

*Note: \*excludes Food Services; \*\*E-commerce sales are sales of goods and services where an order is placed by the buyer or price and terms of sale are negotiated over an internet, extranet, Electronic Data Interchange (EDI) network, electronic mail or other online system. Payment may or may not be made online*  
 Source: US Department of Commerce, February 2002

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Sales continued to decline in the second quarter of 2001, and remained fairly flat in the third quarter. Between the third and fourth quarter of 2001, e-commerce sales jumped significantly, as the following chart illustrates. In February 2002, the US Department of Commerce's (DOC) Census Bureau released figures for US retail e-commerce sales for the fourth quarter of 2001. According to the DOC, online retail sales in this quarter totaled \$10.04 billion, 13.1% more than the fourth quarter of 2000. Fourth quarter sales increased by 34.4% from the third quarter of 2001, compared to an increase of only 9.5% in total retail sales (online and offline) from the third to fourth quarter.

**Quarterly Percent Change in Retail Sales and E-Commerce Sales, Q1 2000-Q4 2001**

	Total sales	E-commerce sales*
Q1 2000	-9.1%	4.9%
Q2 2000	8.9%	8.3%
Q3 2000	0.6%	15.3%
Q4 2000	5.8%	28.7%
Q1 2001	-10.9%	-14.5%
Q2 2001	10.8%	-1.8%
Q3 2001(r)	-2.6%	0.2%
Q4 2001(p)	9.5%	34.4%

*Note: \*E-commerce sales are sales of goods and services where an order is placed by the buyer or price and terms of sale are negotiated over an internet, extranet, Electronic Data Interchange (EDI) network, electronic mail or other online system. Payment may or may not be made online*  
 Source: US Department of Commerce, February 2002

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Keep in mind that the DOC's retail e-commerce estimates do not include the lucrative online travel market, which eMarketer estimated reached \$17.2 billion in 2001 (see chart above). If the DOC's \$32.6 billion total retail e-commerce revenues for 2001 are added to the \$17.2 billion eMarketer estimate for travel sales, total B2C e-commerce revenues would equal \$49.8 billion.

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## Monthly US B2C E-Commerce Revenues

Despite a temporary drop in sales following the September 11 attacks, monthly online spending held steady throughout 2001. As the following data from comScore illustrates, sales picked up in the fourth quarter.

### US Online Consumer Dollar Sales, by Month, 2001 (as a % of year 2001 sales)

	Total	Non-travel	Travel
January	7%	7%	6%
February	7%	8%	7%
March	8%	8%	6%
April	7%	7%	7%
May	8%	8%	9%
June	8%	8%	9%
July	9%	8%	11%
August	9%	8%	11%
September	7%	7%	7%
October	8%	8%	9%
November	10%	10%	9%
December	12%	14%	8%

*Note: excluding auctions*

*Source: comScore Networks Inc., 2002*

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According to the NRF/Forrester Online Retail Index (which measures online shopping monthly from surveys by Greenfield Online of 5,000 online shoppers), internet shopping has increased fairly steadily from January through December 2001.

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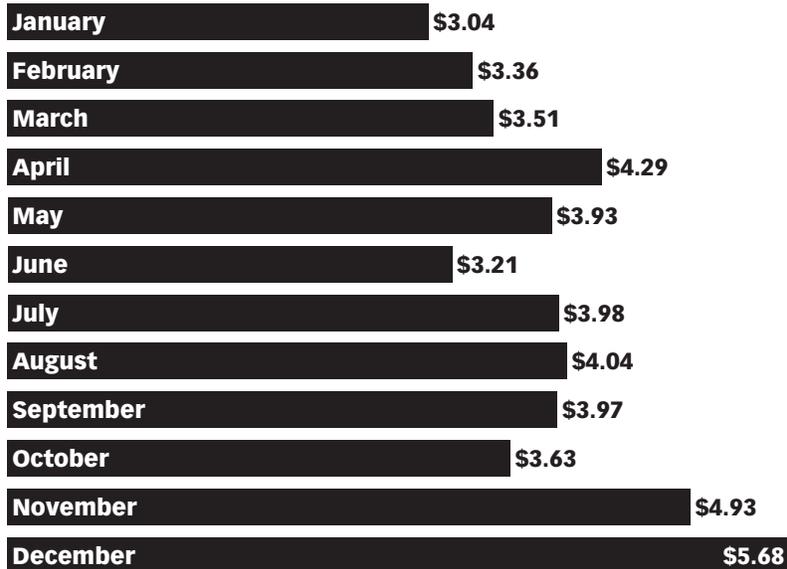
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**Monthly US B2C Spending, 2001 (in billions)**



Source: Forrester Research/Greenfield Online, 2001 & 2002

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Both the number of buyers and the total amount spent per online consumer grew on a month-to-month basis, according to the NRF/Forrester Online Retail Index.

**Number of US Internet Buyers and Average Amount Spent per Online Consumer, by Month, 2001**

Month	Number of buyers (in millions)	Amount spent per online buyer
January	13.3	\$228.88
February	13.5	\$247.89
March	13.3	\$263.07
April	15.7	\$273.18
May	14.8	\$265.13
June	13.1	\$246.62
July	14.7	\$270.27
August	14.8	\$272.69
September	15.2	\$261.66
October	13.7	\$264.86
November	16.8	\$293.28
December	18.7	\$304.12

Source: Forrester Research/Greenfield Online, 2001

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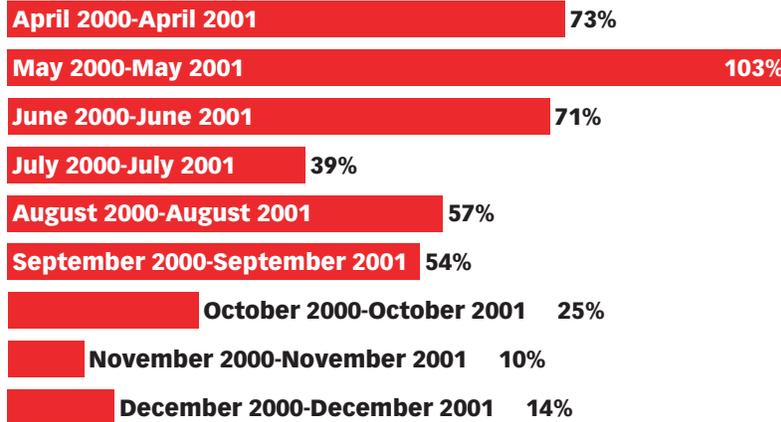
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On a month-to-month basis, e-commerce spending was significantly higher for most months in 2001 than for the same months in 2000, according to data from Nielsen//NetRatings and Harris Interactive.

### US B2C E-Commerce Growth in Spending, 2000-2001 (by month)



Source: Nielsen//NetRatings/ Harris Interactive, December 2001

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According to Forrester Research's Online Retail Index, produced with Greenfield Online, total online retail sales in the US in 2001 reached \$47.6 billion, up from \$42.4 billion in 2000. Sales in December 2001 rose to \$5.7 billion from \$4.9 billion in November 2001, and from \$5 billion in December 2000. The number of households shopping online increased from 16.8 million in November 2001 to 18.7 million in December 2001. The average spend per online consumer increased from \$293 in November 2001 to \$304 in December 2001.

### US Online B2C Sales, 2000 & 2001 (in billions)



Source: Forrester Research/Greenfield Online, 2002

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### US Online B2C Sales, November 2001 & December 2001 (in billions)



Source: Forrester Research/Greenfield Online, 2002

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## Comparative Estimates

**“Market research about e-commerce is a field in its infancy, but we will see better tools and better methodologies that will make it far superior to the techniques used in the offline world. The data are far more granular in the online world, once the initial hurdles have been overcome.”**

– Mohanbir Sawhney, professor of technology and e-commerce  
Northwestern’s University’s Kellogg School of Management.

eMarketer’s estimates of B2C e-commerce revenues are flanked by a wide range of comparative figures from various market research firms. For 2001, our estimate of \$49.8 billion is within a few percentage points of Forrester Research, the Gartner Group, and Jupiter Research. The following chart shows how eMarketer’s figures, plus numbers from these and several other firms stack up against each other for the period 2000 to 2005.

Online consumer sales in 2001 were driven by a large increase in new online buyers, from 42 million in 2000 to 57.5 million by year-end 2001, according to eMarketer data. However, though e-commerce growth will continue over the next three years, the rate of growth will actually begin to taper off from 2002 onward, as the online buying market begins to become saturated.

### Comparative Estimates: US B2C E-Commerce Revenues, 2000-2005 (in billions)

	2000	2001	2002	2003	2004	2005
BizRate.com	\$39.6	–	–	–	–	–
Booz-Allen Hamilton	\$32.0	–	–	–	–	–
Boston Consulting Group	\$44.5	\$65.0	–	–	–	–
Cyber Dialogue	\$29.5	\$41.0	\$56.6	\$76.3	\$102.3	–
Datamonitor	–	\$38.7	–	–	–	–
<b>eMarketer*</b>	<b>\$40.7</b>	<b>\$49.8</b>	<b>\$75.0</b>	<b>\$100.3</b>	<b>\$126.0</b>	<b>\$155.6</b>
Forrester Research	\$44.8	\$51.1	\$74.0	–	–	–
GartnerG2	\$44.1	\$61.8	\$91.9	\$125.3	\$168.8	\$227.7
Giga Information Group	\$43.9	\$72.7	\$97.5	–	–	–
International Data Corporation (IDC)	\$53.4	\$81.4	\$116.8	\$165.3	\$228.8	\$309.7
Jupiter Media Metrix	\$24.1	\$30.0	\$39.3	\$55.0	\$70.2	\$86.8
Odyssey	\$36.8	–	–	–	–	–
Yankee Group	\$36.6	\$57.2	\$86.6	–	–	–

Note: \*eMarketer benchmarks its B2C e-commerce revenue figures against US Department of Commerce data, for which the last period measured was Q4 2001

Source: eMarketer, March 2002; various, as noted, 2000 & 2001

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## Comparative Estimates: US B2C E-Commerce Revenues, 2001 (in billions)

**Jupiter Media Metrix (1) (Oct 2001)**

\$30.0

**Datamonitor (Jul 2001)**

\$38.7

**Cyber Dialogue (2000)**

\$41.0

**eMarketer\* (Mar 2002)**

\$49.8

**Forrester Research^ (Nov 2001)**

\$51.1

**ComScore^ (Jan 2002)**

\$53.1

**Yankee Group (2001)**

\$57.2

**GartnerG2^ (Dec 2001)**

\$61.8

**Giga Information Group^ (Nov 2001)**

\$60.0-\$65.0

**Boston Consulting Group^(2)**

\$72.7

**International Data Corporation (IDC)^ (2001)**

\$81.4

*Note: \*eMarketer benchmarks its online consumer retail revenue figures against US Department of Commerce data, for which the last period measured was Q3 2001; eMarketer also includes online travel in its B2C estimates, while the Commerce Department does not. ^includes travel; (1)excludes travel, prescription drugs & automobiles; (2)includes Canada Source: eMarketer, March 2002; various, as noted, 2000-2002*

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The previous figures were market estimates derived from different economic models. Some research companies, including comScore, the Forrester Online Retail Index, and Goldman Sachs, Harris Interactive and Nielsen//NetRatings, measure web purchasing activity retrospectively, and extrapolate the transactions of samples of internet buyers to the wider internet-using population. The following chart shows how data from these three research firms compare for the October to December 2001 period. The comScore figures, which are based on an extrapolation of measured transactions, are more accurate than surveys of consumer buying behavior that may be influenced by recall bias.

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**Comparative Estimates: US Online Retail Sales, 2001 (in millions)**



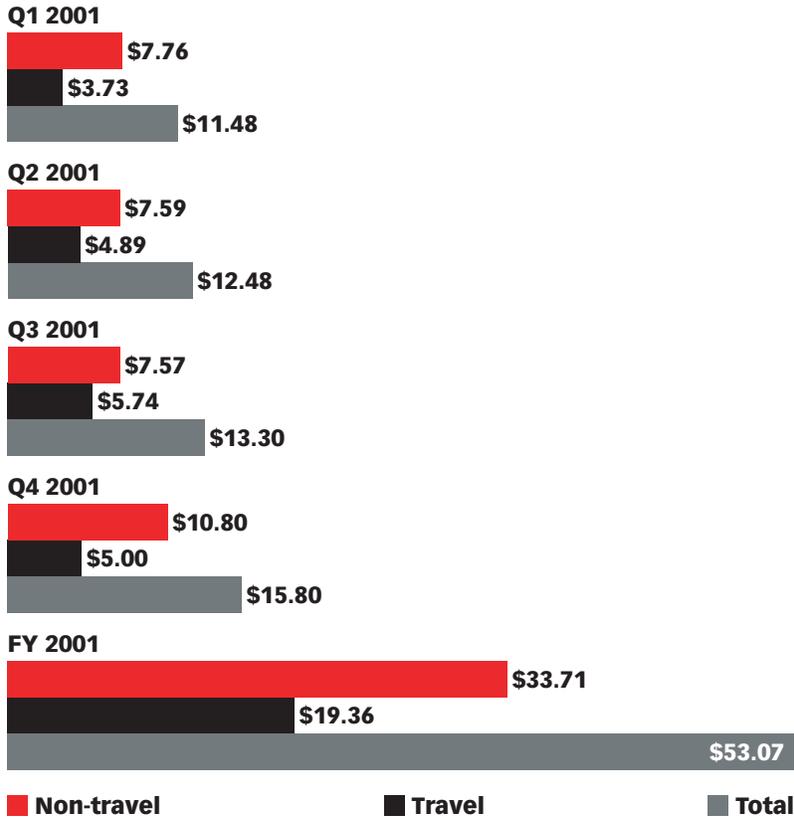
Note: \*includes \$17.2 million in travel sales estimated by eMarketer  
Source: eMarketer; various, as noted, 2002

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ComScore Networks recently estimated that, in 2001, US B2C revenues totaled approximately \$53 billion. Travel-related sales totaled \$19.4 billion, or 37% of total B2C e-commerce spending.

**US Quarterly Online Retail Sales\*, 2001 (in billions)**



Note: Figures do not add up precisely due to rounding; \*excluding auctions  
Source: comScore Networks Inc., 2002

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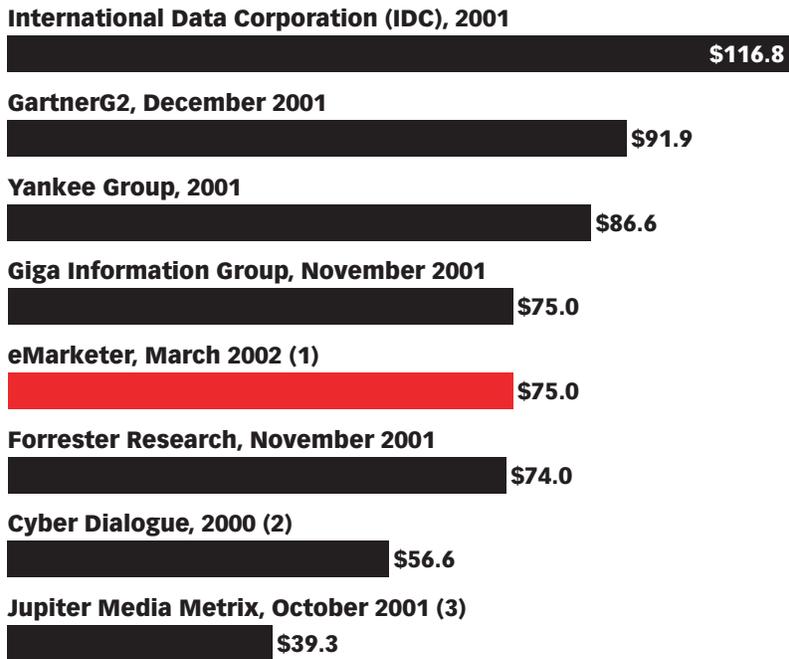
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For 2002, eMarketer's estimate of total US B2C e-commerce revenue is somewhat more conservative than most. The variance in the forecasts is quite large, however, as the following chart illustrates.

### Comparative Estimates: US B2C E-Commerce Revenues, 2002 (in billions)



*Note: (1) eMarketer benchmarks its online consumer retail revenue figures against US Department of Commerce data, for which the last period measured was Q4 2001; eMarketer also includes online travel in its B2C estimates, while the Commerce Department does not; (2) excludes travel; (3) excludes travel, prescription drugs & automobiles*  
 Source: eMarketer, March 2002; various, as noted, 2000-2002

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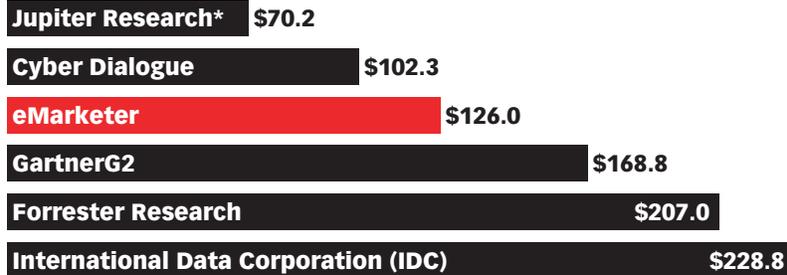
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Between 2002 and 2004, we expect steady growth in B2C e-commerce revenues. Our forecast, as the following chart shows, is in the middle of a range of estimates from other market research firms.

### Comparative Estimates: US B2C E-Commerce Revenues, 2004 (in billions)



Note: \*excluding travel

Source: eMarketer, March 2002; various, as noted, 2002

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## Consumer Online Buying Model

The US Department of Commerce and a number of research firms estimate e-commerce growth by calculating revenues generated by a sample of individual online retailers and extrapolating to the entire population. eMarketer incorporates these “supply side” estimates in deriving its forecasts, but also focuses on the consumer or demand-side of the equation to create an integrated model of e-commerce activity. eMarketer’s approach to estimating consumer online buying considers the number of active internet users, the number of those shopping and buying online, as well as per capita online expenditures. The analysis is based on careful aggregation, weighting, and assessment of data from dozens of research firms and government sources. Each research source provides varying degrees of information on the following interrelated variables:

- 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

### Online Population

In our e-commerce calculations, we assume that the population of potential internet buyers consists of those individuals age 14 and older who use the internet. (While some children are able to purchase online with the help of adults, the dollar amount of child purchases is insignificant compared to total online sales.)

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In 2002, 225.6 million Americans are at least 14 years of age. The following figures, from US Census Bureau data, shows that the US adult population remains stable over any five-year period.

### US Population Ages 14+, 2000-2004 (in millions)

2000	221.3
2001	223.2
2002	225.6
2003	228.0
2004	230.5

Source: eMarketer (interpolated from US Census Bureau figures), 2002

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Despite the recession, consumers have been turning to the internet in increasing numbers to shop and buy. Computer ownership and internet use continue to grow, albeit at a decreasing growth rate because so many Americans already own PCs and use the web.

**For more detailed analysis of US computer ownership, internet use, and projected internet penetration rates, see the just-released North America Online report from eMarketer.**

A little more than half of the 14 and older population is online, as the following chart shows. We estimate that this internet penetration rate will increase to approximately 65% by 2004. As the bars on this graph illustrate, however, the marginal rate of internet penetration is expected to decrease over time, as the internet market begins to be saturated.

### Penetration Rate of US Internet Users Ages 14+, 2000-2004

2000	39.1%
2001	48.4%
2002	54.7%
2003	60.4%
2004	65.2%

Source: eMarketer, 2002

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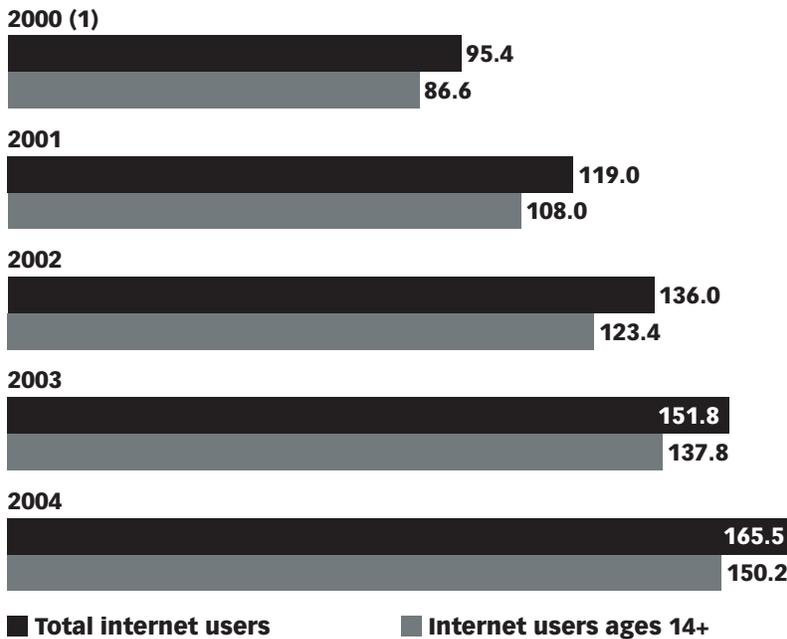
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For 2002, of the 225.6 million Americans 14 and older, 123.4 million are internet users, as the following illustrate. Our definition of an internet user, consistent with the definition used by the International Telecommunication Union (ITU), is an individual who uses the internet at least once per month. Internet users 14 and older make up 91% of total internet users in the US.

**Total US Internet Users and Internet Users Ages 14+, 2000-2004 (in millions)**



Source: eMarketer, based on 2000 baseline figures from the ITU; (1) International Telecommunication Union (ITU) estimates, 2002

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**US Population and Internet Population, 2002 (in millions)**

Total US population	286.7
US population online	136.0
Total US population 14+	225.6
US population 14+ online	123.4

Source: US Census Bureau, 2002; eMarketer, 2002

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## Online Shopping and Buying

Active internet users are those who are online consistently, and are most likely to engage in internet shopping or buying. A subset of active users shop online. Internet shoppers are those who use the internet to search for and make purchases, and to learn about products, but who may buy in other, offline channels. Shopping, however, is not the same as actually *purchasing* goods online. A subset of internet shoppers are internet *buyers* – those who have consummated a purchase online at least once in the past year.

### Consumer "Online Buying" Definitions

	Description	Definition
Level I	"Active Users"	Refers to those who are online at least once in a 30-day period
Level II	"Shoppers"	Refers to those who browse, research or compare products online
Level III	"Buyers"	Refers to those who have made at least one purchase on the internet within the past year

Source: eMarketer, 2002

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The following summarizes in a single table the number of internet users, internet buyers, average spending and total B2C e-commerce revenues from 2000 through 2004. As the table illustrates, total B2C e-commerce will triple from \$41 billion in 2000 to \$126 billion in 2004.

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**US Consumer Online Buying and Shopping Grid, 2000-2004 (in millions and % penetration)**

	2000	2001	2002	2003	2004
<b>Internet users*</b>					
US population aged 14+ (US Census )	221.3	223.2	225.6	228.0	230.5
Total US internet users	95.4	119.0	136.0	151.8	165.5
Internet users aged 14+	86.6	108.0	123.4	137.8	150.2
Online penetration among population aged 14+	39.1%	48.4%	54.7%	60.4%	65.2%
<b>Shoppers</b>					
% Internet users aged 14+	73.0%	77.0%	79.0%	81.0%	82.0%
Shoppers aged 14+	63.2	83.2	97.5	111.6	123.2
<b>Buyers</b>					
% Internet users aged 14+	48.5%	53.2%	55.8%	58.3%	59.9%
Buyers aged 14+	42.0	57.5	68.9	80.3	90.0
Average annual purchase per online buyer	\$969.02	\$866.09	\$1,089.21	\$1,248.48	\$1,400.47
<b>Total US B2C e-commerce revenues (incl. online travel)**</b>	<b>\$40,700</b>	<b>\$49,800</b>	<b>\$75,000</b>	<b>\$100,300</b>	<b>\$126,000</b>

*Note: \*eMarketer's internet user figures are based on the International Telecommunication Union (ITU) baseline figure of 95.4 million internet users for 2000; the age 14+ group represents roughly 90% of all users according to the August 2000 US Department of Commerce survey; \*\*eMarketer benchmarks its B2C retail revenue figures against US Department of Commerce data, for which the last period measured was Q4 2001; the travel component was formulated based on aggregated data Source: eMarketer, March 2002; various, as noted, 2000 & 2001*

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Based on comparative estimates from market research firms, we estimate that 79% of internet users aged 14 and older currently engage in online *shopping*.

**US Internet Users Ages 14+ Who Shop Online, 2000-2004 (as a % of all internet users ages 14+)**



Source: eMarketer, 2002

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By applying this rate (79% for 2002) to the population of internet users (123.4 million) we estimate that approximately 97.5 million Americans 14 and older currently shop online. Within two years, the number of internet shoppers will grow to a little over 123 million, as the chart below illustrates.

**US Internet Users Ages 14+ Who Shop Online, 2000-2004 (in millions)**



Source: eMarketer, 2002

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### Online Buyers

As the next chart illustrates, of those internet users age 14 and older, 55.8% will purchase goods and services online within 2002. By 2004, this percentage will grow to nearly 60%. These figures are population averages, and do not describe the intensity with which those who purchase goods do so.

#### US Internet Users Ages 14+ Who Purchase Goods and Services Online, 2000-2004 (as a % of all internet users ages 14+)



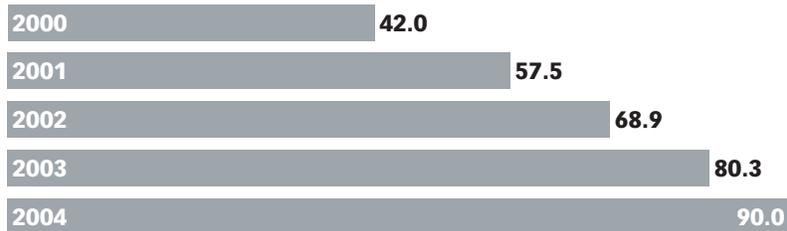
Source: eMarketer, 2002

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Applying the percentages above to the number of internet users, we derive the *number* of internet users who purchase online. For 2002, the figure equals nearly 69 million, and is expected to grow to 90 million by 2004.

#### US Internet Users Ages 14+ Who Purchase Goods and Services Online, 2000-2004 (in millions)



Source: eMarketer, 2002

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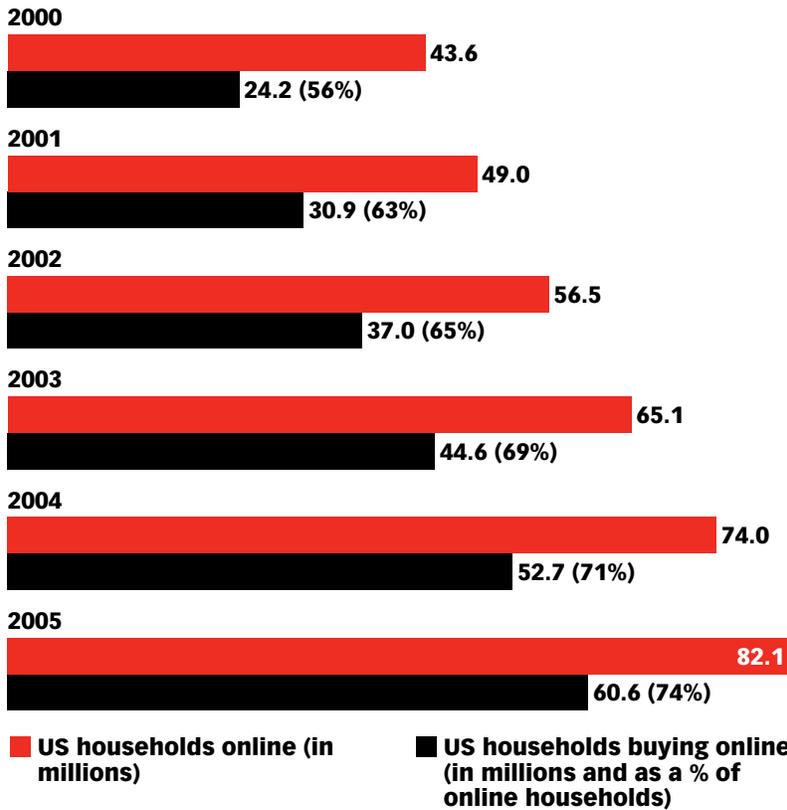
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For marketing efforts that are based on whole households rather than on individuals, it is useful to know how many households include one or more members who purchase online. eMarketer estimates that in 2001, 31 million households actively purchased via the internet, accounting for 63% of all online households and 29% of all US households. In 2002, the number of online buying households will increase to 37 million, and 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 online)**



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

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By comparison, Forrester Research estimates that a smaller universe of US households shop online. As the following chart illustrates, the number of households estimated by Forrester to have shopped online in December 2001 was only 18.7 million.

**Number of US Households Shopping Online, November 2001 & December 2001 (in millions)**



Source: Forrester Research/Greenfield Online, 2002

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**Per Capita Online Spending**

Currently, internet users who purchase online spend, on average, more than \$1,000 per person on products and services over the course of the year. Between 2001 and 2002, the average annual spending per online internet buyer increased by more than 23%.

**Average Annual Expenditures Online among US Internet Users (ages 14+) who Buy Online, 2000-2004**



Source: eMarketer, 2002

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Average household spending – among those households that purchase goods online – was approximately \$1,612 in 2001. For 2002, average household spending for internet-buying households should grow to \$2,027.

**Average Annual Household Expenditures Online among US Households that Buy Online, 2000-2004**



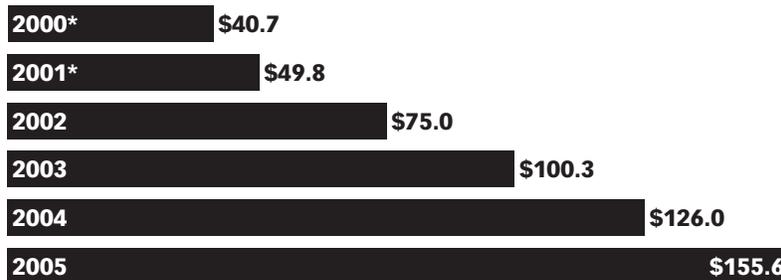
Source: eMarketer, 2002

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With an average 2002 expenditure per internet buyer of \$1,089, and 68.9 million online buyers, the total B2C e-commerce revenues for 2002 are estimated to be \$75 billion. By 2005, this figure will grow to \$155.6 billion, fueled by increased familiarity and comfort with using the internet to make purchases, and improvements to the online buying experience that cause both the number of online buyers and the per capita annual expenditure of those buyers to rise.

**Total US E-Commerce B2C Revenues, 2000-2005 (in billions)**



Note: \*eMarketer's year 2000 and 2001 baselines are derived from US Department of Commerce figures and eMarketer travel estimates. (US Department of Commerce does not include travel in its B2C figures)

Source: eMarketer, March 2002

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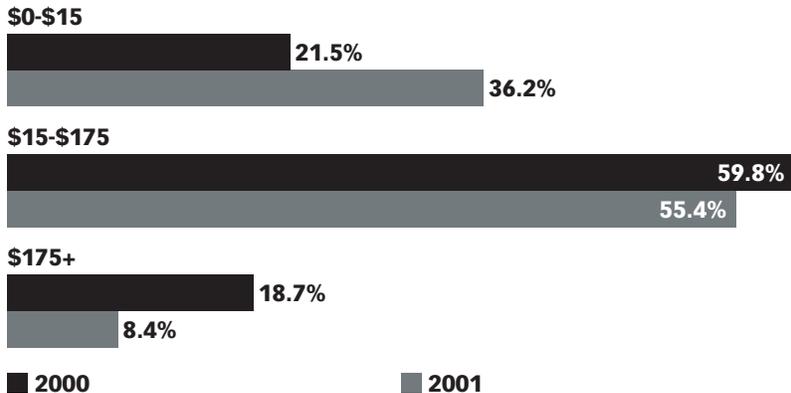
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eMarketer's estimate of annual per capita online spending equals a monthly average of \$91. A recent study by UCLA found that the most common range of monthly expenditures was between \$15 and \$175. Interestingly, the study found that, between 2000 and 2001, the percentage of online buyers purchasing a total of \$15 or less of goods increased, while those spending \$175 or more decreased.

**US Online Spending per Month, 2000 & 2001 (as a % of online buyers)**



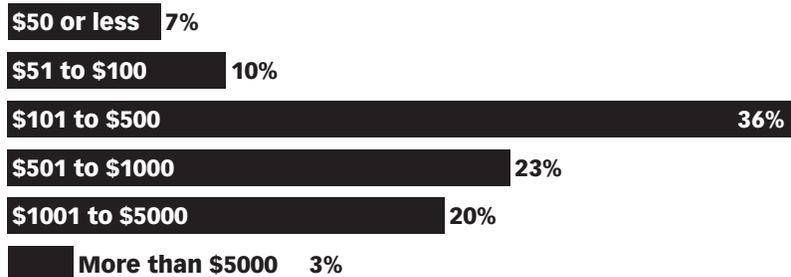
Source: UCLA Center For Communication Policy, November 2001

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On an annual basis, DoubleClick/NFO WorldGroup found that the most common range of expenditure in 2001 was between \$101 and \$500. However, one-fifth of US consumers buying online spent between \$1001 and \$5000.

**Amount Spent Online Annually by US Consumers, 2001 (as a % of respondents who have purchase online in the last year)**



Source: DoubleClick/NFO WorldGroup, October 2001

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On a per-purchase basis, Nielsen//NetRatings found that the average amount spent per online purchase increased by about 14% between 2000 and 2001.

### Average Amount per Online Purchase in the US, December 2000 & December 2001

<b>2000</b>	<b>\$81</b>
<b>2001</b>	<b>\$93</b>

*Note: eMarketer calculations based on Nielsen//NetRatings' projected estimates for holiday-season revenues and number of online shoppers*  
 Source: Nielsen//NetRatings, eMarketer, 2001

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Spending peaks during the holiday season, as the following data from Forrester Research shows. According to Forrester, average spending per internet consumer for November and December 2001 was approximately \$300.

### Average Spending per US Online Customer, November & December 2001

<b>November 2001</b>	<b>\$293</b>
<b>December 2001</b>	<b>\$304</b>

Source: Forrester Research/Greenfield Online, 2002

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### Comparative Estimates of US Online Shoppers and Buyers

eMarketer estimates that approximately 77% of adult internet users have used the web to shop. However, research sources vary substantially in their estimates of the percentage of internet users who shop online. Consumers are notoriously unreliable at remembering when they purchased goods or services online and how much they have spent online, accounting for some variability in survey estimates. Survey methodologies also differ in the questions asked, the samples queried, and the time frames covered. As the following chart illustrates, the estimates can vary by more than a factor of two.

Data from the US Census department suggests that a smaller percentage of the population – 67.3% – use the internet to search for product or service information.

### Comparative Estimates: Percent of US Internet Users Who Have Shopped Online, 2001

**NPD Group, July 2001**

91%

**Boston Consulting Group**

78%

**Cyber Dialogue**

78%

**eMarketer\*, March 2002**

77%

**Cultural Access Group**

74%

**Nielsen//Netratings, December 2001**

74%

**Pew Internet & American Life Project, March 2002**

70%

**US Department of Commerce, February 2002**

67%

*Note: \*in the past year*

*Source: eMarketer, March 2002; various, as noted, 2001 & 2002*

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Recent data from the Pew Internet and American Life Project suggests that the number of internet users who have ever purchased online increased 45% between 2000 and 2001 from 47% to 53% of US internet users. In particular, the number of people reporting that they purchased travel services grew by an estimated 59% between 2000 and 2001, from 34% to 42% internet users. In total numbers of internet buyers, Pew estimates that 58 million Americans purchase products and 46 million buy travel services online.

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**Number of US Internet Users Who Have Ever Purchased Products or Services Online, by Transaction Type, 2000 & 2001 (in millions)**

	March 2000	March 2001
Purchase product	40	58
Buy travel service	29	46
Online banking	14	25
Online auction	12	22
Buy/sell stocks	10	13

Source: *Pew Internet & American Life Project, March 2002*

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**US Internet Users Who Have Ever Purchased Products or Services Online, 2000 & 2001 (as % increase)**

	% increase
Purchase product	45%
Buy travel service	59%
Online banking	79%
Online auction	83%
Buy/sell stocks	30%

Source: *Pew Internet & American Life Project, March 2002*

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By comparison, the US Commerce Department report, “A Nation Online: How Americans Are Expanding Their Use of the Internet,” found that while 67.3% of internet users (age 3 and over) search for product and service information online, 39.1% of internet users reported *buying* products or services online. Keep in mind, however, that the Commerce Department’s figure of 143 million internet users is higher than most market research firms, so the *number* of internet buyers calculated by the department – 56 million – is quite close to eMarketer’s estimate of 57.5 million.

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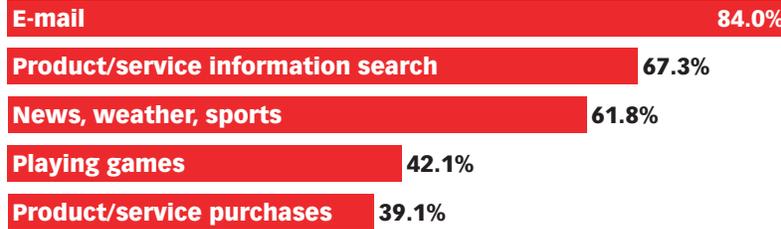
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Of those surveyed by the Commerce Department, 17.9% reported conducting online banking and 8.8% said they traded stocks, bonds, or mutual funds online. The Commerce Department research was based on the September 2001 U.S. Census Bureau's Current Population Survey – a survey of approximately 57,000 households and more than 137,000 individuals across the United States.

**Top Five Activities of Americans Online, 2001 (as a % of internet users ages 3+)**



Source: US Department of Commerce, February 2002

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As a percentage of the total US population, the Commerce Department survey found that 21% of Americans purchased goods or services online in 2001, up from 13.3% in 2000.

**US Internet Users Making Online Product or Service Purchases, 2000 & 2001 (as a % of total US population age 3+)**



Source: US Department of Commerce, February 2002

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Nielsen//Netratings, on the other hand, found that in December 2001, at the height of the holiday shopping season, nearly 75% of the adults using the internet were visiting e-commerce sites to buy, comparison shop, or collect product information. In a February 2002 report, Nielsen//NetRatings claimed that more than 85% of US adults with internet access had made an online purchase at one time or another.

**Comparative Estimates: Number of Online Buyers in the US, 2001 (in millions)**

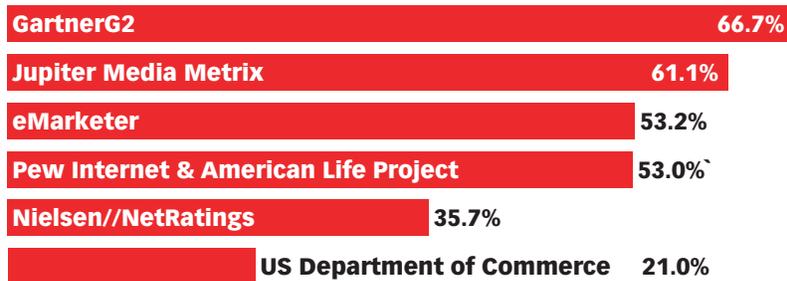
Pew Internet & American Life Project	82.0
GartnerG2 (in last 3 months as of July)	72.0
Jupiter Media Metrix	66.0
<b>eMarketer</b>	<b>57.5</b>
Nielsen//Netratings and Harris Interactive (in last month as of September)	38.6
US Department of Commerce	30.0

Source: eMarketer, 2002; various, as noted, 2001 & 2002

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**Comparative Estimates: US Internet Users Who Have Purchased Online, 2001 (as a % of internet user population\*)**



Note: \*108 million

Source: eMarketer; various, as noted, 2002

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## C. Holiday Shopping, 2001

The recession put a damper on holiday shopping in 2001, as did the shock of the attacks of September 11<sup>th</sup>. These two issues, the economy and the national mood, were the main reasons consumers reported spending less on holiday shopping in 2001 compared to 2000.

### Reasons US Shoppers Are Spending Less on Holiday Shopping than in Previous Year, 2001



Source: DoubleClick, 2001

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Despite the gloomy survey data, however, fourth quarter 2001 e-commerce revenues actually reached \$10.0 billion, according to data released by the US Department of Commerce in February, 2002. That number, \$10 billion, accounted for 1.2% of total US retail sales in Q4 2001 and represented an increase of 34% from third quarter e-commerce sales, and an increase of 13.1% from Q4 2000.

### Estimated Fourth Quarter US Retail\* and E-Commerce Sales, 1999-2001 (in millions)

	Total	E-commerce**
Q4 1999	\$785,869	\$5,266
Q4 2000	\$817,715	\$8,881
Q4 2001	\$860,828	\$10,043

Note: \*excludes Food Services; \*\*E-commerce sales are sales of goods and services where an order is placed by the buyer or price and terms of sale are negotiated over an internet, extranet, Electronic Data Interchange (EDI) network, electronic mail or other online system. Payment may or may not be made online

Source: US Department of Commerce, February 2002

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## Comparative Estimates of Holiday Revenues

In November 2001, eMarketer had forecast fourth quarter e-commerce revenues of \$10.7 billion. There were no less than 10 comparative projections for holiday spending issued by various market research firms, ranging from Forrester's projection of \$8 billion to ACNielsen's \$16 billion. eMarketer's \$10.7 billion estimate was approximately in the middle of the range.

To complicate matters, however, researchers use different time periods for the holiday shopping season. Forrester, for instance, counts only the last five weeks leading to 25 December 2001; Jupiter uses November through December, and most other researchers count the entire fourth quarter. What's more, some, like Jupiter and Forrester, include travel in their predictions, while most others, including the Department of Commerce, do not.

### Comparative Estimates: Unadjusted Projections for US Online B2C Sales, Holiday Season 2001 (in billions)

	Time Period Measured	
Forrester Research Estimate #2 (12/19/01)*	5 weeks before Christmas	\$8.00
Yankee Group	Q4	\$9.50
Nielsen//NetRatings	Nov-Dec	\$9.90
<b>eMarketer (11/7/01)</b>	<b>Q4</b>	<b>\$10.70</b>
Forrester Research Estimate #1 (10/16/01)*	5 weeks before Christmas	\$11.00
Retail Forward	Q4	\$11.50
BizRate.com	Q4	\$11.55
Gartner G2**	Q4	\$11.86
Jupiter Media Metrix*	Nov-Dec	\$11.90
ACNielsen*	Q4	\$16.00

Note: \* includes travel; \*\* includes Canada

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

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To compare each estimate, apples-to-apples, eMarketer adjusted the researchers' projections to exclude travel and reflect e-commerce sales for the entire fourth quarter, in line with the parameters used by the Department of Commerce. The Commerce Department's figure is a benchmark by which eMarketer retrospectively assesses the reliability of forecasts and bases future e-commerce estimates.

**Comparative Estimates: Adjusted Projections for US Online B2C Sales, Holiday Season 2001 (in billions)**

Yankee Group	\$9.50
<b>eMarketer (11/7/01)</b>	<b>\$10.70</b>
Gartner G2*	\$10.70
Retail Forward	\$11.50
BizRate.com	\$11.60
Forrester Research Estimate #2 (12/19/01)	\$13.41
Forrester Research Estimate #1 (10/16/01)	\$18.46
Nielsen//NetRatings	\$14.50
ACNielsen	\$12.62
Jupiter Media Metrix	\$12.29

*Note: original projections adjusted to exclude travel and reflect all 12 weeks of the Q4 holiday time period; \*GartnerG2 figure adjusted to exclude Canada*

*Source: eMarketer, December 2001; various, as noted, 2000 & 2001*

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Most research firms turned out to be too optimistic in their projections for 2001 holiday internet retail sales. Yankee Group came closest to the DOC estimate with \$9.5 billion, followed by eMarketer and GartnerG2, both estimating \$10.7 billion for Q4 2001. As another benchmark source, comScore Networks, a firm which measures actual online transactions based on a large sample of internet users, reported that final Q4 retail e-commerce sales were \$10.8 billion.

**Holiday Gift Buying**

According to the Pew Internet and American Life Project, during the holiday season 2001, approximately 29 million Americans bought *gifts* online, spending an average of \$392 per person. In 2000, approximately 20 million bought gifts online with an average spend of \$330 per person.

**Number of Americans Purchasing Gifts Online During Holiday Season, 2000 & 2001 (in millions)**



*Source: Pew Internet & American Life Project, 2002*

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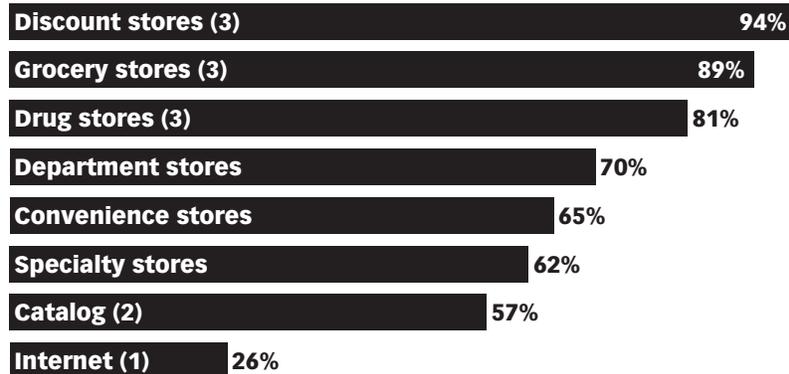
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## A. Multi-channel B2C Buying and Selling

**“Consumer use of the internet for product research will grow, but the majority of sales will still close in stores where consumers can touch products and take them home immediately. This pattern plays to the advantage of click-and-mortar companies that can operate in real-world, telephone, and internet sales channels.”** –Andrew Bartels, Giga Information Group

Consumers shop across multiple channels, including the internet, printed catalogs, retail outlets, and television shopping channels. In fact, consumers increasingly use more than one channel before actually making a purchase.

### Penetration of Shopping Channels in the US, 2001 (as a % of purchasing)



Source: (1) eMarketer, 2002; (2) Direct Marketing Association (DMA); (3) KPMG; Knowledge Systems & Research; 2001; NRF, 2000

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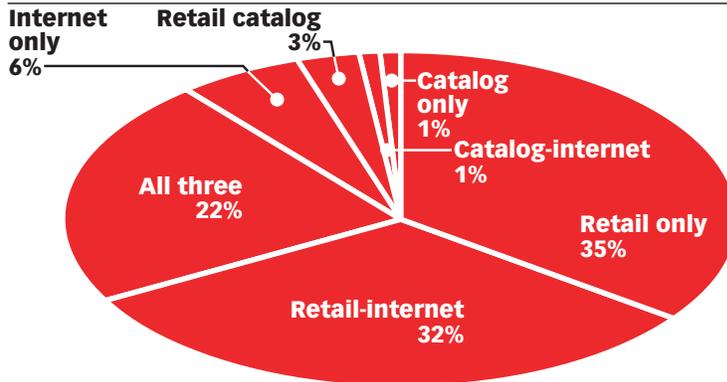
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As the following data from DoubleClick illustrates, fully one-fifth of consumers used a combination of internet, catalog, and retail store channels for Holiday 2001 shopping. Nearly one-third shopped from both internet sites and stores for their holiday purchases.

**Channels Used for Holiday 2001 Shopping, 2001 (in % of consumers shopping in each channel)**



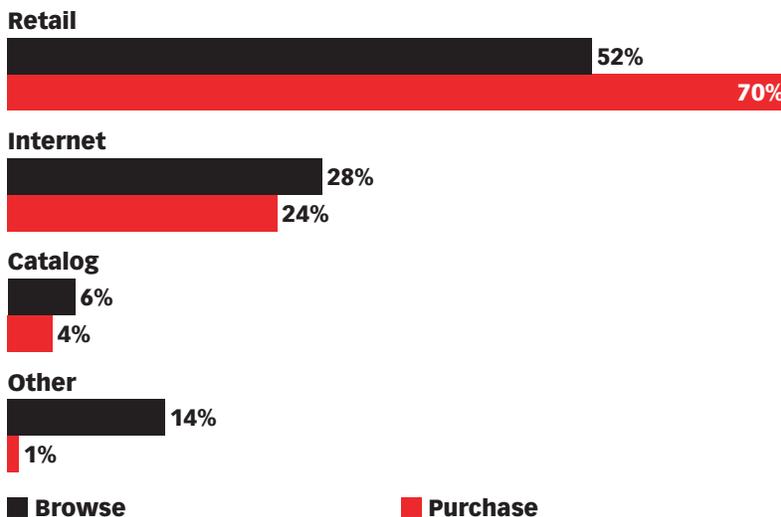
Source: DoubleClick, 2001

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The opportunity to shop across multiple channels increases B2C revenue, according to various studies that have been published over the past year. As the chart below shows, nearly a quarter of multi-channel holiday shoppers purchased through the internet in 2001.

**Percent of Multi-Channel Holiday Shoppers Who Browse and Buy in Each Channel, 2001**



Source: DoubleClick, 2001

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According to Jupiter Media Metrix, consumers who shop using multiple channels tend to spend about 30% more than single-channel shoppers. A report by the J.C. Williams Group and BizRate.com found similar results: shoppers engage in a great deal of purchasing across and among different channels. Those who shop in stores and who also shop online tend to spend an average of \$600 more in the store than average store shoppers. Forrester Research also found that customers who visit online stores that also have a physical presence spend about 20-30% more in the physical store.

According to research by McKinsey & Co. and Solomon Smith Barney, as well as Shop.org, shoppers who use multiple channels such as a store, catalog and the internet tend to not only be higher spenders but also show more loyalty than single-channel customers.

Causes and effects are hard to disentangle, however. It is unclear whether numerous channels stimulate more shopping or whether bigger spenders consult more channels. It is plausible that the typical internet user – more educated, younger, and more likely to have higher disposable income than the average American – is simply more prone to shopping outside of traditional stores. (Internet users may place a higher value on their leisure time than the average consumer, or may be more frequent buyers of goods that lend themselves to catalogue purchases, such as books and electronics.)

However, savvy internet retailers have been shifting to multi-channel strategies that combine on- and off-line opportunities to shop and buy. As the following chart illustrates, channel integration appears to be increasingly common among US retailers.

**Channel Integration Efforts of US Online Retailers in the Holiday Season, 2000 & 2001**

	Holiday season 2001	Holiday season 2000
In-store or in-catalog marketing of online channel	76%	68%
Gift certificates purchased online and redeemable offline	63%	49%
In-store return of online orders	61%	51%
Quick catalog orders on site	51%	32%
Online store used to liquidate online and offline inventory	44%	27%
Gift certificates purchased offline and redeemable online	32%	22%
In-store internet kiosks	29%	15%
Real-time in-store inventory available online	27%	24%
In-store pick-up of online orders	17%	15%

*Note: Multiple responses allowed*

*Source: Shop.org/Boston Consulting Group, December 2001*

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Of course, a number of pure-play business models have been quite successful. Amazon.com, for example, posted its first-ever net profit in the fourth quarter of 2001. Other surviving dot-coms have moved to profitability even more quickly than Amazon. For example, on January 28, 2002, online travel vendor Expedia.com announced a net profit of \$5.22 million, and became the number one online travel site in terms of revenues and trips booked. Flower seller FTD.com reported six straight quarters of net profit. The firm eUniverse – a network of entertainment and game websites – has reported three consecutive quarters of net profit.

**Gross Profit and Net Profit Margin for FTD.com, Q4 2000-Q4 2001 (in millions)**

	Q4 2001	Q3 2001	Q2 2001	Q1 2001	Q4 2000
Gross profit	\$12.4	\$6.9	\$13.1	\$10.8	\$9.6
Net profit margin	8.2%	19.6%	8.3%	6.6%	7.1%

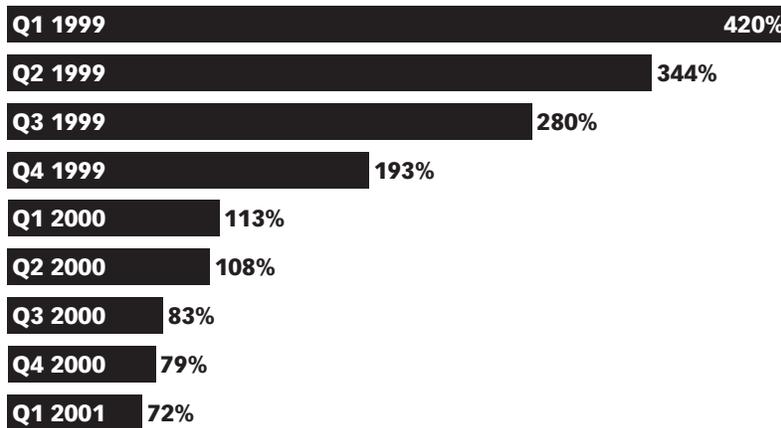
Source: Hoovers.com, 2001

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And, of course, eBay has consistently reported positive earnings and shows continued growth potential, though its year-to-year growth in merchandise sales per quarter has been decreasing.

**Year-over-Year Growth in Gross Merchandise Sales on eBay, 1999-2001 (by quarter)**



Source: Morgan Stanley Dean Witter, 2001

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## B. Experience Using the Internet

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**“Somewhere between Year 1 and Year 3 of online life, many take the plunge and make a purchase, which is a big threshold to cross.”**

– Lee Rainie, *Pew Internet and American Life Project*

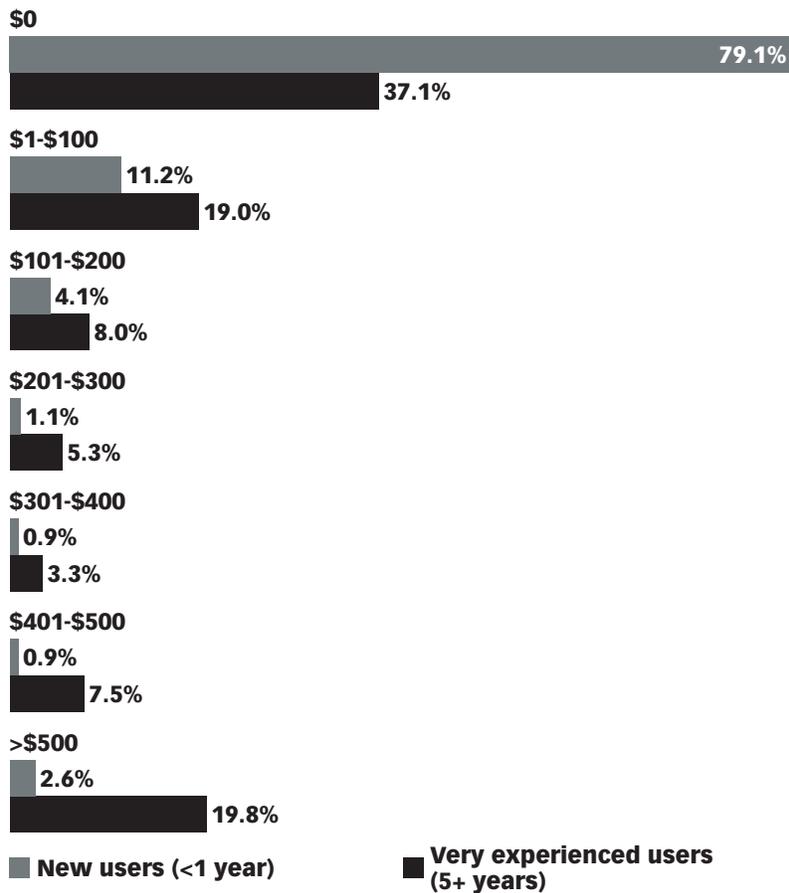
Another important variable influencing online shopping and buying is the level of experience of the internet user. Internet users with fewer years of experience surfing the web spend less money online than internet users who have been online longer. In fact, according to a UCLA survey, 79% of those online for less than one year reported that they did not spend *any* money online during this initial period of using the internet.

Though very little empirical data exists to explain this phenomenon, a likely factor is that internet users must first become familiar with web surfing, and comfortable with navigating the internet, before they are ready to make a purchase online. But there are confounding variables as well. Those who have been online longer come from different backgrounds – they tend to be wealthier and more educated – than those just recently using the internet. As a result of their demographic and socioeconomic status, as well as their familiarity with surfing, longtime internet users may have a higher propensity to buy products, such as books, travel, and computers, that are big ticket items online.

A report by Jupiter Media Metrix predicts that the number of online shoppers, now estimated at 67 million, will grow to 132 million over the next four years. Furthermore, those shoppers will make more ambitious transactions as they log more online time. Jupiter also expects the number of online shoppers who are age 50 or older to triple over the next four years, from 10 million to 30 million, making it the fastest-growing demographic among internet shoppers.

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## Annual Online Spending by US Online Shoppers, by Online Experience, 2001 (as a % of respondents)



Source: UCLA Center For Communication Policy, November 2001

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However, recent data from the Pew Internet and American Life Project shows that, while all internet users increased the frequency of commercial transactions online between 2000 and 2001, the biggest jumps were registered among newcomers to the internet. Those who were new to surfing in 2000 were 50% more likely to purchase goods or travel services online a year later than the average internet user.

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**US Internet Users Who Have Ever Used the Internet to Buy Products, by Internet Experience, 2000 & 2001 (as a % of respondents)**

	2000	2001
All Users	47%	53%
Online >3 years	59%	68%
Online 2-3 years	51%	66%
Online 1 year in 2000	34%	50%
Came online between March 2000 & March 2001	–	32%

*Note: n=723 March 2000 & n=862 March 2001*  
*Source: Pew Internet & American Life Project, March 2002*

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**US Internet Users Who Have Ever Used the Internet to Buy Travel Services, by Internet Experience, 2000 & 2001 (as a % of respondents)**

	2000	2001
All Users	34%	42%
Online >3 years	46%	62%
Online 2-3 years	37%	49%
Online 1 year in 2000	23%	36%
Came online between March 2000 & March 2001	–	25%

*Note: n=723 March 2000 & n=862 March 2001*  
*Source: Pew Internet & American Life Project, March 2002*

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## C. Conversion Rates

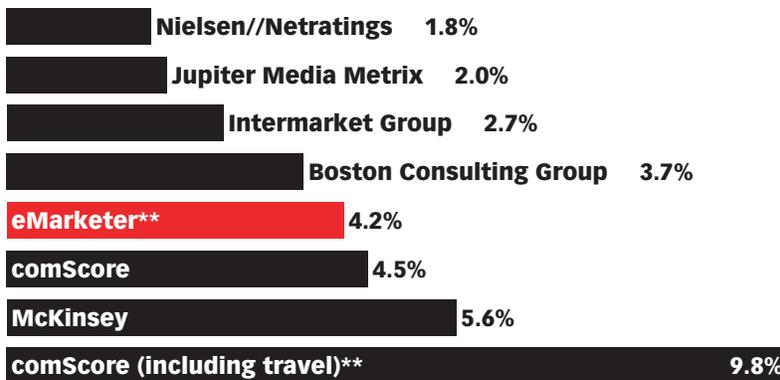
**“Online retailers need to tailor their offerings for the high-value customer segment and cement loyal relationships with those customers by delivering a flawless consumer experience.”**

– Peter Stanger, Boston Consulting Group

Another critical variable determining overall online spending is the conversion rate, or the percentage of visitors to an average website who decide to purchase online from that website. A change in conversion rates – due to improved website design, better service from online retailers, or changes in consumer behavior caused by other variables – influences aggregate levels of e-commerce spending. In the US, the conversion rate for retail sites is approximately 4.2%, up from 2.9% in 2000.

According to comScore Networks, the average monthly online conversion rate – or the total US internet buyers divided by total US visitors to websites – is 4.5% for non-travel purchases, but more than doubles to 9.8% when both travel and non-travel sites are considered.

### Comparative Estimates: US Online Customer Conversion Rates\*, 2000 & 2001



Note: \*Based on average merchant results for the % of internet visitors clicking to a retail site who purchase something during the visit; \*\*2001 Source: eMarketer, 2002; various, as noted, 2001

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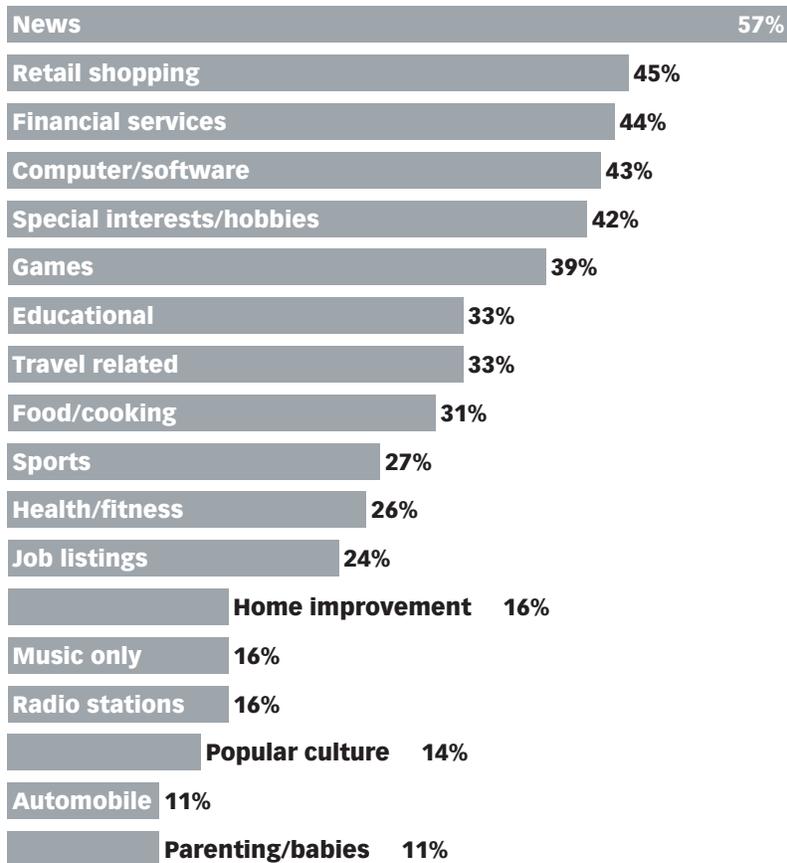
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## D. Location of Internet Use

Much to the chagrin of management, employees do a great deal of their shopping and buying from the office. As the following data show, a significant percentage of at-work internet users report visiting retail shopping sites. Only news sites are reportedly viewed by more workplace internet users.

### Types of Websites Visited by US At-Work Internet Users, 2001 (as a % of at-work users\*)



Note: \*n=755 at-work users

Source: Millward Brown Intelliquest, Online Publishers Association (OPA), November 2001

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In terms of time spent shopping, Nielsen//NetRatings found that the ratio between home and office ranged from 50:50 to 52:48 during the last eight weeks of 2001. However, the Pew Internet and American Life Project found that the percentage of individuals reporting that they shopped at work increased between the 2000 and 2001 holiday seasons. One-third of holiday shoppers in 2001 did some internet gift buying while at work, compared to 26% during the previous holiday shopping season, according to Pew.

**At-Work Online Holiday Shopping in the US, 2000 & 2001 (as a % of internet shoppers purchasing from work)**



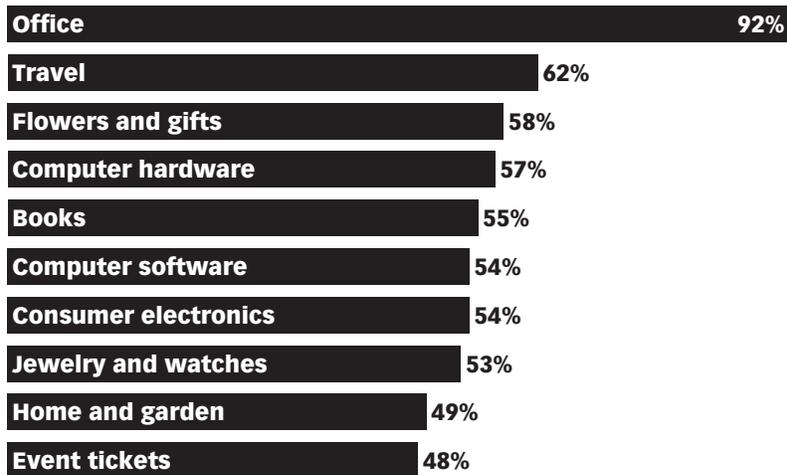
Source: *Pew Internet & American Life Project, 2002*

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Research by comScore suggests that work-based PCs actually drive almost 60% of U.S. online dollars, with an even greater skew within certain categories. As the chart below illustrates, categories like office supplies, travel reservations, and flowers and gifts tend to be purchased from the workplace.

**Products Purchased from US Workplace PCs, by Category, 2001 (as a % of category expenditures made from at-work PCs)**



Source: *comScore Networks Inc., 2002*

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Connection speed at work is probably the most important reason. With fast, always-on T-1 lines in the workplace, making purchases at one's desk during breaks is easier than dialing in from home at night. According to research by comScore, there is an association between the speed of one's internet connection and the propensity to purchase online: a greater percentage of broadband users buy online compared to dialup users. In fact, broadband internet users, including those who have broadband access from their workplaces, spend 14% more per buyer, and buy more frequently than dial-up internet users. The causal relationship is less clear than the association. It is plausible that high-speed connections enhance the experience of online shopping, but it is also likely that individuals with broadband come from a higher socioeconomic class and that income, not surfing speed, is the more important variable.

People shopping online from work spent more money per month in 2001 than those who bought online from home or from college, comScore has reported. At-work buyers spent an average of \$229 per month in 2001 whereas at-home buyers spent \$165. Buyers from colleges spent \$146 per capita.

**Average Amount Spent Online Monthly in the US, by Access Location, 2001 (per buyer)**



Source: comScore, January 2002

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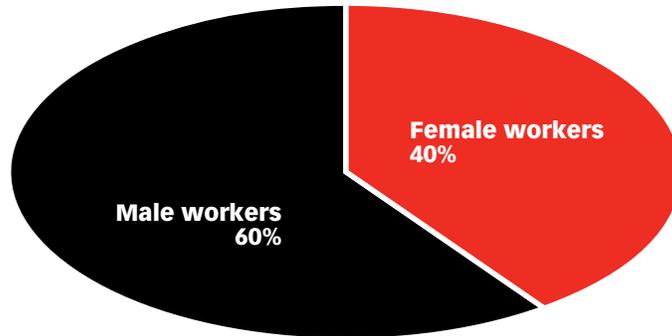
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The split between work and home shopping may change further as the internet is accessed from new and different platforms. Nearly all e-commerce (some 99.7% according to GartnerG2) is now transacted on a personal computer, making home and office the main locations for this activity. GartnerG2 forecasts, however, that by 2005, approximately 10% of online shopping will be conducted on other platforms, such as web-enabled mobile phones, wireless PDAs, and interactive television. If Gartner's prediction is correct, some shopping currently done at the office or home PC will shift to these other modes. Also, as longer work hours further erase the distinction between home and work activities, shopping from the office and conducting business from the backyard will become more and more common.

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However, recent data from Nielsen//NetRatings suggests that far fewer women than men are online at work, largely because men tend to hold more managerial or professional positions that afford internet access. With the workplace such an important online shopping venue, this disparity in access to the internet may dampen the online buying propensity of women.

**Workplace Internet Access in the US, by Gender, 2002 (as a % of workers online)**



Source: Nielsen//NetRatings, 2002

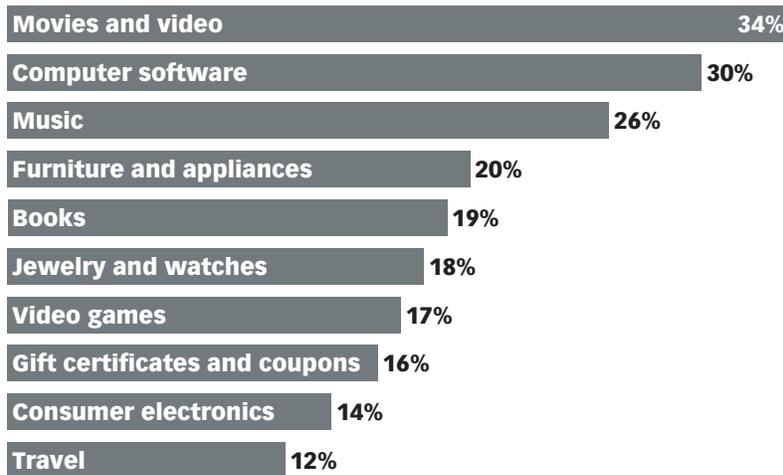
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**US Purchases Made Outside of the US**

A significant number of purchases from US websites originate outside the US, according to comScore Networks. comScore’s data suggests that 15% of total dollar sales at U.S. e-commerce sites are to web users located outside of the U.S.

**Product Category Purchases Made on US Websites from Non-US PCs, 2001 (as a % of total expenditures from non-US PCs)**



Source: comScore Networks Inc., 2002

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## E. Demographic Characteristics of Internet Users

Many demographic factors influence whether an individual shops or buys online. According to recent data from comScore Networks:

- College graduates and advanced degree holders constitute only 24% of commercial website visitors, but spend 32% of U.S. online dollars;
- Households earning \$75,000 or more per year comprise 33% of the U.S. population – but spend 43% of total U.S. online dollars;
- A smaller percentage of U.S. Hispanics buy online compared to the total population, but those Hispanics who choose to shop online spend 7% more than average internet buyers.
- Asian Americans spend more per buyer than any other ethnic group.

As the composition of internet users begins to mirror the overall US population, it is increasingly important for marketers to understand the online buying habits of different population subgroups.

**“The next generation of online shoppers will be quite a bit different from the consumers who defined the internet channel in its early years. They will be more representative of middle-class America.”** – Ken Cassar, Jupiter Senior Analyst

According to eMarketer’s recently released demographics report (North America Online), the demographic composition of internet users is increasingly mirroring the demographic makeup of the nation. The Department of Commerce’s recently released report, A Nation Online, shows that, in terms of the racial composition of the internet-using population, the groups registering the largest increase in penetration from 2000 to 2001 were African Americans (36%) and Hispanics (33%). Households with lower incomes showed the largest growth in penetration rates between 2000 and 2001. And internet penetration grew most rapidly among those with the least educational attainment.

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## Internet Penetration in the US within Demographic Segment, August 2000 & September 2001

	August 2000	September 2001
<b>Gender</b>		
Male	44.6%	53.9%
Female	44.2%	53.8%
<b>Race/origin</b>		
White	50.3%	59.9%
Black	29.3%	39.8%
Asian American and Pacific Islander	49.4%	60.4%
Hispanic	23.7%	31.6%
<b>Employment status</b>		
Employed (2)	56.6%	65.4%
Not employed (2)	28.9%	36.9%
<b>Family income</b>		
<\$15,000	18.9%	25.0%
\$15,000-\$24,999	25.5%	33.4%
\$25,000-\$34,999	35.7%	44.1%
\$35,000-\$49,000	46.5%	57.1%
\$50,000-\$74,999	57.7%	67.3%
\$75,000 and above	70.1%	78.9%
<b>Educational attainment</b>		
< High school (1)	8.8%	12.8%
High school diploma/GED (1)	30.6%	39.8%
Some college (1)	54.2%	62.4%
Bachelors degree (1)	72.5%	80.8%
Beyond Bachelors degree (1)	78.5%	83.7%
<b>Age group</b>		
Age 3-8	15.3%	27.9%
Age 9-17	53.4%	68.6%
Age 18-24	56.8%	65.0%
Age 25-29	55.4%	63.9%
Male	54.1%	61.8%
Female	56.5%	66.0%
Age 50+	29.6%	37.1%
Male	32.7%	39.9%
Female	26.9%	34.6%

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**Geographic location**

Rural	42.5%	52.9%
Urban	45.0%	54.2%
Urban not central city	47.9%	57.4%
Urban central city	40.6%	49.1%

**Household type**

Married Children w/children under 18 years	50.6%	62.0%
Male householder w/children under 18 years	34.5%	45.8%
Female householder w/children under 18	32.9%	45.3%
Family Household without children under 18	41.4%	50.5%
Non-family household	42.7%	47.6%

Note: (1) Age 25 and older; (2) Age 16 and Older

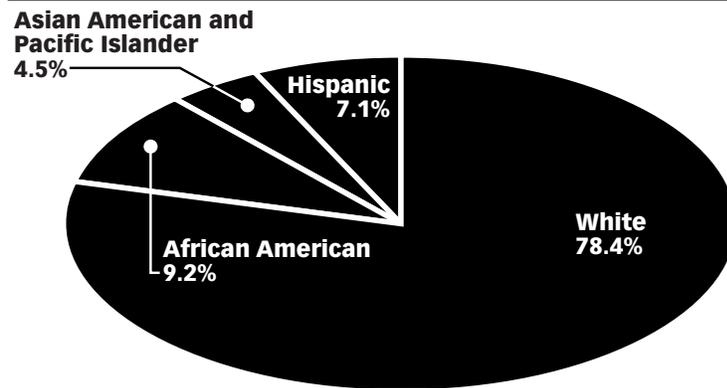
Source: US Department of Commerce, February 2002

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Despite these demographic changes, however, the internet is still being used primarily by white Americans who earn high incomes and have at least some college education, as the following data from the Department of Commerce shows. These data show percentages of all internet users who fall into various demographic categories, not the penetration rates for those categories. Hence, while Hispanics represent only 7.1% of all US internet users, 31.6% of US Hispanics actually use the internet.

**Distribution of US Internet Users, by Race/National Origin, September 2001**



Source: US Department of Commerce, February 2002

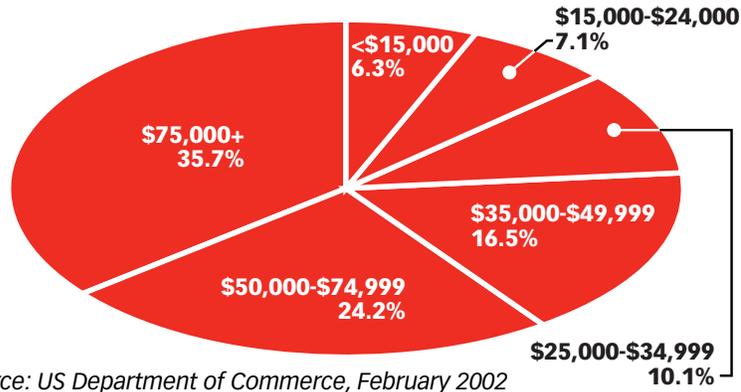
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The following chart illustrates that, despite the broadening demographic composition of internet users and internet buyers, the population is still skewed to upper-income individuals.

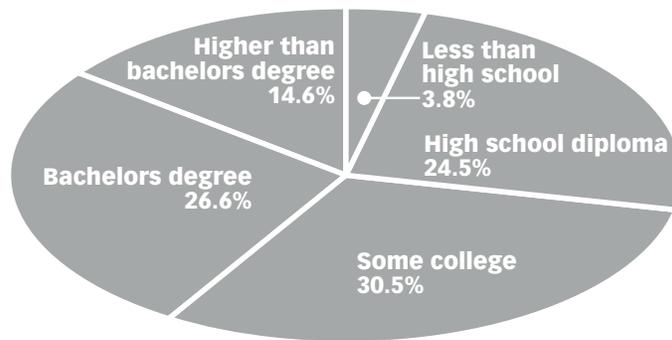
**Distribution of US Internet Users, by Family Income, September 2001**



Source: US Department of Commerce, February 2002  
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Internet users also tend to be well educated, as the following data illustrates. Many of those with some college or a high school diploma are likely to be younger users who will eventually earn higher degrees.

**Distribution of US Internet Users, by Educational Attainment, September 2001**



Source: US Department of Commerce, February 2002  
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The consequences of the broadening of the internet population are significant for online marketers. For example, Jupiter Media Metrix research suggests that while the number of affluent online shoppers will grow, the percentage is expected to drop – from 39% in 2002 to 33% in 2006, as more people from lower-income brackets begin shopping online. This suggests that internet retailers will have to ensure that their marketing campaigns appeal to a broader range of people.

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At the same time, it may be possible for some retailers to target more narrow sets of customers. Drugstore.com, for example, has been re-evaluating its product mix and marketing strategy to better focus on middle-age women, who have generally been a smaller demographic group of internet users than young, higher income males. Travelocity.com is also reportedly looking for ways to attract older customers and those with lower incomes, such as by developing a “senior fares” feature on their site.

## Income

From the earliest days of the internet, users were, on average, wealthier than the population average. Although the demographic composition of internet users is becoming closer to the national average, the proportion of internet users in the highest income level (households earning more than \$75,000 a year) still exceeds all other income groups when measured by the activities they engage in online. Among all types of online activities, wealthier individuals are, in particular, more likely to use the internet to search for and purchase products or services, and bank or trade electronically.

### Online B2C Activities of US Internet Users, by Household Family Income, 2001 (as a % of internet users age 3+)

	<\$15,000	\$15,000 to \$24,999	\$25,000 to \$34,999	\$35,000 to \$49,999	\$50,000 to \$74,999	\$75,000+
Searching for product/service information	54.9%	58.0%	63.3%	64.2%	68.5%	73.5%
Purchasing products/services	26.1%	26.8%	31.4%	35.0%	39.4%	49.1%
Online banking	12.8%	12.1%	14.4%	15.6%	18.0%	23.0%
Online stock, bond, mutual fund trading	3.2%	2.9%	4.9%	6.3%	8.1%	13.8%

Source: US Department of Commerce, February 2002

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Based on a survey of internet users during the holiday season (November 19 to December 23) 2001, the Pew Internet and American Life Project found that relatively wealthier internet users were more likely to buy holiday gifts online. As the following chart shows, those in households with incomes of more than \$75,000 were much more likely to purchase holiday gifts online than lower income internet users.

**US Internet Users Who Bought Holiday Gifts Online, by Income, 19 November- 23 December 2001 (as a % of respondents)**



Note: n=2,364

Source: Pew Internet & American Life Project, January 2002

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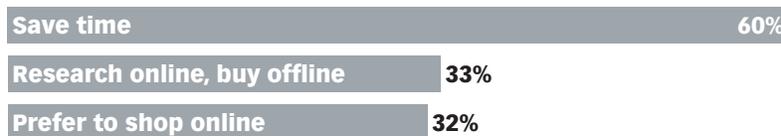
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**Gender**

**“Women were later adopters of the Internet, but are making up for that lag now, and the speed with which they are coming online means, as a demographic, women must become a priority for most e-tailers.”** – Brian Milnes, ACNielsen eRatings.com

Women are important markets for online retailers, since they generally influence 80% of household purchasing decisions. According to a study by Millward Brown, women tend to respond to actionable offers online or to product information. Like nearly all internet users, women enjoy the time-saving conveniences of the web. About 32% of 900 new mothers surveyed said that as a result of using the internet to shop and purchase, they shop offline less often.

**Attitudes toward Internet Shopping among US Online Women, 2001**



Source: Millward Brown, 2001

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Various estimates exist on the percentage of males and females buying online, as the following figure illustrates. Our own analysis of the comparative data suggests that women comprise approximately 49% of all internet purchasers, though they may influence a higher percentage of online purchases made within a household.

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



Source: eMarketer, 2002; various, as noted, 2001

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Applying this percentage to the number of women (age 14 and above) who are internet users, we estimate that the female internet buying population in the US equals approximately 28 million.

**Female Internet Users and Buyers in the US, 2001 (in millions)**

Total US internet users age 14+	108.0
Female US internet users age 14+	55.1
Total US internet buyers age 14+	57.5
Female US internet buyers age 14+	28.2

Source: eMarketer, 2002

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Despite the fact that the proportion of women and men who buy online is roughly equal, men tend to spend more money online, in total and per capita, than women. According to the US Department of Commerce, a higher proportion of male internet users use the internet for financial purposes as compared with females: they were more than twice as likely as females to trade online (12.6% of males compared to 5.3% of females), and males were slightly more likely to bank online than female users (19.3% versus 16.5%).

**Percent of US Internet Users Trading and Banking Online, by Gender, 2001**

	Trading online	Banking online
Male	12.6%	19.3%
Female	5.3%	16.5%

Source: US Department of Commerce, February 2002

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These gender differences may be changing, however, if recent holiday shopping figures reflect a longer-term trend. The number of women shopping online over the holiday 2001 season exceeded the number of men shopping online during the season, according to the Pew Internet and American Life Project. Some 58% of those who bought holiday gifts online between Thanksgiving and Christmas 2001 were women. BizRate.com also estimated that women represented 55% of the online buying population during the 2001 holiday season.

**US Online Holiday Gift Buyers, 2001 (as a % of internet users who have bought gifts online)**



Source: Pew Internet & American Life Project, 2002

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**US Female Online Buyers during Holiday Season, 2001 (as a % of female online buyers)**



Source: eMarketer, 2002; various, as noted, 2001

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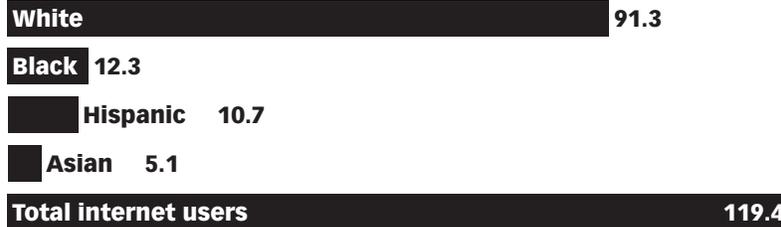
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## Race/Origin

Differences in internet use persist among racial, ethnic, and national origin sub-groups. eMarketer has determined that, at the end of 2001, of the 119 million active internet users, 91 million were White, 12 million Black, 10.7 million non-white Hispanic and 5.1 million were of Asian & Pacific Islander descent.

### Internet Users in the US, by Race/Ethnic Origin, 2001 (in millions)



Source: eMarketer, 2002

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Internet users of different racial and national origins are increasingly using the web for a number of online activities. 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 made online purchases.

### US Ethnic Groups Purchasing Online, 2001



Source: Pew Internet & American Life Project, 2001

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However, differences exist among the various racial and Hispanic internet users regarding their levels of online activities. A smaller proportion of Black and Hispanic internet users use e-mail, search for news, conduct searches for product/service information or make online purchases. According to comScore Networks, while a smaller percentage of U.S. Hispanics buy online compared to the average US internet using population, those Hispanics who shop online spend 7% more than average. And Asian Americans spend more per buyer than any other group.

**Online B2C Activities of US Internet Users, by Race/Hispanic Origin, 2001 (as a % of internet users)**

	Product/service information search	Product/service purchase
National average	67.3%	39.1%
White	70.2%	42.0%
Asian American and Pacific Islander	65.1%	39.8%
Black	54.9%	24.7%
Hispanic	53.7%	26.2%

Source: US Department of Commerce, February 2002

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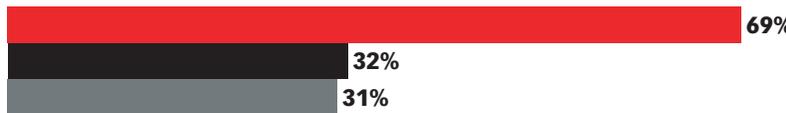
Fewer African American or Hispanic internet users purchase online than the average US population, according to a study by Cultural Access Group, a division of Access Worldwide. As the following figure shows, 31% of online African Americans and 32% of online Hispanics in the US have made online purchases, compared to 69% of the general US market.

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

**Research**



**Purchase**



■ General market    ■ Hispanic    ■ African American

Source: Cultural Access Group, August 2001

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## Age

Internet use is influenced by age. According to the US Department of Commerce, internet users in the 25-34 age group were the most likely to bank online (26.1%), followed by internet users in the 35-44 age group (21.3%), the 45-54 age group (17.7%) and the 55 and above age group (13.0%). Online shopping is particularly common among 25-34 years old internet users. About half of the people in this age group (53.5%) used the internet for online shopping, as did 51.2% of the 35-44 year olds.

### Online B2C Activities of US Internet Users, by Age, 2001 (as a % of internet users age 25 and older)

	Product/service information search	Product/service purchase	Online banking
25-34	81.9%	53.5%	26.1%
35-44	79.5%	51.2%	21.3%
45-54	78.2%	48.8%	17.7%
55+	72.2%	41.1%	13.0%

Source: US Department of Commerce, February 2002

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## Teenagers

**“The idea of a teen card is a good one. The card companies just haven’t found the right formula, yet.”** – Aaron McPherson, IDC

America’s teens are a large market. According to consulting firm Teen Research Unlimited, the US under-18 population (approximately 80% of whom are internet users) spends a total of \$155 billion a year. Virtually all of this is spent *off*-line, however. According to Jupiter Media Metrix, teens spend only about \$1 billion online. This is consistent with reports by companies popular with teens, like CDNow and BMG Music Service. While approximately one-third of the visitors to their sites are 12 to 24 years old, only about 3% of the site’s paying customers are in this age range.

The main reason why teens are infrequent online buyers is because few have credit cards, and asking parents for permission to use their credit card number is a significant barrier. While most credit card companies have been testing teen-oriented plastic, mostly debit cards, none has yet succeeded. Part of the difficulty is that, without charging interest, usage fees are necessary, but these have proven to be unpopular.

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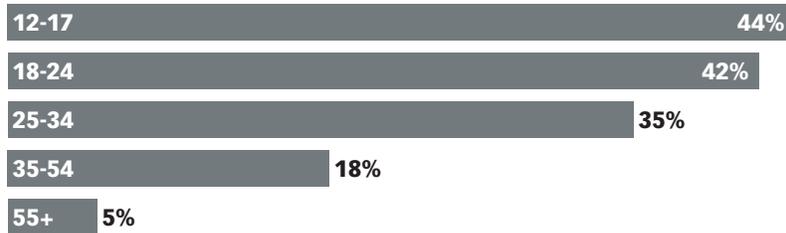
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According to 2001 research by Jupiter Media Metrix, while 89% of teens (ages 13 to 17) have never made an online purchase, 29% research products on the Internet before buying them at stores. The Jupiter research also found that teens visit the same sites as adults – including popular e-commerce sites such as Amazon.com and eBay.

Another reason why teens are not choosing to buy online is that major teen commodities like music and videos are being copied extensively for free. Most recently, the sharing of entire albums – with songs zipped to minimize downloading time – has become extremely popular. A recently published Ipsos-Reid study says that in 2001, 23% of people in the US downloaded a music file or an MP3 file from the internet. Ipsos estimates that this percentage translates into roughly 50.3 million music downloaders in the US. The 12 through 17 age group had the greatest percentage of downloaders with 44% responding that they had, at some point, downloaded an MP3 or music file.

**People in the US Who Have Ever Downloaded Music or MP3 Files Online, by Age Group, 2001 (as a % of age group)**



Source: Ipsos-Reid, February 2002

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Similar to the Ipsos findings, Odyssey estimates that in 2001, 42% of the US population between the ages of 13 and 18 were music downloaders.

**Online Music Downloaders in the US, by Age, 2001**

**Adults**



**Teens (ages 13-18)**



■ Total population                      ■ Population with online access

Source: Odyssey LP, 2001

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## F. Online Shopping Convenience

**“Online merchants should . . . focus their energy on getting the customer in and out of the site as quickly and efficiently as possible.”**

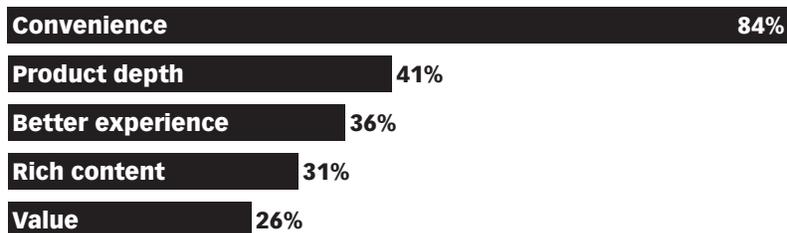
– David Schehr, GartnerG2

A cardinal rule of online retailing is that convenience is the most important factor driving consumers to purchase from particular websites. In survey after survey, internet shoppers cite convenience as their number one reason for using the internet as a retail channel.

In fact, convenience rates so highly in consumer surveys that internet retailers should focus more on providing quick and convenient shopping experiences than on maintaining the lowest prices possible. According to a 2001 report from GartnerG2, based on a GartnerG2 consumer survey 2001 of 4,400 adults in Q2 2001, 79% of online consumers rate convenience as their highest criterion for making a purchase online compared with 32% who value price savings as the most important factor. When asked about convenience and price in a different way, 49% of respondents said that convenience is the *sole* important factor in online buying, compared to 2% of respondents who said that price was their sole factor. More than half of online buyers, 59%, limit their purchases to the handful of sites that they find familiar and comfortable.

As the following chart illustrates, Forrester observed much the same in the way of consumer attitudes in a survey conducted in 2000.

### Reasons Why US Consumers Choose to Shop Online, 2000 (as a % of respondents)



Source: Forrester Research, September 2000

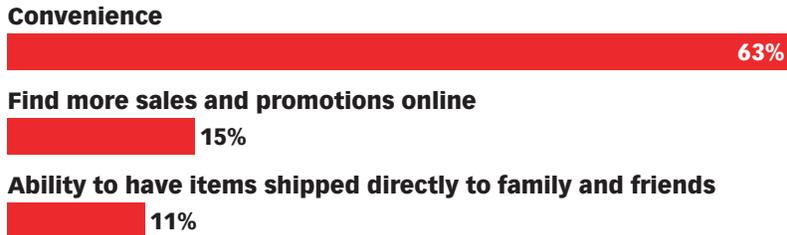
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As this data from Accenture clearly shows, convenience continues to be an extremely important factor in the choice to purchase online.

### Reasons Why US Consumers Plan to Shop Online More during the 2001 Holiday Season, October 2001 (as a % who plan to e-shop more than in 2000)



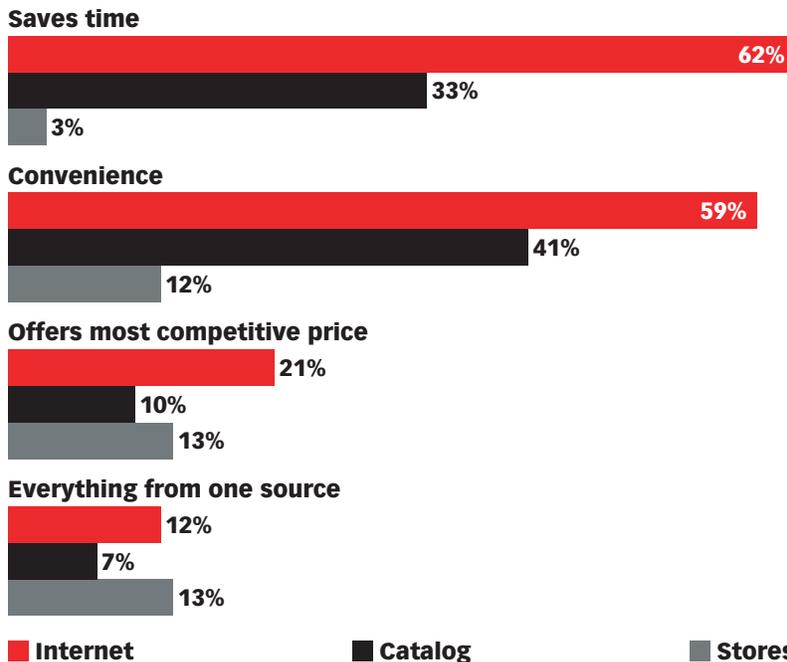
Source: Accenture, November 2001

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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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Similarly, among affluent consumers responding to online advertisements, most report time savings and convenience as the primary reasons why they choose to make purchases online.

### Reasons Why Affluent North American Shoppers Prefer to Make Purchases Online, 2002 (as a % of respondents who see online ads)



Source: Forrester Research, January 2002

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In the early days of internet retailing, it was assumed that shopping bots and the ease of clicking from dot-com to dot-com would make price a major factor in consumer purchasing behavior. However, this has not been the case. While there will always be a segment of consumers who scrounge for the lowest price, as sites like MySimon.com make price comparisons simpler, and while consumers remain price-sensitive to certain types of products, many retailers have been quite successful without offering rock-bottom prices.

For example, Gomez Advisors found in one survey that Amazon.com had the sixth lowest prices out of 14 book vendors surveyed. On the other hand, Gomez found that most internet users choose online travel sites based on the availability of good prices.

### Principal Factors in Choosing An Online Travel Site by US Internet Users, 2000



Note: Multiple responses allowed

Source: Gomez Advisors, 2000

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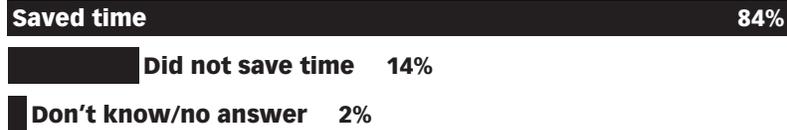
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According to survey research by the Pew Internet and American Life Project, 84% of online shoppers believe that using the internet to buy products saves them time. In fact, the percentage reporting time savings increased from 79% in 2000.

### Time Savings Reported by US Internet Buyers, 2001 (as a % of online shoppers)



Source: *Pew Internet & American Life Project, 2002*

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## Customer Service

**“During the 2001 holiday shopping season, efficient operators provided online shoppers with higher levels of customer service compared to prior years, helping to make online shopping more mainstream by removing some of the fear previously associated with shopping the channel.”**

– Mary Brett Whitfield, *Retail Forward*

Quality customer service is an extremely important factor in retaining consumers. According to research by Bain and Co., acquiring a new customer costs approximately five times as much as retaining an existing one. In addition, satisfied online customers tend to spend as much as 57% more per year than those who are least satisfied, according to research by the Boston Consulting Group.

Although the number and range of online businesses has shrunk from the dot-com heyday of 1999, remaining online retailers have had the opportunity to make their websites, customer relations systems, and shipping logistics more efficient. Darwinian culling of unsustainable business models and poorly-managed firms has resulted in stronger survivors.

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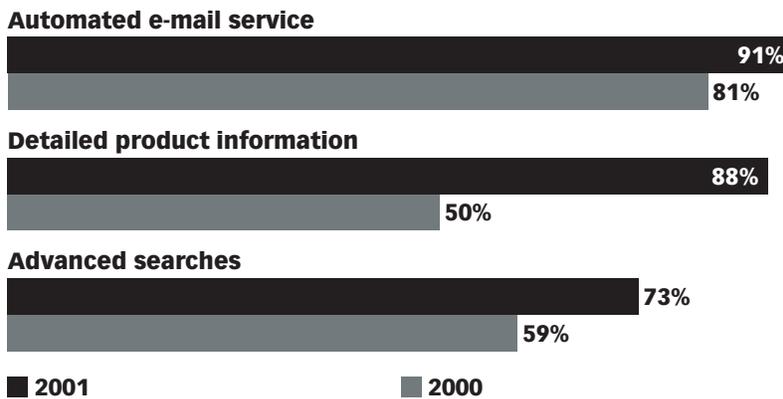
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Overall, internet retailing practices have matured greatly over the past few years. A recent review, by e-consulting firm AnswerThink, of 200 retail websites in the US between November 2001 and December 2001, revealed that 88% provided detailed information about their products, compared to just 50% in 2000. Moreover, 73% of the sites featured advanced search functions, whereas just 59% did in 2000. Nearly all (93%) of the sites offered multiple shipping options, and 95% featured help or frequently asked questions (FAQ) sections - up from 71% and 68%, respectively, in 2000. Privacy and security remain important issues for consumers, yet retailers and credit card companies have taken steps to assure consumers that they will be protected from account number theft and can opt-out from e-mail advertising.

**US Retail Website Features, 2000 & 2001 (as a % of websites surveyed\*)**



Note: \*n=200  
Source: AnswerThink, January 2002

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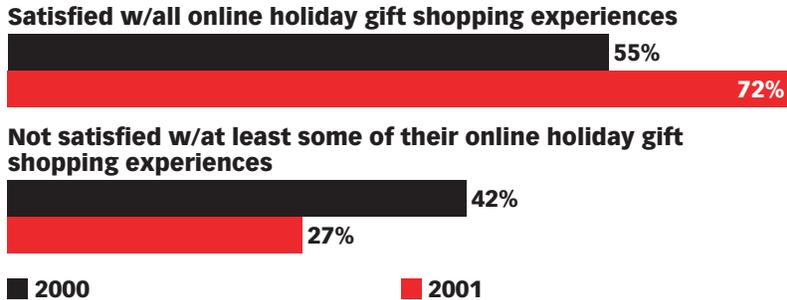
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The improved functionality of internet retail sites is reflected in the following data about the online shopping experiences of internet users during the last two holiday seasons. The 17 percentage point jump in internet users rating the experience as satisfactory between 2000 and 2001 was an impressive and necessary improvement.

**US Internet Users' Satisfaction with Online Holiday Shopping Experience, 2000 & 2001 (as a % of internet users)**



Source: Retail Forward, January 2002

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In fact, data on consumer attitudes toward online shopping from Goldman Sachs, Harris Interactive, and Nielsen//Netratings show that satisfaction among holiday shoppers in 2001 was higher than many analysts had predicted. Approximately 58% of shoppers reported being satisfied or very satisfied with their online shopping experience during the holiday period, while only 9% reported being dissatisfied or very dissatisfied. When asked to compare online holiday shopping in 2001 to 2000, 95% said they were as satisfied or more satisfied. Relatively few respondents reported having problems completing their online transactions. The biggest problems reported were not being able to find the right item to buy or finding that the product desired was out of stock.

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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Customer service has improved dramatically in 2001 compared to 2000, according to the Direct Marketing Association (DMA). The DMA study, based on a survey of 100 US retail websites during Q4 2000 and Q4 2001, found that the average number of clicks required to move from the product to checkout decreased from 8.76 to 5.36. A majority, or 54% of the sites, offer real-time inventory status, compared to only 42% in 2000. Approximately 80% of those sites surveyed sent shipping confirmation via e-mail compared to 54% in 2000.

### Average Number of Clicks to Checkout on US Retail Websites during the Holiday Season, Q4 2000 & Q4 2001



*Note: n=100*  
 Source: Direct Marketing Association/the e-tailing group, January 2002  
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### US Retail Websites Offering Shipping Confirmation via E-Mail, Q4 2000 & Q4 2001 (as a % of websites surveyed)



*Note: n=100*  
 Source: Direct Marketing Association/the e-tailing group, 2002  
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Similar findings were reported by Answerthink, based on a survey of 200 retail websites in 2001 and 2000. Overall, 93% of the retailers surveyed were found to provide consistent shopping experiences across channels, compared to 82% in 2000.

### US Websites Offering Multiple Shipping Options, 2000 & 2001 (as a % of respondents)



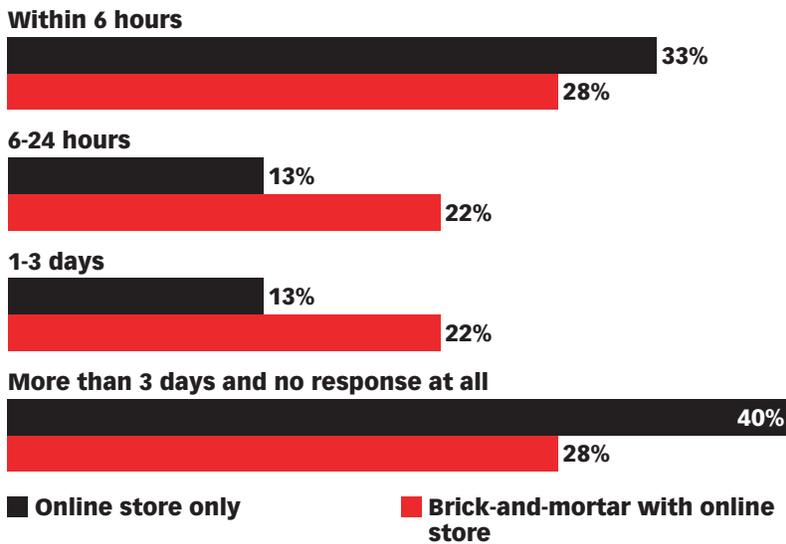
*Note: n=200*  
 Source: answerthink.com, 2002  
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Retail Forward found that, during the 2001 holiday season, 63% of online shoppers had no problems with their online purchases. Of those shoppers who did experience problems, no single problem was significantly more frequent. The most frequently cited problems were online holiday purchases not received in time for the holidays or a requirement to pay extra to ensure an on-time delivery, followed by failing to receive adequate e-mail communication regarding order status and shipment delays.

According to Jupiter Media Metrix, however, companies are lagging in offering prompt e-mail responses to customer service queries. Jupiter found that only 30% of retailers tracked resolved basic customer service requests online within six hours. While more online-only retailers (33%) responded promptly to customer service e-mails than brick and mortar retailers (28%), 40% of online-only retailers took more than three days to respond *or did not respond to e-mails at all*.

### US Retailers' Response Time to Online Customer Service Inquiries, by Store Type, December 2001



Source: Jupiter Media Metrix, January 2002

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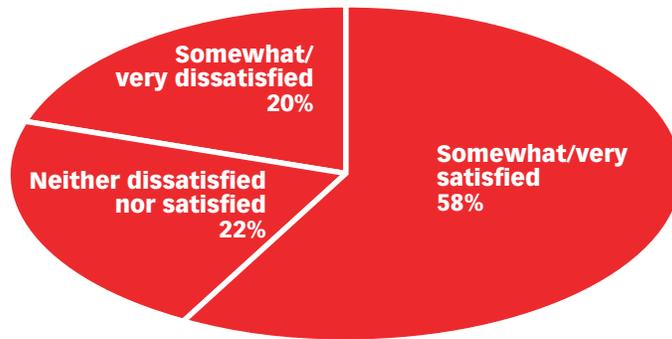
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According to a November 2001 Jupiter Consumer Survey, 57% of those surveyed said that the speed of a retailer's response to customer service e-mail inquiries would affect their decision to make future purchases from the particular site. Moreover, the survey found that 53% of consumers said they would be less likely to buy again from a retailer's offline store if they had an unsatisfying experience with the online store.

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 further to go.

**Online Customer Service Satisfaction, 2001 (% of US internet users)**



Source: Knowledge Systems & Research, Inc., March 2001

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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 and with the least satisfied group.

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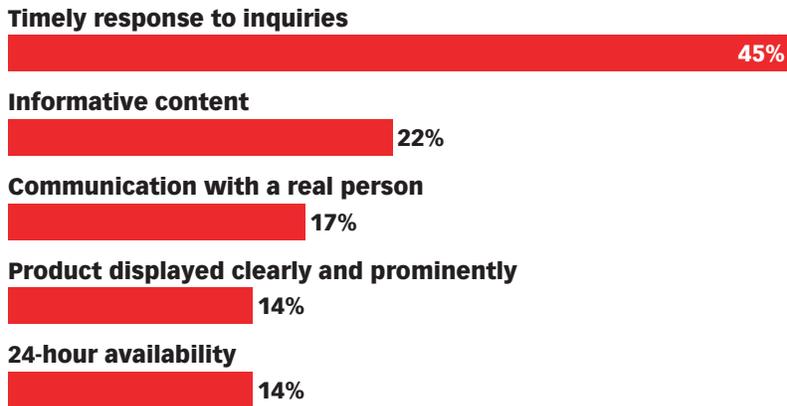
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In a survey of 502 online shoppers, Primus found that the number one demand by consumers was a timely response to their questions.

### 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.

### E-Mail Response Rates and Auto Response Use among 50 US E-Tailers, Q4 2000 & Q2 2001

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

Source: the e-tailing group, 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 requests were responded to within 24 hours gave the site they shopped from 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)**

	<b>Not applicable</b>	<b>Much/ Somewhat Worse</b>	<b>The Same</b>	<b>Somewhat/ Much Better</b>
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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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**

<b>Format</b>	<b>Extremely helpful</b>	<b>Very helpful</b>	<b>Somewhat helpful</b>	<b>Not helpful</b>	<b>Not sure</b>
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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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.

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Despite these improvements in customer service, the use of customer relations management applications still is not widespread. Only a small majority of retailers are gathering data on individual customers, with 41% able to identify their most profitable customers and use that data for personalized promotions, according to a survey by Blue Martini Software (a company that sells eCRM software). Nearly half of retailers surveyed did not have a data warehouse and could not identify their most valuable customers. While most retailers have Web sites, the poll found that only 10 percent engage in online promotions based on individual customer data.

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## Shopping Cart Abandonment

The estimates of the percent of consumers who abandon their transactions online because of difficulties and frustrations with the shopping process varies widely. eMarketer estimates that the abandoned shopping cart rate is 48%:

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

**Ernst & Young**

78%

**Yankee Group**

77%

**Greenfield Online**

67%

**Forrester Research**

65%

**Boston Consulting Group**

53%

**Zona Research**

50%

**eMarketer**

48%

**A.T. Kearney**

46%

**Visa**

43%

**Jupiter Media Metrix**

27%

**Accenture**

25%

**Pew Internet and American Life Project**

24%

**Software & Information Industry Association**

8%

Source: eMarketer; various, as noted, 2000

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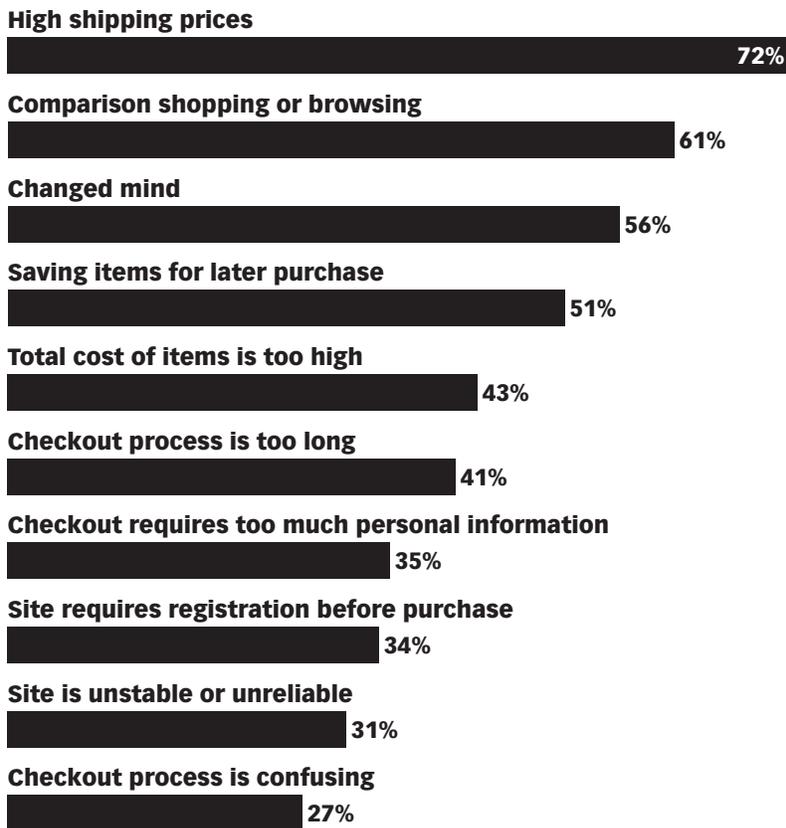
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The Vividence corporation surveyed 719 people while they used shopping carts on e-commerce sites and determined the main reason e-shoppers give up is due to high shipping and handling charges (72%). Additionally, 43% say they find the total cost of their purchase too high and therefore they abort the transaction.

### US Online Consumers' Top Reasons for Shopping Cart Abandonment, 2001 (as a % of respondents)



Source: Vividence Corporation, October 2001

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Avenue A's Atlas DMT division reports that, as of 2001, industries specializing in big-ticket items show the highest average consumer drop-off rates. Atlas analyzed the percentage of customers who leave online shopping carts when they are asked to enter payment or personal information. Industries with drop-off rates of less than 30% included sports and recreation content and food and drink content. Industries with 30% to 70% drop-off rates included general content, family content, and health and beauty. Industries with drop-off rates of 70% or greater included financial, computers and electronics, apparel and accessories, general shopping and auction, entertainment content and travel.

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A majority of internet users surveyed during the holiday season 2001 by the Pew Internet and American Life Project expressed concerns about the online shopping experience. Some 82% of internet users reported wanting to be able to see gifts they buy in a store before purchasing them. Approximately 72% of internet users reported not wanting to give their credit card information or personal information over the Internet. Some 53% expressed a concern that they could find a cheaper version of the same product in a store or catalog instead of online. In addition, 41% said that some websites made shopping online too confusing. Approximately 43% of internet users say they worry that the gifts they order online will not be delivered on time and 16% of those who have ever bought gifts online say they actually had problems getting the gifts delivered on time.

**US Internet Users' Concerns About Online Gift Buying, Holiday Season 2001 (as a % of internet users)**

**Being able to see gifts before purchase**



**Concern about submitting credit card or personal information via internet**



**Worry about finding cheaper version of product in store or catalogue**



**Confusing websites**



**Concern about late delivery of gifts**



Source: *Pew Internet & American Life Project, 2002*

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Among those internet users who chose not to buy holiday (2001) gifts online, the most prevalent reason was fear of submitting credit card information online, as the following chart illustrates. Nearly a third (31%) either were “not interested” in shopping online or said that there were “better ways to shop” than via the internet.

**Reasons Why US Internet Users Did Not Buy Holiday Gifts Online, November & December 2001 (as a % of those who did not buy gifts online)**



Source: Pew Internet & American Life Project, January 2002

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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

E-Tailers 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.

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## Order Fulfillment

As noted above, online order fulfillment continues to be a problem.

According to a survey by the Pew Internet and American Life Project, 16% of those who had ever bought gifts online reported that they had problems getting them delivered on time. 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.

To improve order fulfillment, many internet retailers offer post-sales confirmation services. According to a study by the Direct Marketing Association and the e-tailing group, nearly all of the websites they surveyed sent out some form of order confirmations. Approximately 98% sent post-order e-mail confirmations and 90% featured immediate shopping cart confirmations.

### US Retail Websites' Order Confirmation Features, Q4 2000 & Q4 2001 (as a % of websites surveyed\*)

#### E-mail shipping confirmation



#### Immediate shopping cart confirmation



#### Post order e-mail confirmation



■ Q4 2000

■ Q4 2001

*Note: \*100 websites surveyed, e-mail shipping confirmation information derived from 99 websites*

*Source: Direct Marketing Association/the e-tailing group, January 2002*

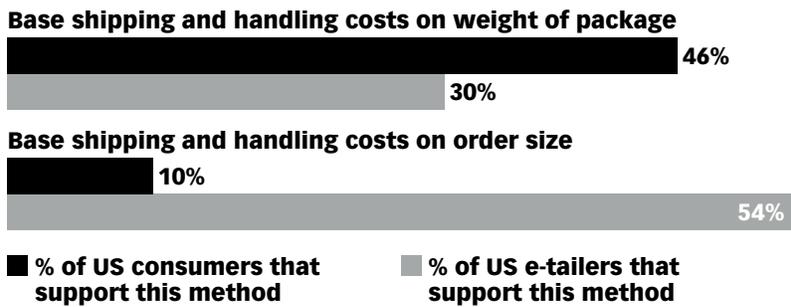
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Shipping charges became a popular e-retail topic when Amazon offered free shipping for orders of \$99 or more in June 2001. While consumers often balk at paying shipping fees, shipping and handling remains a sizeable business expense. Jupiter Media Metrix says that 45% of online retailers are losing money on shipping and handling charges. Jupiter also finds that although 54% of e-tailers believe shipping and handling charges should be based on the value of the online order, only 10% of consumers agree.

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



Source: Jupiter Media Metrix, 2001

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**Advanced Website Features**

**“There is much that e-retailers can do to improve the online shopping experience, but bombarding shoppers with numerous ‘bells and whistles’ is not a sound strategy.”** – Mary Brett Whitfield, PricewaterhouseCoopers

Most of the features added to e-commerce sites to encourage purchasing go unused, according to a study of internet users in early 2001 by PricewaterhouseCoopers, which found the most popular site features remain search capabilities and “close-up” product views.

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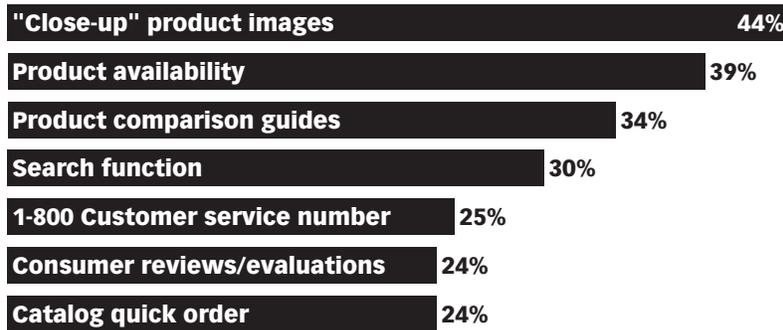
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Not surprisingly, search functions are the most popular online shopping feature. Some 77% of online shoppers have used a search function while shopping online, with most using them on a regular basis. In addition to being the most popular features, the survey found that search capabilities and product information are most important to online shoppers when selecting an online shopping site. Search functionality and product information are ranked as the most important online shopping features by 43% and 40% percent of online shoppers, respectively.

**Features Likely to Increase Online Purchasing in the US, 2001 (as a % of shoppers indicating feature may increase purchasing)**



Note: n=547  
Source: PricewaterhouseCoopers (PwC), 2001

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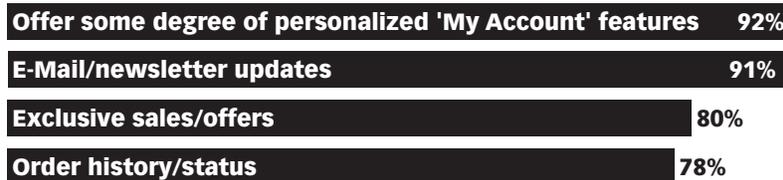
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## Website Personalization

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. However, while consumers like personalized features, they remain wary of providing personal information to websites. A Harris Interactive study found that the major concern about providing personal information to a company via the internet, expressed by 75% of US consumers surveyed, is that the firm will supply the information to others without permission.

According to the Q4 2001 Online Merchandising Research report from the e-tailing group, 92% of US retail websites provide visitors with some form of a personalized “my account” feature. Most also offer benefits for creating an account, like e-mail or newsletter updates (91%) and exclusive offers (80%).

### US Retail Websites that Offer Personalized Features, Q4 2001 (as a % of websites reviewed\*)



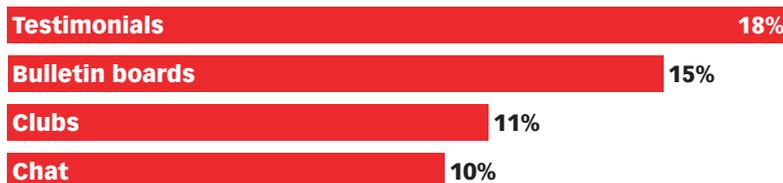
Note: \*the e-tailing group reviewed 100 retail websites  
Source: the e-tailing group, November 2001

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The e-tailing group reviewed 100 retail websites for the Q4 2001 study. It found that 18% of these websites maintain testimonial features and 15% house “bulletin board” features. The reason these percentages are not higher is that the cost of maintaining “community” features can outweigh their value in terms of increasing sales.

### US Retail Websites Offering Community Features, Q4 2001 (as a % of websites reviewed\*)



Note: \*the e-tailing group reviewed 100 retail websites  
Source: the e-tailing group, November 2001

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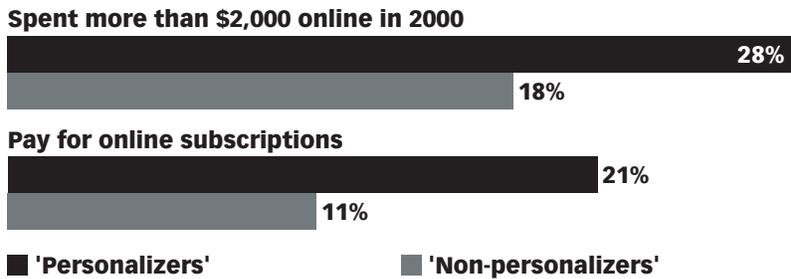
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The Personalization Consortium (an industry group that advocates for one-to-one online marketing techniques) reported that 63% of US consumers are more likely to register at a website that accommodates content customization and offers personalization features. Their study also found 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 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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## Privacy

According to a recent survey of 1,529 US adults conducted by Harris Interactive, 91% of US consumers say they would be more likely to do business with a company that verified its privacy practices with a third party. The study found that 62% say third party security verification would allow them to be satisfied with the company and 84% think that third party verification should be a requirement.

### US Consumers' Privacy Concerns Regarding Companies they Patronize , November 2001 (as a % of respondents)

**Companies will provide their information to other companies without permission**



**Their transactions with companies may not be secure**



**Hackers could steal their personal data from companies**



*Note: \*Survey conducted by Harris Interactive on behalf of Privacy & American Business, sponsored by Ernst & Young LLP and the American Institute of Certified Public Accountants (AICPA)  
Source: Harris Interactive\*, February 2002*

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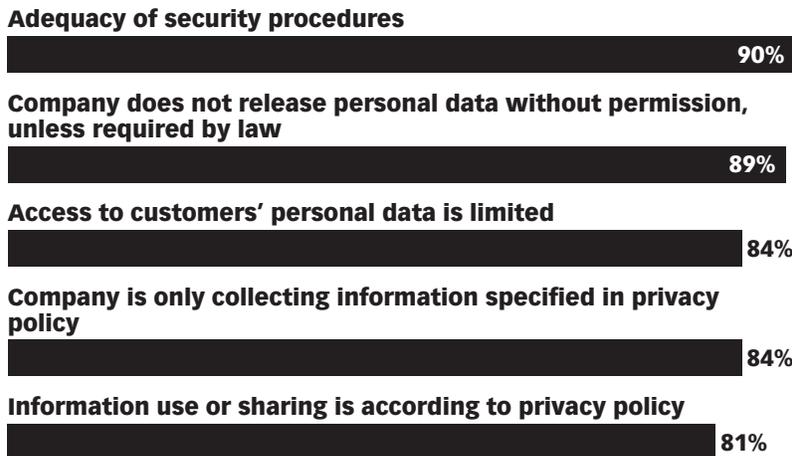
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Nearly all respondents (90%) reported that their confidence in a company would increase if it could verify that its security procedures were adequate. Moreover, 89% do not want companies to release the personal data they collect without permission, unless required to by law.

**Aspects of Privacy/Security Policies that US Consumers Would Like Companies to Verify, November 2001 (as a % of respondents)**



*Note: \*Survey conducted by Harris Interactive on behalf of Privacy & American Business, sponsored by Ernst & Young LLP and the American Institute of Certified Public Accountants (AICPA)  
Source: Harris Interactive\*, February 2002*

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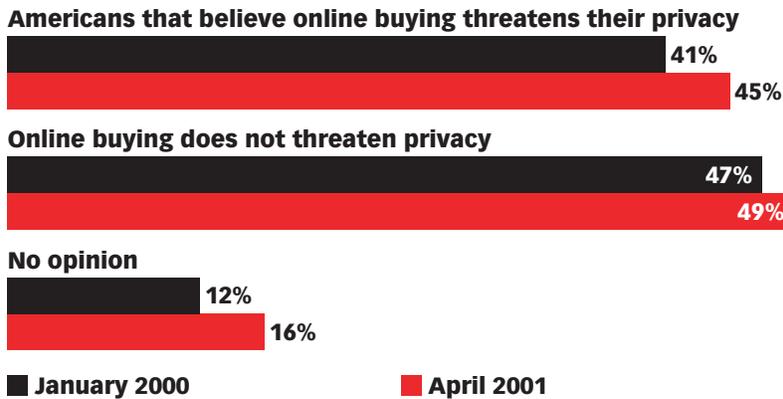
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ABCNews.com found that, in 2000, 41% of Americans surveyed believed that buying online was a threat to privacy. By 2001, the percentage rose to 45%. The perception that providing personal information online is a risk as being rife with fraud is often projected by sensationalist media coverage of the problem.

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



Source: ABCNews.com, 2001

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A survey by Yankelovich Partners found that personal data privacy is the most important online shopping issue for 90% of the internet users polled. Two-thirds of the 1,200 survey respondents believed that selling online customer mailing lists without permission is a privacy violation. Nearly 80% said they exit web sites that require personal data to proceed. Additionally, 46% said that the government needs to regulate privacy more carefully.

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## G. Online Security and Fraud

**“The fears about fraud and misuse of personal data persist and are keeping tens of millions of potential shoppers from making the leap from using the internet to comparison shop to making an actual purchase online.” – Julie Busch, Ipsos-Reid**

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 wary about giving out their credit card information over the web.

Like fears about privacy loss, fears about losses from online fraud may be exaggerated. The US Federal Trade Commission (FTC) reports that \$13 million was lost to fraudulent internet schemes in 2001, but this is out of nearly \$50 billion in spending.

The FTC logged 21,000 internet fraud complaints in 2001, representing roughly \$634 lost per person – close to the National Consumer League’s Internet Fraud Watch’s estimate of per-capita losses of \$636.

### Consumer Cost of Online Fraud in the US, 2000 & 2001\* (in millions)

<b>2000</b>	<b>\$3.3 (\$427 per person)</b>
<b>2001</b>	<b>\$4.3 (\$636 per person)</b>

Note: \*first 10 months of 2001

Source: National Consumers League’s (NCL) Internet Fraud Watch (IFW), November 2001

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According to the National Consumers League, online auctions are at the top of the online fraud complaint list in 2001.

### Top 10 Internet Frauds in the US, October 2001

- Online auctions
- General merchandise sales
- Nigerian money offers
- Internet access services
- Information adult services
- Computer equipment/software
- Work-at-home
- Advance fee loans
- Credit card issuing
- Business opportunities/franchises

Source: National Consumers League (NCL), November 2001

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Per-person losses vary by fraudulent scheme, as the following chart illustrates.

### Average Per Capita Losses\* for Common Fraudulent Internet Schemes in the US, 2001



Note: \*losses per person per fraud incident

Source: National Consumers League (NCL), November 2001

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The effect of the fear of fraud dampens business. A report by GartnerG2, based on a January 2002 survey of 1,000 adult US online consumers, found that more than \$700 million in online sales were lost because of concerns about fraud in 2001. The striking fact is that online fraud losses for 2001 were 19 times as high, dollar for dollar, as fraud losses resulting from offline sales.

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The transactional costs of internet fraud are significant, too. Visa International estimates that online credit-card fraud costs between 25 cents and 28 cents per \$100 charged, significantly higher than the 7 cents for all transactions.

### US Online and Offline Credit Card Fraud Rates, 2001

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

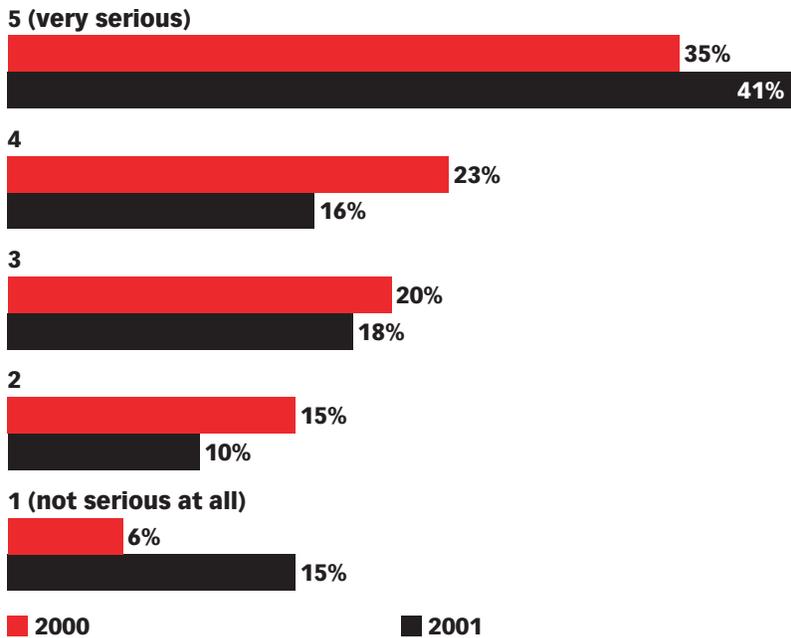
Source: *Visa International, 2001*

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While most online businesses fear internet credit card fraud, more businesses in 2001 think the issue is “not serious at all,” compared to 2000, according to a recent MindWave Research report commissioned by CyberSource.

### Degree of Seriousness of Internet Credit Card Fraud for US Businesses Selling Online, 2000 & 2001 (as a % of respondents)



Source: *CyberSource and MindWave Research, 2001*

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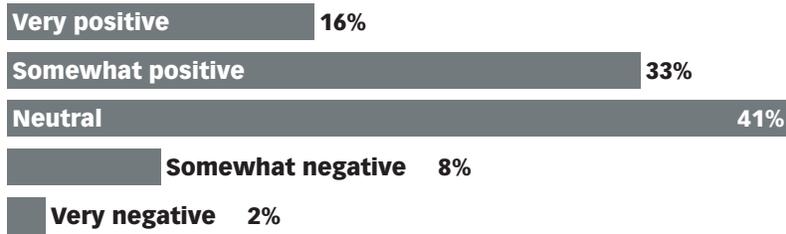
**“All platforms are not created equal for e-commerce, but each has its use in the increasingly inter-connected telecommunications environment.”**

– David Schehr, Gartner G2

## A. Mobile Commerce

According to IDC, 23 million people in Western Europe will be using their mobile phone to buy travel products and services by 2005. IDC also predicts that 49 million Western Europeans will use their mobile phones to buy tickets for public transportation by 2005. Will the US follow suit? According to a survey by Andersen, American wireless consumers seem to be neutral about the idea.

### Impressions of Mobile Commerce in the US, 2001 (among those with a wireless device)



Source: Andersen/Knowledge Systems & Research, Inc., January 2002

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GartnerG2 is more optimistic about mCommerce. GartnerG2 reports that in 2001, 99.8% of B2C e-commerce sales will be the result of net-connected PCs. However, by 2005, 10.1% of US B2C e-commerce sales will be the result of purchases made via television sets or mobile devices. By that time, B2C e-commerce sales made via PCs will total \$227.7 billion, purchases made via TV sets will total \$13.4 billion and sales made via mobile devices will total \$9.5 billion.

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Yankee Group predicts that US mobile phone commerce will account for \$50 billion in spending by 2005. Yankee Group estimates that, by that time, 50 million mobile phone users (representing about 26% of all mobile users) will use their phones to agree to payments for internet content and physical products. These transactions will represent between 2% and 3% of all non-cash transactions in the US.

### Comparative Estimates: US M-Commerce Transaction Value, 2001-2005 (in billions)

	2001	2002	2003	2004	2005
Herschel Shosteck Associates, 2001	-	-	-	\$0.7	-
International Data Corporation (IDC), 2000	\$0.6	\$2.9	\$9.3	\$20.8	-
Jupiter, 2001	\$0.1	\$0.2	\$0.6	\$1.7	\$3.3
Merrill Lynch, 2001	-	-	-	\$20.0	-
Myers Reports, 2001	-	-	-	\$4.7	-
Ovum, 2000	-	-	-	\$19.2	-
Strategis, 2001	\$0.1	\$0.6	\$2.0	\$5.7	\$13.0
Yankee Group (mobile retail), 2001	\$1.0	\$4.0	\$12.0	\$27.0	\$50.0

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

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In contrast to the Yankee Group, Jupiter Media Metrix forecasts that less than \$4 billion in shopping and travel will be transacted on internet-capable mobile phones in the United States by 2006, representing less than 2% of all online shopping. Jupiter's report found that purchasing items using a wireless device is simply not a priority among consumers. Some 36% avoid shopping via wireless devices chiefly because of concerns over the cost of access. One-third of portable device owners will not engage in mobile commerce because they feel that their credit card or payment information is not secure. Only 7% of consumers surveyed reported wishing to transact with a mobile phone.

### Forecasted Commerce Transacted on and Influenced by Internet-Capable Mobile Phones in the US, 2006 (in billions)

Transacted on	\$4
Influenced by	\$39

Source: Jupiter Media Metrix, 2001

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**“Limitations of wireless devices and slow networks are being used as unacceptable excuses for the slow growth in U.S. mobile commerce. The actual culprit is consumer apathy,”**

– Dylan Brooks, Jupiter wireless analyst.

## B. Interactive TV-commerce

Interactive TV (iTV) covers a broad range of different services – game consoles like Playstation or Nintendo, electronic program guides (EPGs), personal video recorders such as Replay TV or Tivo, ‘walled garden’ offerings of information and shopping, video-on-demand (VOD), enhanced TV – as well as “merely” the ability to browse the internet via the TV. iTV incorporates interactivity with standard television viewing and does it usually through a set top box (STB). The user can access this extra TV functionality through a wireless keyboard or remote control.

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**For a detailed survey of the entire interactive and digital television industry, worldwide, see eMarketer's new report, *Interactive TV: Reality and Opportunity*.**

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eMarketer estimates revenues from the US iTV sector totaled \$468 million in 2001 and will reach over \$11.6 billion by 2005. eMarketer believes that nearly half of all iTV revenues will be derived from subscription services such as personal video recorder (PVR) services, video-on-demand, gaming, telephony, e-mail and internet on the TV, instant messaging and SMS on the TV, digital music services, and betting, as well as a host of other services yet to be imagined.

iTV advertising, particularly through the interactive program guide (IPG), has great potential and will be the source of most iTV advertising revenues. Other enhanced TV services, such as that provided by Wink and others, where iTV users click on parts of the screen in order to receive further information, or to conduct a poll, are also potential advertising opportunities, but have less potential than the IPG.

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Television commerce (T-Commerce) is unlikely to have a great impact, at least for the next few years. With such a high PC internet penetration, eMarketer believes that iTV users will have little incentive to use this new and unfamiliar platform to purchase goods and services when they have become used to the PC for online transactions. After 2005, however, when retailers have become familiar with the medium and have better targeted their services to the platform, t-commerce should grow to eventually outpace even subscription revenues.

### US iTV Revenue, 2001-2005 (in millions)

	2001	2002	2003	2004	2005
T-Commerce	\$12.5	\$69.1	\$292.3	\$1,029.0	\$3,928.5
Interactive Advertising	\$95.3	\$221.0	\$601.0	\$1,356.0	\$2,619.0
Subscription	\$360.0	\$858.0	\$1,747.0	\$3,204.0	\$5,022.0
<b>Total</b>	<b>\$467.8</b>	<b>\$1,148.10</b>	<b>\$2,640.30</b>	<b>\$5,589.00</b>	<b>\$11,569.50</b>

Source: eMarketer, 2002

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In the longer term, purchasing goods through the TV may become as ordinary as purchasing on the PC. US consumers are already using the TV to shop, spending over \$3.9 billion in 1999 on purchases through the cable shopping channels, QVC and Home Shopping Network. QVC's revenue alone in 2001 was \$3.9 billion. Already, in the UK, where iTV has been embraced by nearly 40% of households, Domino's Pizza reported interactive TV is now its largest e-commerce sales channel, representing 60% of all e-commerce sales and accounting for 2.5% of its total revenues.



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This section examines some of the leading online retail categories in greater detail. The data demonstrate two complementary trends: 1) shopping over the internet has failed to completely substitute for offline retail, as some proponents suggested it would; 2) however, as consumers become more accustomed to and comfortable with buying online, revenues from major retail categories continue to grow. As the following table shows, online sales are most common in the travel, computer, and apparel categories.

**Share of Total US Online Retail Sales, by Category, 2001**

	Q1 2001	Q2 2001	Q3 2001	Q4 2001	FY 2001
Travel	32%	39%	43%	32%	36%
Computer hardware	14%	12%	15%	17%	15%
Apparel and accessories	11%	9%	8%	11%	10%
Office	11%	7%	7%	7%	8%
Consumer electronics	5%	6%	5%	7%	6%
Books	5%	4%	4%	4%	4%
Event tickets	2%	4%	3%	2%	3%
Home and garden	2%	2%	3%	3%	2%
Music	2%	2%	1%	2%	2%
Health and beauty	2%	2%	2%	2%	2%
All other categories	14%	13%	9%	13%	12%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: comScore Networks Inc., 2002

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**US Online Retail Sales, by Category, 2001 (in billions)**

	Q1 2001	Q2 2001	Q3 2001	Q4 2001	FY 2001
Travel	\$3.73	\$4.89	\$5.74	\$5.00	\$19.36
Computer hardware	\$1.61	\$1.50	\$2.00	\$2.69	\$7.96
Apparel and accessories	\$1.26	\$1.12	\$1.06	\$1.74	\$5.31
Office	\$1.26	\$0.87	\$0.93	\$1.11	\$4.25
Consumer electronics	\$0.57	\$0.75	\$0.67	\$1.11	\$3.18
Books	\$0.57	\$0.50	\$0.53	\$0.63	\$2.12
Event tickets	\$0.23	\$0.50	\$0.40	\$0.32	\$1.59
Home and garden	\$0.23	\$0.25	\$0.40	\$0.47	\$1.06
Music	\$0.23	\$0.25	\$0.13	\$0.32	\$1.06
Health and beauty	\$0.23	\$0.25	\$0.27	\$0.32	\$1.06
All other categories	\$1.61	\$1.62	\$1.20	\$2.05	\$6.37
<b>Total</b>	<b>\$11.48</b>	<b>\$12.48</b>	<b>\$13.30</b>	<b>\$15.80</b>	<b>\$53.07</b>

Note: Figures do not add up precisely due to rounding

Source: comScore Networks Inc., 2002, interpolated by eMarketer, 2002

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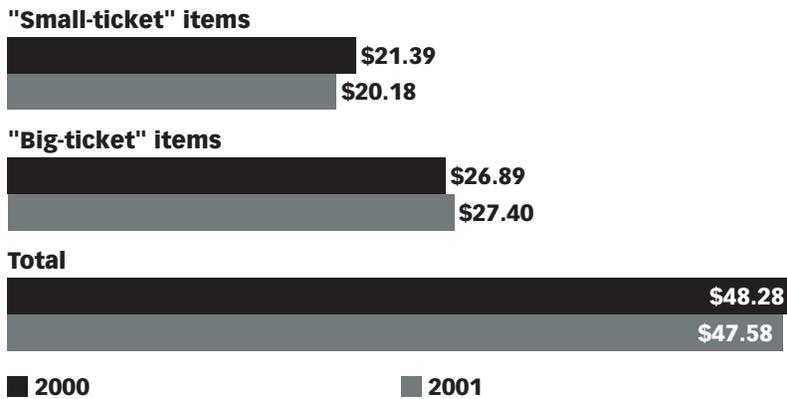
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The Forrester Online Retail Index totaled \$47.6 billion in online sales in 2001, up from \$42.4 billion in 2000. Although sales of “big-ticket” items, including computer hardware, consumer electronics and all travel categories with the exception of car rentals, increased from 2000 to 2001, “small-ticket items,” with the exception of apparel, jewelry, linens/home décor, sporting goods, footwear and garden supplies, posted declines. The drop-off was particularly pronounced in categories such as books, toys/video games, music, software, health and beauty and office supplies.

Note that the figures cited below for 2000 are those originally released by Forrester. In January 2002, the research firm revised its 2000 total online sales figure down to \$42.4 billion, citing the need to correct for changes in its methodology. As a result, readers should exercise caution when comparing year-to-year sales totals.

**“We realized we had overestimated the number of shoppers that had been projected in the latter part of 2000. Once the 2000 sales figures were amended, it supported our previous analysis that online sales were up from last year.”** – Christopher M. Kelley, Forrester

**Total US Online Retail Sales, 2000 & 2001 (in billions)**



Source: Forrester Research/Greenfield Online, 2001 & 2002

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**US Online Sales of "Small-Ticket" Items, by Category, 2000 & 2001 (in billions)**

	2001 sales	2000 sales
Apparel	\$3.27	\$2.85
Books	\$2.01	\$2.49
Toys/video games	\$1.90	\$2.49
Music	\$1.59	\$1.80
Software	\$1.56	\$1.85
Health and beauty	\$1.43	\$1.62
Office supplies	\$1.25	\$1.47
Videos	\$1.20	\$1.22
Jewelry	\$1.15	\$0.95
Linens/home decor	\$0.96	\$0.89
Sporting goods	\$0.90	\$0.89
Footwear	\$0.83	\$0.68
Flowers	\$0.67	\$0.72
Small appliances	\$0.61	\$0.66
Tools and hardware	\$0.57	\$0.58
Garden supplies	\$0.31	\$0.23
<b>Total</b>	<b>\$20.18</b>	<b>\$21.39</b>

Note: Figures do not add up precisely due to rounding  
 Source: Forrester Research/Greenfield Online, 2001 & 2002

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**US Online Sales of "Big-Ticket" Items, by Category, 2000 & 2001 (in billions)**

	2001 sales	2000 sales
Air tickets	\$7.59	\$7.55
Other	\$4.48	\$4.13
Computer hardware	\$4.35	\$4.32
Hotel reservations	\$4.22	\$3.74
Consumer electronics	\$2.58	\$2.50
Car rental	\$1.86	\$1.91
Food/beverage	\$1.31	\$1.88
Furniture	\$0.63	\$0.54
Appliances	\$0.39	\$0.31
<b>Total</b>	<b>\$27.40</b>	<b>\$26.89</b>

Source: Forrester Research/Greenfield Online, 2001 & 2002

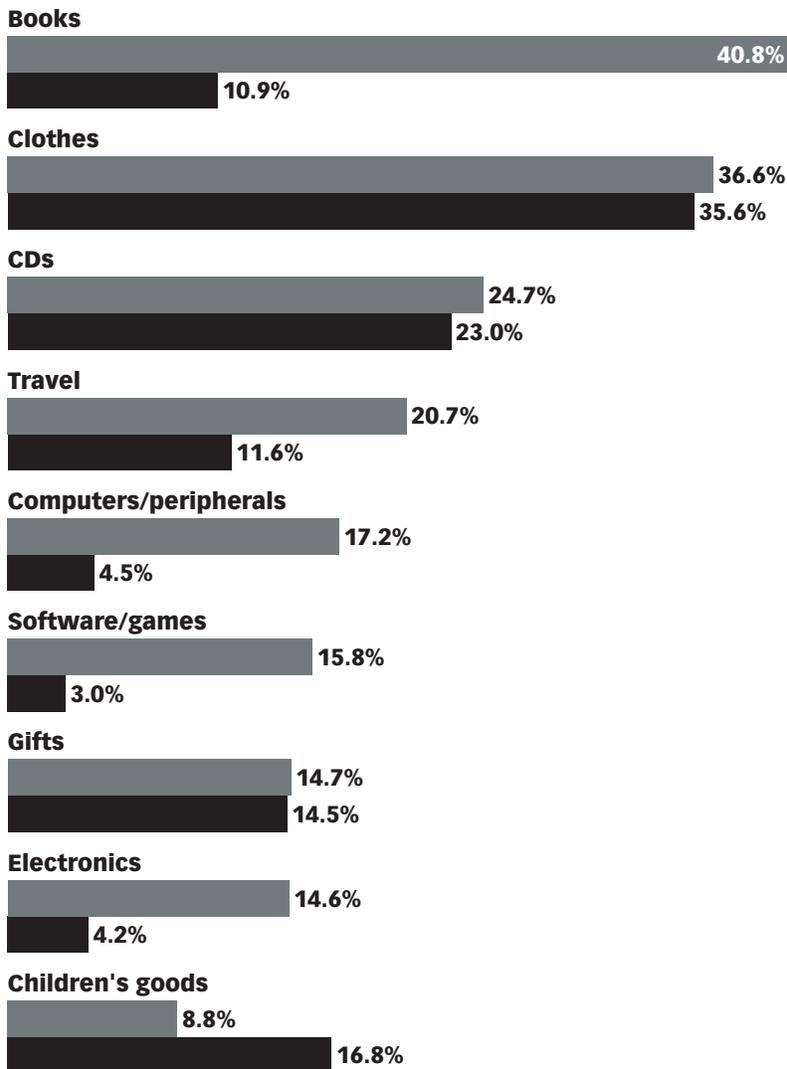
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An interesting shift appears to be occurring in the types of products purchased online by US internet users based on the user's experience on the web. Among those who have used the internet for five or more years, books, clothing, music and travel are the top categories purchased. Books and travel, computers and software, are far less likely to be purchased by new internet users. One explanation is the different demographic composition of new internet users. They are more likely to look like an average American compared to early adopters, who are highly educated, wealthier, computer-focused consumers.

### Types of Products Purchased Online by US Consumers, by Online Experience, 2001 (as a % of respondents)



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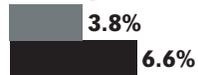
### Sporting goods



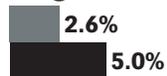
### Hobby items



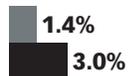
### Jewelry/watches



### Drugs



### Automobiles



■ Very experienced users (5+ years)      ■ New users (<1 year)

Source: UCLA Center For Communication Policy, November 2001

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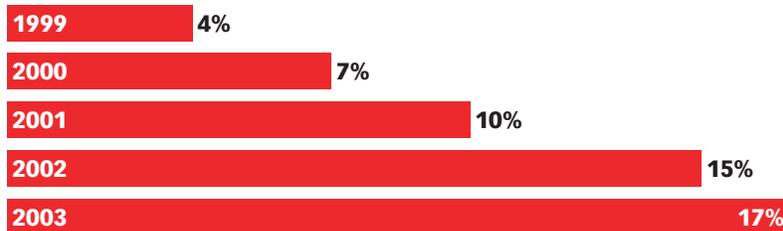
## A. Travel

**“Online travel is still the e-commerce killer app, despite a very battered market. While consumers continue to look for low air fares, more and more are going online for hotels, vacations and cruises.”**

– Philip C. Wolf, PhoCusWright

Leisure travel was the largest online retail category in the US, representing approximately just over one-third of all consumer e-commerce revenues in 2001, according to eMarketer estimates. Online travel still represents a relatively small portion of overall travel bookings in the US, although it still exceeds the ratio of online retail sales to total retail sales by a factor of ten (online retail sales accounted for approximately 1% of total retail sales in the US in 2001, while online travel represented 10% of all travel bookings.)

### US Online Travel Bookings, 1999-2003 (as a % of total travel bookings)



Source: PhoCusWright, 2001

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Although we expect leisure travel to remain the largest retail category through the middle of the decade, over time, travel's weight in the B2C segment will show minor year-over-year decline, as revenues from other retail categories such as computer hardware and software, gifts and flowers, apparel and footwear and books and music post gains.

### US Online Retail and Leisure Travel Revenues, 2000-2005 (in billions)

	2000	2001	2002	2003	2004	2005
Online retail sales*	\$27.3	\$32.6	\$50.3	\$68.4	\$88.2	\$109.4
Online travel	\$13.4	\$17.2	\$24.8	\$31.9	\$37.8	\$46.2
<b>Total B2C revenues</b>	<b>\$40.7</b>	<b>\$49.8</b>	<b>\$75.1</b>	<b>\$100.3</b>	<b>\$126.0</b>	<b>\$155.6</b>

Note: \*eMarketer's year 2000 and 2001 baselines for retail sales are derived from US Department of Commerce figures, with an estimate made for Q4 2001 travel (US Department of Commerce does not include travel in its B2C figures)

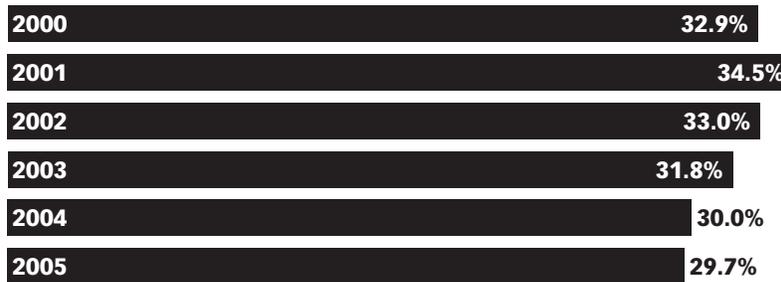
Source: eMarketer, March 2002

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**US Online Leisure Travel Revenues, 2000-2005 (as a % of total US online retail revenue)**



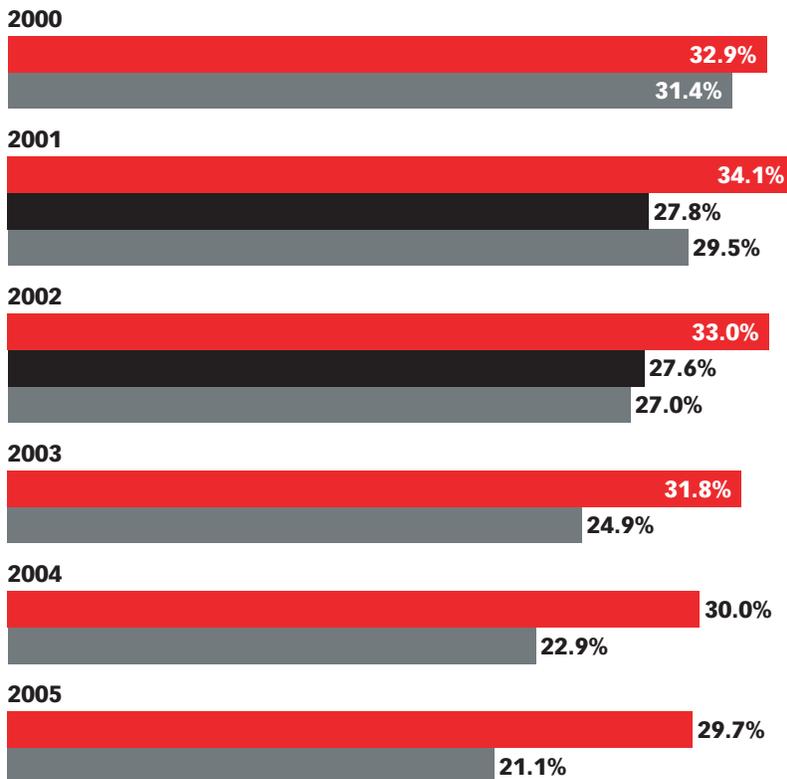
Source: eMarketer, March 2002

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Forecasts from Forrester Research and Jupiter Media Metrix anticipate a similar trend. Note that the percentages for Jupiter are based on e-commerce estimates issued prior to September 11, and that the firm recently announced a prediction that online travel sales would reach \$31 billion this year, and grow to \$50 billion by 2005.

**Comparative Estimates: US Online Leisure Travel Revenues, 2000-2005 (as a % of total US online retail revenues)**



■ eMarketer   ■ Forrester Research   ■ Jupiter Media Metrix

Source: eMarketer, January 2002; various, as noted, 2001

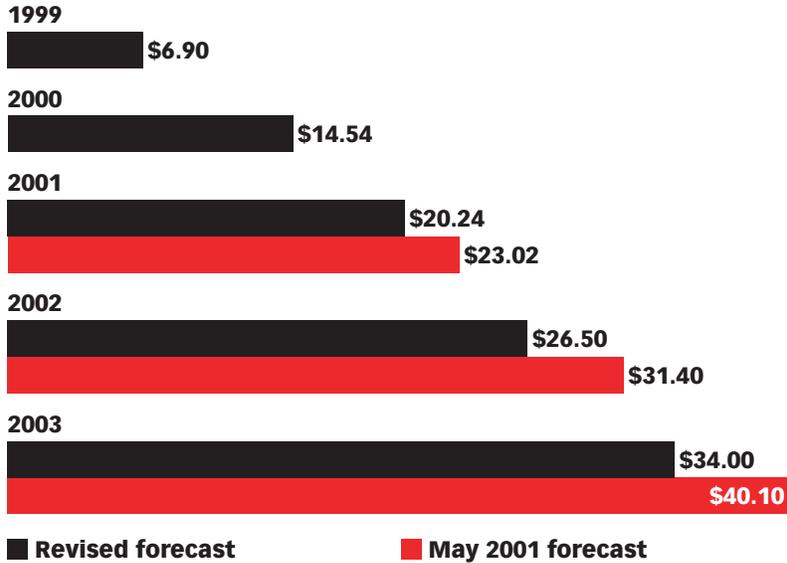
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The events of September 11<sup>th</sup> led PhoCusWright, one of the leading observers of the online travel marketplace, to lower its revenue projections for 2001 by 12% and by as much as 16% for 2002. eMarketer's estimates remain more conservative than PhoCusWright's. However, eMarketer's figures exceed projections by Forrester Research, which also lowered its outlook in the wake of September 11<sup>th</sup>.

### US Online Leisure Travel Bookings, 1999-2003 (in billions)



Source: PhoCusWright, October 2001

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### US Online Leisure Travel Bookings, 2001 & 2002 (in billions)



Source: Forrester Research, 2001

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### Comparative Estimates: US Online Leisure Travel Bookings, 2001 & 2002 (in billions)



*Note: Figures from Forrester Research and PhoCusWright represent estimates revised after 11 September 2001*  
*Source: eMarketer; various, as noted, 2001*

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By comparison, internet quality measurement firm Gómez predicts that online travel buying will generate \$25.6 billion in revenues by 2003. This estimate remains conservative even in relationship to PhoCusWright's revised figures.

### Comparative Estimates: US Online Leisure Travel Bookings, 2003 (in billions)



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

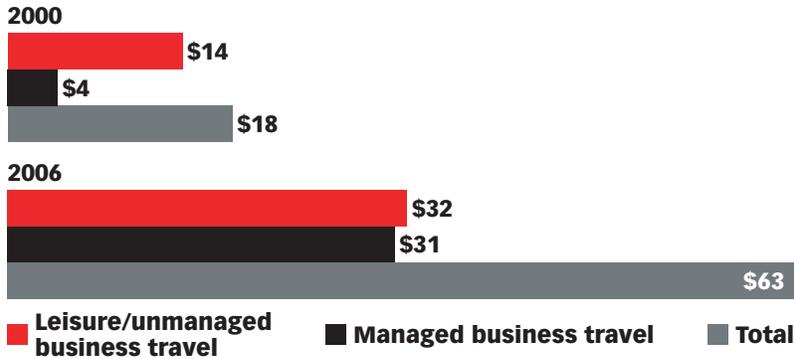
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According to Jupiter Media Metrix, leisure and unmanaged business travel are by far the largest components of the online travel market. However, Jupiter expects managed business travel revenues to be nearly equal to those generated by leisure and unmanaged business travel by 2006, as leading corporations convert to more efficient internet-based booking for their high-flying employees. Note that Jupiter's predictions predate September 11<sup>th</sup>.

**US Online Travel Bookings, 2000 & 2006 (in billions)**



Source: Jupiter Media Metrix, 2001

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To learn more about online and offline travel spending trends, read eMarketer's February 2002 Travel Market Worldwide Report. To order copies, visit the eMarketer website ([www.emarketer.com](http://www.emarketer.com)) or send an e-mail to [sales@emarketer.com](mailto:sales@emarketer.com).

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Although the terrorist attacks of September 11 caused an immediate drop in the online purchase of travel products, and air travel remains depressed, this B2C sector appears to be rebounding rapidly. Research firm comScore Networks, which surveys the internet use and online buying behavior of a large sample of internet users, found that the drop in weekly travel spending immediately following the attacks tapered off by November 11<sup>th</sup>, and that spending at the beginning of December actually increased by a small 2% above an average weekly benchmark of \$411 million calculated over the five months preceding September.

**Online Travel Sales in the US, 2001 (in millions and as % change relative to base expenditure of \$411 million)**

Week ending			
9/16/2001	Week of 9/11 Attacks	\$222	-46%
9/23/2001	Week +1	\$230	-44%
9/30/2001	Week +2	\$365	-11%
10/7/2001	Week +3	\$365	-11%
10/14/2001	Week +4	\$352	-14%
10/21/2001	Week +5	\$341	-17%
10/28/2001	Week +6	\$386	-6%
11/4/2001	Week +7	\$372	-9%
11/11/2001	Week +8	\$399	-3%
11/18/2001	Week +9	\$308	-25%
11/25/2001	Week +10	\$282	-31%
12/20/2001	Week +11	\$418	2%

Source: comScore, 2001

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**US Online Travel Revenues, August-November 2001 (as a % of total US online retail revenue)**



Source: comScore, December 2001 with interpolation by eMarketer, January 2002

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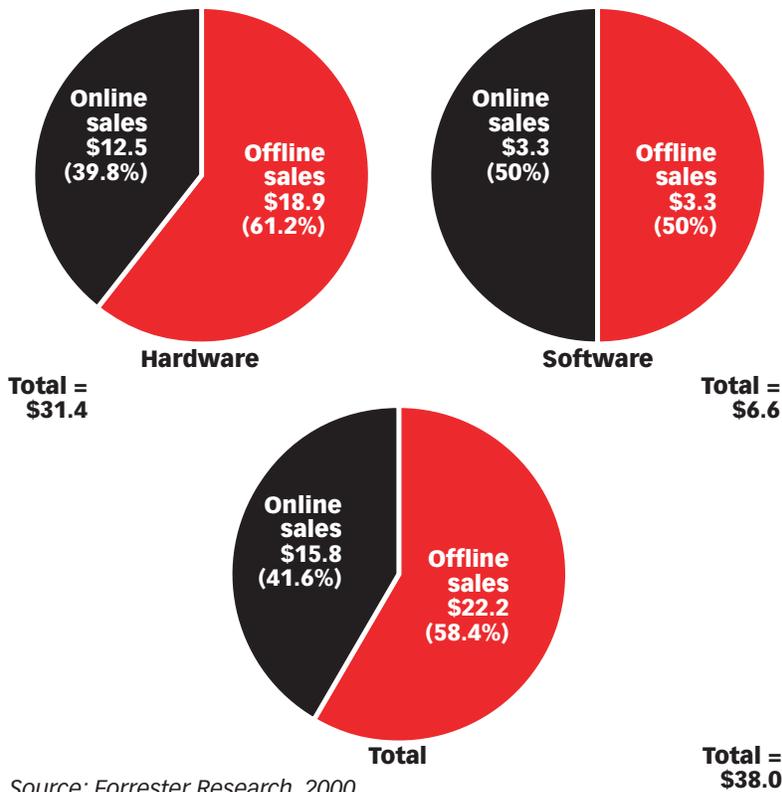
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## B. Computer Hardware and Software

Demand for home PCs and computer-related products may continue to slump in 2002, although the portability of the new Windows XP operating system could help to drive revenues from video games, home networking, consumer online services and interactive TV. A positive sign for the year ahead was the relatively strong demand for home PCs in the fourth quarter of 2001.

As with travel products, PCs and software are information intensive and represent “considered” purchases, and as such lend themselves to the internet. Forrester Research predicts that consumers will increasingly concentrate their computer buying online, such that the online share of total sales of PC hardware could reach 13% by 2002 and 40% by 2004. By comparison, Comscore estimated that computer hardware accounted for 15% of year 2001 online purchases, or approximately \$8 billion.

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



Source: Forrester Research, 2000

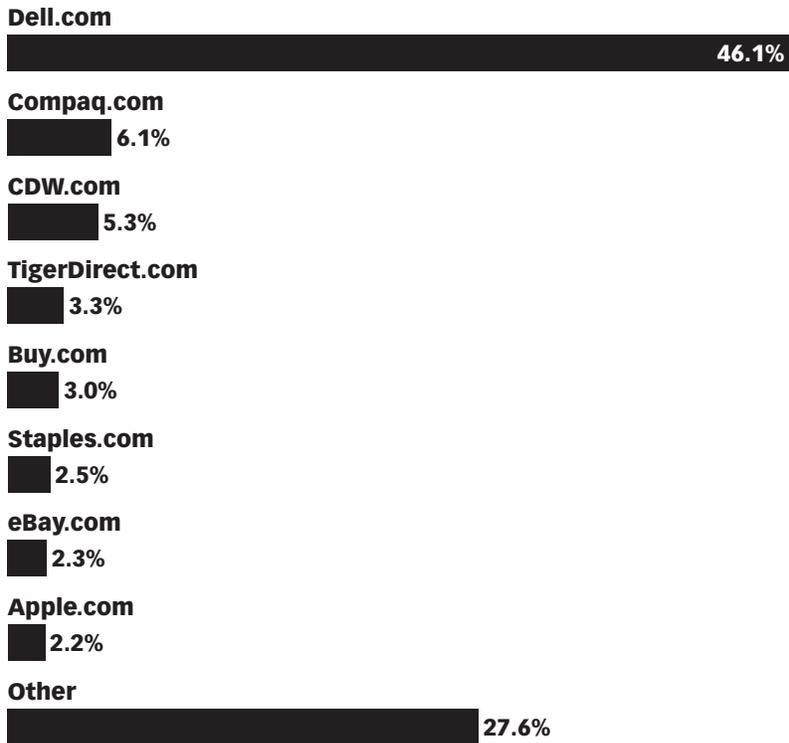
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The online PC market in the US is heavily dominated by Dell, which has made internet-based sales and service the cornerstone of its strategy, with roughly 50% of its sales orders placed online. Its online strategy has enabled the company to reduce its warehouse inventory to just four days of stock, down from seven days in 2000, giving Dell an enormous advantage for a product in which the price of the components typically fall 1% a week. By comparison, Compaq keeps 24 days of inventory on-hand at any time.

## Market Share of US Online Computer Hardware Retailers, 2001



Source: Nielsen//NetRatings, Harris Interactive, 2001

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## C. Gifts and Flowers

The gift and flower sector appears primed for growth due to the increasing popularity of ordering both 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 substantially higher projections. 1-800-flowers.com remains the heavyweight in this category.

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

	2000	2001	2002	2003	2004	2005
BancAmerica RS	\$.56	–	–	–	–	–
Keenan Vision	\$.08	\$.22	\$.42	\$.63	\$.82	–
Forrester Research	\$1.00	\$1.79	\$2.85	\$3.92	\$4.66	–
Jupiter Media Metrix	\$.56	\$.88	\$1.36	\$1.80	–	–

Source: eMarketer, various, as noted, 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 the success of online gift retailers. Forrester found that one successful completion of an online shopper’s small gift purchase can lead to more than \$2,000 in annual sales.

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## D. Apparel and Footwear

Selling clothing and footwear online presents unique challenges not faced by retailers in other categories. Consumers display more reluctance about purchasing a new shirt or pair of shoes without trying it on first.

Efforts to woo online consumers seem to be having some effect. According the Forrester Online Retail Index, sales of apparel and footwear rose 16% from 2000 to 2001, despite a sluggish economy in the US. Meanwhile, online spending on apparel and footwear per consumer has remained consistent from January 2000 through the end of 2001, typically averaging between \$120 and \$130 per consumer per month. This suggests that more consumers are buying clothing and shoes online, a trend that may be due in part to more sophisticated websites that allow mixing and matching of separates and more accurate previews of the goods themselves.

### US Online Apparel and Footwear Sales, 2000 & 2001 (in billions)

	2001 sales	2000 sales
Apparel	\$3.27	\$2.85
Footwear	\$0.83	\$0.68
<b>Total</b>	<b>\$4.10</b>	<b>\$3.53</b>

Source: Forrester Research/Greenfield Online, 2001 & 2002

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### US Online Apparel and Footwear Sales, 2001 (as a % of total B2C e-commerce)

<b>Apparel</b>	<b>6.5%</b>
<b>Footwear</b>	<b>1.6%</b>

Source: eMarketer, 2002

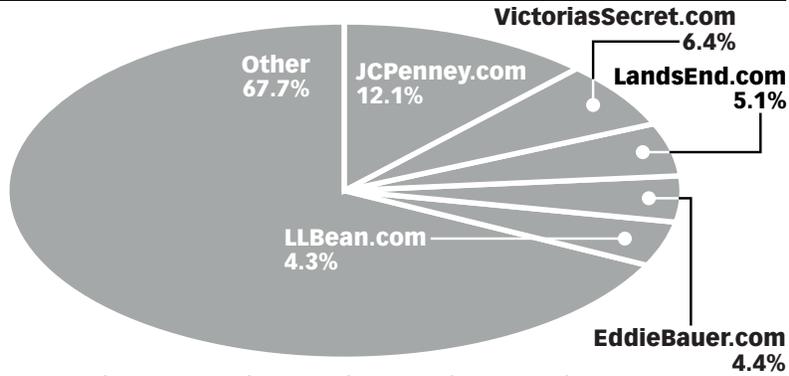
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Surveys by Nielsen//NetRatings and Harris Interactive have shown that catalog retailers have been the most successful at selling clothing and footwear on the web. Although they have become staples of suburban malls, JC Penney, Victoria's Secret and Eddie Bauer, along with Lands' End and LL Bean, have also come to dominate the apparel category online. Together, they command nearly one-third of the market.

### US Online Clothing Retailers' Share of Online Sales, January-September 2001



Source: Niesen//NetRatings, Harris Interactive, December 2001

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Despite improvements in site presentation, online apparel retailers remain challenged by the “touch and try” aspects of clothing shopping that so many shoppers are accustomed to. As the following survey data for back-to-school shoppers in 2001 illustrates, the inability to enable consumers to try on clothing is a major obstacle to selling to them.

## Online Shopping Obstacles for US Back to School Shoppers , 2001

### Inability to try on clothing

48%

### Security worries

20%

### Limited selection

12%

### Lack of a computer or internet access

11%

### Expensive delivery/shipping charges

10%

### Inconvenience

9%

### Discomfort with internet transactions

8%

*Note: \*Survey based on 400 Southern California families responses  
Source: Deloitte & Touche, August 2001*

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## E. Music

Sales of music online totaled a little more than \$1 billion in 2001, according to comScore Networks and \$1.6 billion according to Forrester Research/Greenfield Online.

### Comparative Estimates: US Online Music Sales, 2001 (in billions and as a % of total e-commerce)

	Sales	% of total e-commerce
comScore Networks Inc.	\$1.06	2.1%
Forrester Research/Greenfield Online	\$1.59	3.2%

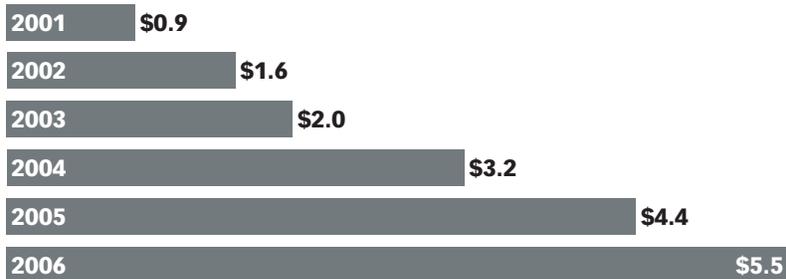
Source: eMarketer, 2002; various, as noted, 2002

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Sales of music over the internet will continue to grow, increasing more than five times between 2001 and 2006, according to estimates from Jupiter Media Metrix. Online music sales will top the \$2 billion mark between 2003 and 2004. By 2006, Jupiter predicts that music ordered or downloaded online will account for nearly one third of all music sales in the US, up from just 6% in 2001.

### US Online Music Sales , 2001-2006 (in billions)

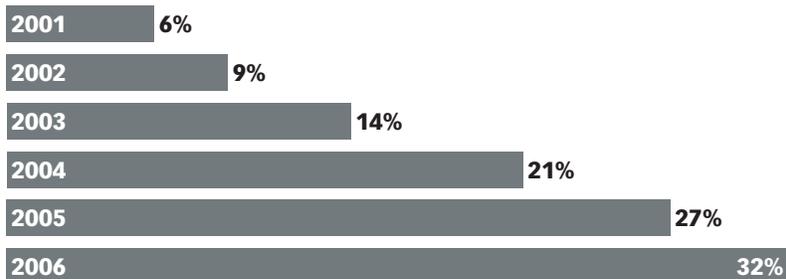


Source: Jupiter Media Metrix, Inc., October 2001

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### US Online Music Sales, 2001-2006 (as a % of total US music sales)



Source: Jupiter Media Metrix, Inc., October 2001

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### Digital Music

The instant availability of digital music and the proliferation of start-up online music subscription services that provide access to the music catalogs of leading recording industry companies may help digital music develop into a substantial market niche. Jupiter contends that digital music sales via single paid downloads and subscriptions will revitalize the US music industry. In Jupiter's model, subscriptions will become the dominant digital music format by 2003, growing to account for almost 63% of digital music sales by 2006 as the category matures.

#### US Online Digital Music Subscription Sales, 2001-2006 (in billions)



Source: Jupiter Media Metrix, Inc., 2002

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However, a study by Ipsos-Reid calls this forecast into question. It suggests that fewer than 10% of Americans over the age of 12 who have downloaded music off the Internet have ever paid for it, and wagers that few are likely to begin paying in the near future.

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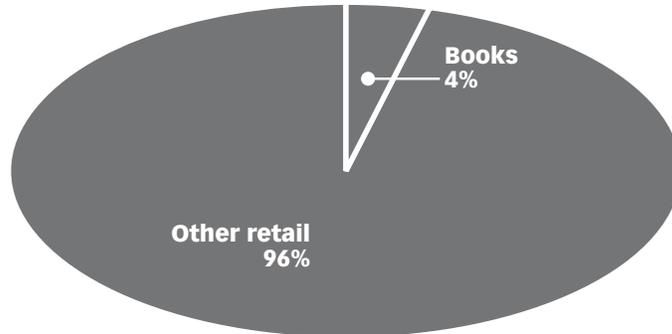
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## F. Books

Books have been one of the most successful products online, though they account for only about 4% of total online sales. As the data below from comScore indicate, month-over-month sales were remarkably consistent in 2001, with the expected uptick in holiday shopping season.

### US Online Book Sales, 2001 (as a % of total retail sales)



Source: comScore Networks Inc., 2002

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## US Online Book Sales, by Month, 2001 (in millions)

### January

 \$204.0

### February

 \$180.0

### March

 \$199.0

### April

 \$160.0

### May

 \$172.0

### June

 \$154.0

### July

 \$152.0

### August

 \$171.0

### September

 \$164.0

### October

 \$189.0

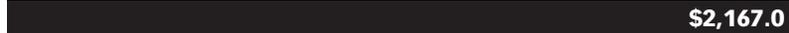
### November

 \$189.0

### December

 \$233.0

### Total

 \$2,167.0

Source: comScore Networks Inc., 2002

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Overall, both comScore and the Forrester Online Retail Index found confluence in the year-end total for online book sales. eMarketer's figure of \$1.75 billion came in slightly lower than those of the two online sales tracking firms. Overall, eMarketer concludes that the sales of books will account for a little less than 3% of total online revenues by 2005.

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### Comparative Estimates: US Online Book Sales, 2001 (in billions)

eMarketer	\$1.75
Forrester Research/Greenfield Online	\$2.01
comScore Networks Inc.	\$2.17

Source: eMarketer, various, as noted, 2002

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### Comparative Estimates: US Online Book Sales, 2000-2005 (in billions)

	2000	2001	2002	2003	2004	2005
Forrester Research	\$2.49	\$2.20	\$2.72	\$3.15	\$3.30	-
Gomez advisors	-	-	-	-	\$5.00	-
Keenan Vision	\$.17	\$.36	\$.57	\$.78	\$1.02	-
Jupiter Media Metrix	\$1.75	\$2.56	\$3.66	\$4.90	-	-
Veronis Suhler	\$1.44	-	-	\$2.70	-	-

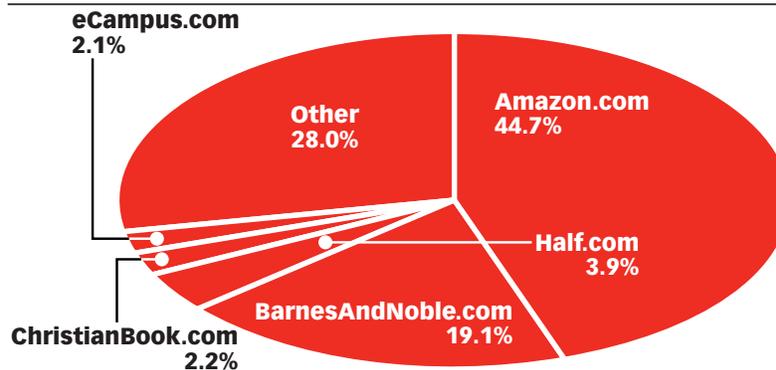
Source: eMarketer, various, as noted, 2001

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Despite the challenge of venerable offline retailer Barnes & Noble, Amazon.com has retained a stranglehold on the online book market. The Seattle-based company announced its first-ever quarterly net profit in the fourth quarter of 2001, which bodes well for the category as a whole.

### Market Share of US Online Book Retailers, 2001



Source: Nielsen//NetRatings, Harris Interactive, 2001

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The e-book market continues to generate limited activity, although those consumers surveyed display interest in the concept. Publishers Random House, AOL Time Warner and Simon & Schuster have all jumped onto the e-book bandwagon and have built websites that showcase their e-book offerings directly to consumers.

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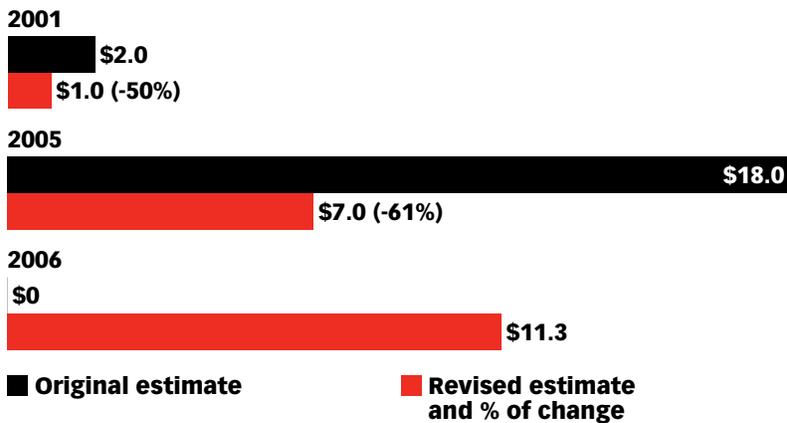
## G. Groceries

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. Its sophisticated delivery infrastructure was simply too costly to maintain in the face of lackluster sales. 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.

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.

The shakeout among e-grocers will further slow the growth in the category. 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. According to Jupiter, online grocery sales will rise from \$1 billion in 2001 to \$11.3 billion in 2006.

### US Online Grocery Revenues, 2001, 2005 & 2006 (in billions)



Source: Jupiter Media Metrix, 2001

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According to a survey by Jupiter Media Metrix, internet-generated new automobile sales (as a percentage of all new car sales) will jump from 13% in 2001 to 32% in 2006, representing an increase of 5.7 million vehicles sold. Internet-generated used car sales (as a percentage of all used car sales) will grow at an even faster rate, increasing from 4% in 2001 (1.5 million cars sold) to 12% (4.8 million cars sold) by 2006. In an earlier 2001 survey, Jupiter found that car buyers are most interested in websites that provide detailed product information (42%), side-by-side comparisons (23%), and ratings and reviews from other consumers (9%).

**Internet Generated New Automobile Sales in the US, 2001 & 2006 (as a % of all new car sales)**



Source: Jupiter Media Metrix, Inc., December 2001

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Jupiter’s survey of the most popular automotive sites ranked Kbb.com (Kelly Blue Book) No. 1 with more than 3.8 million unique users. Microsoft’s Carpoint.com ranked second with 3.2 million unique users, followed by Autotrader.com’s 2.7 million unique users.

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## I. Discount Retailers

The fastest growing online retail sites in terms of traffic for the 2001 holiday season were value-oriented businesses, according to Nielsen//NetRatings. Columbia House was the number one site in terms of shopping trips (not revenues) growing by 219% since last year. FingerHut.com claimed the No. 2 spot, jumping 144% to eight million visits, while OverStock.com grew 107% to nearly 13 million.

### Fastest Growing US E-Tailers, by Total Shopping Trips\*, 2000 & 2001

	November- December 2000	November- December 2001	% change
1. Columbia House	7.9	25.3	219%
2. fingerhut.com	3.3	8.0	144%
3. overstock.com	6.2	12.8	107%
4. officedepot.com	5.2	10.0	92%
5. apple.com	10.3	17.6	71%
6. bestbuy.com	13.7	22.3	63%
7. hp.com	17.0	26.0	53%
8. staples.com	5.6	8.5	52%
9. amazon.com**	133.1	198.8	49%
10. circuitcity.com	6.3	8.9	41%

Note: \*combined home and work internet users; \*\*includes ToysRUs  
Source: Nielsen//NetRatings, January 2002

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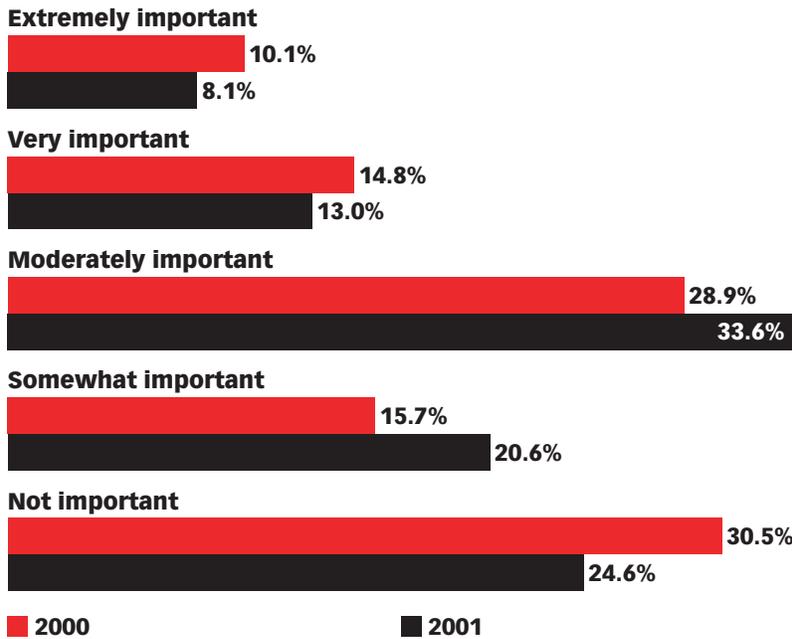
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## J. Online Entertainment

The internet is *not* an entertainment medium for most users, according to survey data from UCLA Center for Communication Policy. UCLA surveyed people in both 2000 and 2001, and only 33.6% of respondents in 2001 reported that the internet was “moderately important” as a source of entertainment. Those that indicated the internet was “extremely important” as an entertainment source actually declined from the previous year.

### US Internet Users' Attitudes towards the Internet as a Source of Entertainment, 2000 & 2001 (as a % of respondents)



Source: UCLA Center For Communication Policy, November 2001

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Despite the fact that the majority of internet users do not regard the internet as a primary entertainment medium, there are millions of people going online for just this purpose. Playing games is a popular activity for millions of internet users. In October 2001, Jupiter Media Metrix indicated that 47 million people had played a PC-based game application in January 2001. According to one of the most popular games websites, Pogo.com, 5.4 billion minutes are spent each month playing online games, more than any other online activity. The activity is not confined to young males. According to PC Data, females make up over 50% of online gamers.

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Two under-reported uses of the internet are to view pornographic material and to gamble. According to data from Media Metrix, the number of visitors to adult sites grew from 22 million to 28 million between December 1999 and February 2001. Datamonitor estimates there were nearly 2 million online gamblers in the US in 2001, generating revenues in excess of those generated by online booksellers.

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### Online Gambling Market in the US, 2001

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Number of online gamblers	1.9 million
Revenue from online gambling	\$4.2 billion

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*Source: Datamonitor, 2001*

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## K. Government Services

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With little fanfare, government to consumer (G2C) online sales have grown substantially in the US. According to a recent study by Federal Computer Week and the Pew Internet & American Life Project, the US government sold more than \$3.6 billion in products and property via the Internet in 2001, more than the value of all products sold by Amazon.com in 2001.

The Treasury Department's "Treasury Direct" site accounts for the majority of government sales online, having sold \$3.3 billion in U.S. savings bonds, T-bills and notes during the past year. According to the study, the federal government operates or supports at least 164 sites that sell something to the public. The Defense Department operates at least eight sites that sell products ranging from toothpaste to used Army trucks.

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**“The PC and the Internet are redefining how Canadians approach many aspects of their lives including shopping, banking, commuting family activities, home design and communications.”**

– Martin Stevens, RBC Financial Group.

Because of the relative size of their economies, discussions of North America’s e-commerce market tend to focus on the US, not Canada. However, Canadians have embraced the internet, bolstering the country’s internet penetration rate to 46% in 2001. By 2004, we estimate the internet penetration rate will grow to 58.4%, slightly higher than in the US.

**Internet Users in North America, by Country, 2000-2004 (as a % of each country’s total population)**

	2000	2001	2002	2003	2004
Canada	40.6%	45.6%	50.2%	54.3%	58.4%
US	34.6%	42.8%	48.5%	53.6%	58.0%
<b>Total North America</b>	<b>35.2%</b>	<b>43.1%</b>	<b>48.6%</b>	<b>53.7%</b>	<b>58.0%</b>

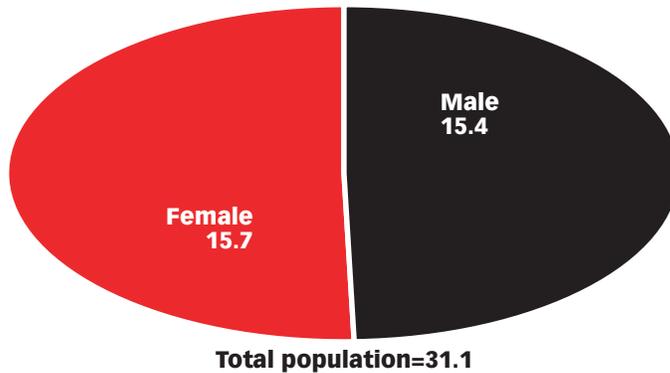
Source: eMarketer, December 2001

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Although Canada’s internet penetration rate is high, its population, at 31.1 million in 2001, is only 10.8% of the US population (285.5 million in 2001). Hence, the total number of Canadian internet users (16 million in 2002) equals only 10.5% of all North American internet users (152 million in 2002). However, Canada remains an important potential market for internet retailers.

**Population in Canada, by Gender, 2001 (in millions)**



Source: Statistics Canada, 2001

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Over the next two years, the number of Canadian internet users is expected to rise from 16 million to 19 million in 2004.

**Internet Users in North America, by Country, 2000-2004 (in millions)**

	2000*	2001	2002	2003	2004	CAGR** 2000-2004
Canada	12.7	14.4	16.0	17.5	19.0	10.6%
US	95.4	119.0	136.0	151.8	165.5	14.8%
<b>Total North America</b>	<b>108.1</b>	<b>133.4</b>	<b>152.0</b>	<b>169.3</b>	<b>184.5</b>	<b>14.3%</b>

*Note: \*eMarketer's year 2000 baseline is from the International Telecommunication Union's estimate of internet users aged 2 years and older who have accessed the internet within the previous 30 days;*  
*\*\*Compound Annual Growth Rate*  
 Source: eMarketer, December 2001

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## A. Online Shopping and Buying

Statistics Canada, the government's statistical agency, conducted one of the most comprehensive surveys of internet use throughout Canada in 2000. These data, combined with the findings of market research firms Ipsos-Reid and EKOS, provide important benchmarks for estimating current e-commerce expenditures and for projecting future spending levels.

### Internet Purchasers

eMarketer estimates that while approximately 30% of the internet using population in Canada purchased goods and services online in 2000, this percentage has grown to 35% in 2001 and 40% in 2002. Currently, therefore, the number of internet users who buy online equals 6.4 million, as the following chart illustrates.

#### Canadian Internet Buyers, 2000-2002 (in millions)



Source: eMarketer, 2002

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Estimates of the number of internet users in Canada who buy online vary substantially from source to source. Statistics Canada's year 2000 population survey found that 12% of home internet users have ever purchased a good or service online.

In 2000, the agency found that approximately 1.46 million Canadians, or 12% of the country's internet users, made at least one internet purchase *from home*. These home internet buyers placed an estimated 9.1 million orders over the internet, spending an estimated \$696 million, or \$76 per internet purchase.

#### Internet Use, Shopping, and Buying in Canada, 2000 (in millions and as a % of the internet user population)



Note: \*Internet shoppers that placed at least one order over the internet from home, regardless of whether or not they paid online

Source: Statistics Canada, 2001

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By contrast, Canadian market research firm EKOS estimated in February 2001 that 31% of Canadian internet users had purchased a product or service online in 2000.

### Percent of Canadian Internet Users Who Have Ever Purchased a Product or Service Online, 2000



Source: EKOS, February 2001

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Ipsos-Reid reported in March, 2001, that 34% of Canadians with internet access had purchased online by the third quarter of 2000.

### Canadians Who Have Purchased Online, Q3 2000 (as a % of Canadians with internet access)

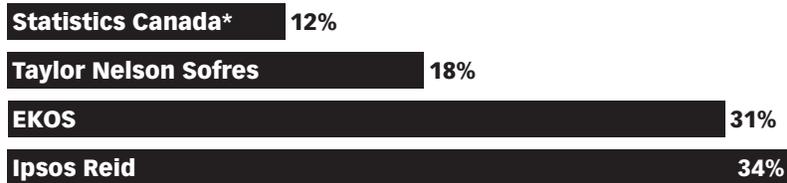


Source: Ipsos-Reid/Canadian IT Review, 2001; Industry Canada, 2001

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### Comparative Estimates: Percent of Canadian Internet Users Who Purchase Online, 2000



Note: \*only at-home purchasers

Source: eMarketer, 2002; various, as noted, 2001

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## Per Capita Internet Expenditures

For the past several years, Canadians have consistently spent less online than Americans. The current exchange rate between Canada and the US (1 Canadian dollar equals US \$0.63.) will only continue to dampen demand for products from US websites.

Based on data from Ipsos-Reid, eMarketer estimates that the average annual expenditure of Canadian internet buyers is 70% of the US per-capita expenditure. This is slightly higher than Ipsos-Reid's finding in that in 2000, Canadians spent 64% less than Americans online each year. It is also significantly higher than data from Statistics Canada based on a survey conducted at the start of 2001. It is also higher than an estimate by Ernst and Young that the average per capita B2C expenditure is \$590.

### Per Capita Internet Expenditures for Internet Purchases in Canada, by Province, 2000

Canada	\$479
Atlantic	\$423
Quebec	\$389
Ontario	\$527
Manitoba and Saskatchewan	\$419
Alberta	\$616
British Columbia	\$390

Source: Statistics Canada, 2001

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Applying the 70% ratio to eMarketer estimates of US per capita online spending, we estimate that in 2002, the annual spending for each Canadian internet buyer will amount to \$762.

### Per Capita Internet Expenditures Online among Canadian Adult Internet Users Who Buy Online, 2000-2004

2000	\$678
2001	\$606
2002	\$762
2003	\$874
2004	\$980

Source: eMarketer, 2002

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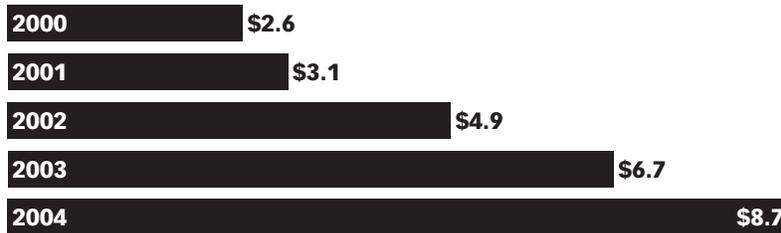
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Multiplying the number of Canadian internet buyers by the average annual expenditure per buyer, we derive the total annual Canadian B2C expenditures shown in the chart below. For 2002, we estimate that total Canadian retail internet purchases equal \$4.9 billion. This figure is approximately 9.8% of US B2C e-commerce revenues. Projecting forward to 2004, at the same rate of growth that we have projected for the US, B2C e-commerce will amount to \$5.6 billion.

**B2C E-Commerce Revenues in Canada, 2000-2004 (in billions)**



Source: eMarketer, 2002

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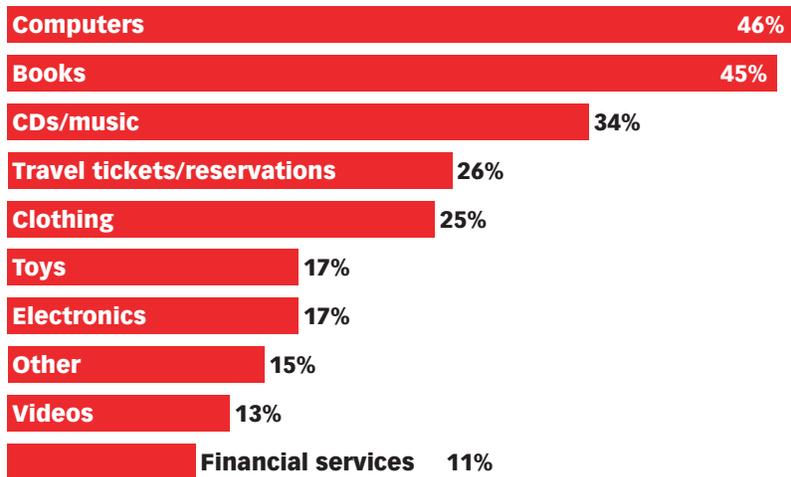
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Canadians spend their online dollars on a mix of products that are typical for online retailing. The Statistics Canada survey, conducted in January 2001, found that the most popular product categories were books, magazines and newspapers, clothing, jewelry and accessories, computer software, travel arrangements and music (CDs, cassettes, MP3). For those who used the Internet to “window shop,” clothing, jewelry and accessories, automotive products, housewares (furniture and appliances) and consumer electronics were the most popular product categories in 2000. Ernst and Young also found that computers and books top the list of items purchased online, as the following chart illustrates.

**Products Purchased Online in Canada, 2000 (as a % of internet buyers purchasing each type of product)**



Source: Ernst and Young, 2001

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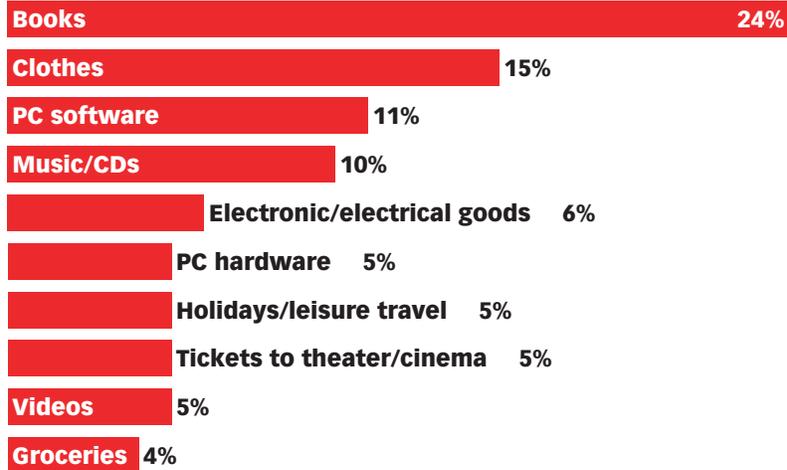
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Taylor Nelson Sofres' Global e-Commerce Study reported that books were the most popular category among Canadian internet shoppers.

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### Top 10 Actual Online Purchases in the Last Month among Canadian Internet Users, June 2001 (as a % of internet users)

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Source: Taylor Nelson Sofres, June 2001

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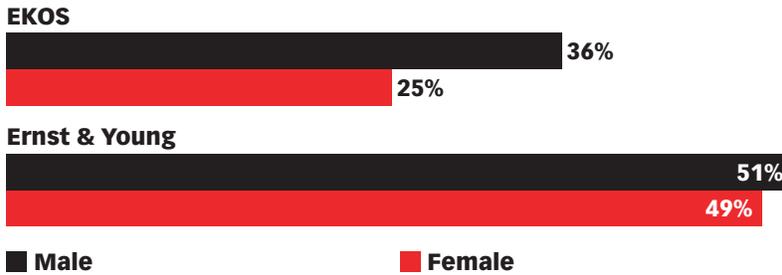
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## B. Demographics of Canadian Internet Buyers

Unlike the US, a higher percentage of Canadian internet buyers are male than female, according to data from market research firm EKOS. By comparison, Ernst and Young claims that the proportion of male to female Canadian internet purchasers is 51:049.

### Comparative Estimates: Canadian Internet Buyers, by Gender, 2000 (as a % of internet users who have ever purchased online)



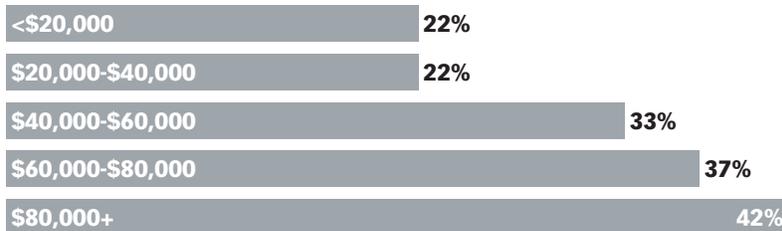
Source: EKOS, Ernst and Young, 2001

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As in the US, Canadian internet buyers tend to have high incomes, as the following chart shows. Among the wealthiest Canadians (those with incomes of \$80,000 and above), 42% of those surveyed reported buying products or services online.

### Income Level of Canadian Internet Buyers, 2000 (as a % of internet users)



Note: Income ranges in Canadian \$  
Source: EKOS, February 2001

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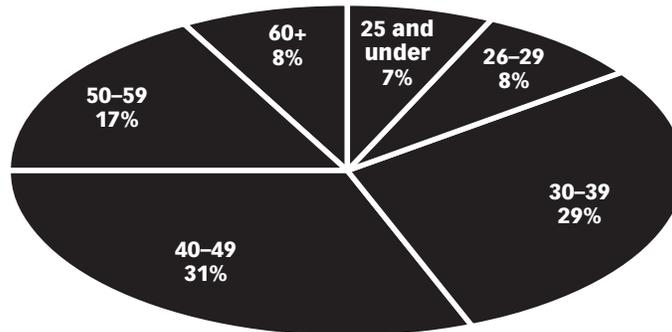
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The average age of a Canadian internet buyer is 42, according to Ernst and Young. The Ernst and Young data, presented in the chart below, show a wider disparity in buying behavior between middle age internet users and young and old internet users than the demographic data from EKOS show.

**Internet Shoppers in Canada, by Age, 2000**



Source: Ernst & Young, 2001

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**Age of Canadian Internet Buyers, 2000 (as a % of internet users who have ever purchased online)**



Source: EKOS, February 2001

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A large percentage of Canadian households have broadband internet access, as the following chart illustrates. Currently, approximately 3.6 million Canadian households, or nearly one-third of all households, have broadband connections. By contrast, only 16.2% of US households have broadband.

**Broadband Households in Canada and the US, 2000-2004 (in millions and as a % of total households)**

	2000*	2001	2002	2003	2004
<b>Canada</b>					
Broadband households	1.4	2.3	3.6	5.3	7.5
% of total households	11.8%	19.5%	30.3%	44.3%	61.9%
<b>US</b>					
Broadband households	6.2	11.4	17.6	25.6	34.7
% of total households	5.8%	10.6%	16.2%	23.3%	31.3%

*Note: \*eMarketer's year 2000 baseline is from the Organization for Economic Cooperation and Development (OECD)*

*Source: eMarketer, December 2001*

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While the US Census Bureau cautioned that the two separate surveys – in addition to two other surveys for the retail and wholesale sectors – should not be added together to arrive at a total figure for US business-to-business e-commerce, it noted that they did at least provide a rough indication of the size of e-commerce activity in the United States.

## US E-Commerce Trade, by Economic Sector, 2000 (as a % of total trade)

### Manufacturing shipments

18.4%

### Merchant wholesale trade sales

7.7%

### Selected service revenues

0.8%

### Retail trade sales

0.9%

Source: US Census Bureau, 2002

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The US Census Bureau has also broken out EDI-based trade in the merchant wholesale sector survey, to find that while e-commerce trade accounted for 7.7% of total wholesale sector sales, 88.3% of e-commerce sales were conducted via EDI networks in 2000. Although similar results have not yet been published for the 2000 manufacturing sector survey, it is likely that business-to-business e-commerce trade among manufacturing firms follows the same pattern, thus confirming the prevalence of EDI versus internet-based e-commerce trade between US businesses.

Following the June 2001 release of government figures for 1999, eMarketer embarked upon a thorough revision of its forecast model for business-to-business e-commerce in the United States. After examining the US Census Bureau's estimates for e-commerce activity by industry – within both the manufacturing and wholesale sectors – eMarketer has used the Census Bureau's figures as its benchmark to forecast the amount of e-commerce activity for 15 different industries.

In order to arrive at a more accurate estimate for the size of internet-based e-commerce activity within each industry, eMarketer has considered the above-mentioned US Census Bureau estimates of e-commerce activity by channel, as well as comparative estimates from other leading research firms. Based upon our calculations, we estimate that on average, internet e-commerce accounted for approximately 1.80% of all US business-to-business transactions in 2000.

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eMarketer predicts that US business-to-business e-commerce will grow to \$1.01 trillion in 2004, down from our previous forecast of \$1.41 trillion. We have also extended our US forecast to 2005, estimating that internet-based trade will reach \$1.33 trillion by then. While we continue to believe that internet e-commerce will see substantial growth over the long term, we expect that electronic trade via EDI networks will remain strong for a longer period of time than originally estimated.

**Revised US B2B E-Commerce Forecast, 2001-2005 (in billions)**

<b>2001</b>	<b>\$306.12</b>
<b>2002</b>	<b>\$481.98</b>
<b>2003</b>	<b>\$720.97</b>
<b>2004</b>	<b>\$1,011.17</b>
<b>2005</b>	<b>\$1,333.02</b>

Source: eMarketer, February 2002

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Compared to eMarketer’s forecast, IDC predicts that US business-to-business e-commerce will increase by a compound annual growth rate of 68% between 2001 and 2005, to reach \$1.56 trillion. IDC includes web-based EDI in its e-commerce forecast, but does not include regular EDI transactions.

**B2B E-Commerce Revenue in the US, 2001-2005 (in billions)**

<b>2001</b>	<b>\$206.9</b>
<b>2002</b>	<b>\$360.9</b>
<b>2003</b>	<b>\$621.4</b>
<b>2004</b>	<b>\$1,009.7</b>
<b>2005</b>	<b>\$1,561.2</b>

Source: International Data Corporation (IDC), 2001

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Forrester Research has revised and extended its US business-to-business e-commerce forecast out to 2006, estimating that total online trade in goods and services will reach \$6.89 trillion by then, accounting for 27% of all trade between businesses in the United States.

**US B2B E-Commerce, 2001-2006 (in billions)**

2001	\$910.60
2002	\$1,536.00
2003	\$2,425.80
2004	\$3,628.70
2005	\$5,133.90
2006	\$6,896.70

Source: Forrester Research, November 2001

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As a fourth comparative estimate, the Giga Information Group's forecast for US business-to-business e-commerce finds that US internet-based trade was \$540 billion in 2000, and will reach \$2.49 trillion by 2004. Broken down by electronic channel, EDI accounted for approximately 84% of all electronic commerce in 2000, but will decline to about 53% of all e-commerce trade within the next two years, as online exchanges take a greater share of transaction activity.

**US E-Commerce Activity, by Channel, 2000 (in billions and as a % of e-commerce activity)**

Internet/extranet	\$274.0 (8.2%)
Internet e-marketplaces	\$48.0 (1.4%)
EDI VANS*	\$2,392.0 (71.4%)
EDI ETNs**	\$418.0 (12.5%)
Web EDI	\$198.0 (5.9%)
EDI direct over web	\$20.0 (0.6%)
<b>Total</b>	<b>= \$3,350.0</b>

Note: \*Value-Added Networks; \*\*Electronic Trading Networks  
Source: Giga Information Group, 2001

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Internet-based e-commerce, excluding EDI, is forecast to increase by a compound annual growth rate of 46.4% between 1999 and 2004. When EDI is included in its e-commerce forecast for the United States, the Giga Information Group estimates that total e-commerce activity will grow from \$3.35 trillion in 2000 to \$5.23 trillion by 2004.

**US E-Commerce Activity, by Channel, 2004 (in billions and as a % of e-commerce)**

<b>Internet/extranet</b>	<b>\$498.0 (9.5%)</b>
<b>Internet e-marketplaces</b>	<b>\$1,306.0 (25.0%)</b>
<b>EDI VANS*</b>	<b>\$1,423.0 (27.2%)</b>
<b>EDI ETNs**</b>	<b>\$1,313.0 (25.1%)</b>
<b>Web EDI</b>	<b>\$353.0 (6.8%)</b>
<b>EDI direct over web</b>	<b>\$334.0 (6.4%)</b>

**Total = \$5,237.0**

*Note: \*Value-Added Networks; \*\*Electronic Trading Networks*  
*Source: Giga Information Group, 2001*

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And finally, when trade in both goods and services is included in its forecast for all of North America, AMR Research predicts that business-to-business e-commerce for the region will exceed \$5.23 trillion by 2005, increasing by a compound annual growth rate of 42% between 2000 and 2005. Canada will account for \$532.6 billion of that total, while the United States' share is estimated to be \$4.69 trillion.

As a percent of total business-to-business trade in the United States, e-commerce activity is estimated to grow from less than 4% in 2000, to 20% in 2005.

**B2B E-Commerce Forecast (Internet and EDI Transactions) for North America, 2001-2005 (in billions)**

<b>2001</b>	<b>\$1,429.00</b>
<b>2002</b>	<b>\$2,727.00</b>
<b>2003</b>	<b>\$3,456.00</b>
<b>2004</b>	<b>\$4,287.00</b>
<b>2005</b>	<b>\$5,232.00</b>

*Note: Includes trade in goods and services*  
*Source: AMR Research, 2001*

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Broken down by channel, AMR Research includes self-service websites in its forecast, which it sees as already accounting for a significant portion of e-commerce activity. Between 2000 and 2005, these websites are expected to grow from handling 31% of all business-to-business e-commerce to take a 52% share.

AMR Research believes that EDI accounts for a much smaller portion of all e-commerce activity, compared to estimates by both the US Census Bureau and the Giga Information Group. While these latter two organizations estimate that EDI accounted for between 66% and 84% of all e-commerce in 1999 and 2000, AMR Research believes that EDI will account for no more than 15% of e-commerce trade by 2005, up from just 13% in 2000.

**US E-Commerce Activity, by Channel, 2000 (in billions and as a % of e-commerce activity)**

Self-service websites	\$251.64 (31%)
EDI	\$101.08 (13%)
Private trading exchanges	\$66.17 (8%)
Public trading exchanges	\$87.73 (11%)
Other e-commerce	\$295.32 (37%)

Source: AMR Research, 2001

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**US E-Commerce Activity, by Channel, 2005 (in billions and as a % of e-commerce activity)**

Self-service websites	\$2,452.39 (52%)
EDI	\$707.81 (15%)
Private trading exchanges	\$771.81 (16%)
Public trading exchanges	\$269.58 (6%)
Other e-channels	\$497.78 (11%)

Source: AMR Research, 2001

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In eMarketer's breakdown of business-to-business e-commerce by industry, the motor vehicle industry is expected to account for the largest share of online trade by 2005. Other industries that will move a significant portion of their trade onto internet-based networks include the aerospace and healthcare industries, which have already been conducting as much as 4% of their trade via the internet as of 2001.

**US B2B E-Commerce, by Industry, 2001-2005 (in billions)**

	2001	2002	2003	2004	2005	% of industry trade 2005
Utilities	\$17.58	\$27.16	\$40.65	\$58.46	\$80.31	10.8%
Food and beverage products	\$17.43	\$26.44	\$39.16	\$56.16	\$77.40	4.2%
Consumer goods	\$18.15	\$28.68	\$43.93	\$64.54	\$90.01	9.5%
Construction materials and wood	\$10.34	\$12.97	\$19.78	\$29.57	\$43.09	4.1%
Paper and office products	\$8.69	\$13.47	\$20.04	\$28.29	\$37.68	5.7%
Energy and petroleum products	\$9.79	\$14.92	\$22.20	\$31.99	\$44.30	4.2%
Chemicals	\$15.72	\$24.21	\$34.81	\$46.45	\$57.83	9.2%
Plastics and rubber products	\$6.81	\$10.86	\$16.58	\$24.05	\$32.91	9.0%
Metals and mining products	\$7.15	\$10.51	\$15.06	\$20.91	\$28.00	4.4%
Industrial equipment and machinery	\$25.71	\$39.66	\$59.25	\$85.05	\$116.64	8.7%
Computers and electronics	\$47.75	\$79.77	\$121.21	\$167.55	\$214.00	10.1%
Aerospace and defense	\$9.17	\$13.70	\$19.09	\$24.69	\$29.79	18.8%
Motor vehicles and parts	\$85.22	\$135.06	\$199.69	\$274.07	\$350.94	18.8%
Healthcare and pharmaceutical products	\$22.05	\$37.82	\$59.95	\$86.42	\$113.34	18.3%
Transportation and warehousing	\$4.56	\$6.74	\$9.57	\$12.98	\$16.78	3.5%
<b>Total</b>	<b>\$306.12</b>	<b>\$481.97</b>	<b>\$720.97</b>	<b>\$1,011.18</b>	<b>\$1,333.02</b>	<b>9.2%</b>

Source: eMarketer, 2002

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**For a further breakdown of online trade as a portion of total industry trade, please see the eStat Database at [www.emarketer.com](http://www.emarketer.com) for an additional 15 industry tables**

When Forrester’s business-to-business e-commerce forecast is divided between online trade in services versus online trade in goods, services trade accounts for 12.2% of total business-to-business e-commerce in 2002. This is expected to rise to 20.0% of online trade between businesses by 2006, when financial services and insurance agreements are expected to be increasingly transacted via the internet.

**Breakdown of US Online B2B Trade in Services, by Industry, 2002-2006 (in billions)**

	2002	2003	2004	2005	2006	% of industry trade 2006
Financial services	\$72.5	\$150.7	\$289.8	\$499.9	\$762.6	23%
Insurance services	\$59.2	\$106.5	\$172.6	\$248.1	\$319.1	20%
Business services	\$29.7	\$50.9	\$80.2	\$115.7	\$153.9	29%
Transportation services	\$26.8	\$45.3	\$72.1	\$106.6	\$145.2	25%
<b>Total services</b>	<b>\$188.2</b>	<b>\$353.4</b>	<b>\$614.7</b>	<b>\$970.3</b>	<b>\$1,380.8</b>	<b>23%</b>

Source: Forrester Research, November 2001

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As for business-to-business trade in goods, Forrester Research believes that the utilities industry will account for the greatest portion of online trade by 2006, at \$1.03 trillion. In terms of the dollar-value of goods traded online, computing and electronics industry firms as well as construction companies are anticipated to be internet leaders, while manufacturers of industrial equipment are expected to trade a significant 35% of their production online.

**Breakdown of US Online B2B Trade in Goods, by Industry, 2002-2006 (in billions)**

	2002	2003	2004	2005	2006	% of industry trade 2006
Utilities	\$320.7	\$427.9	\$570.7	\$753.0	\$1,034.0	62%
Computing and electronics	\$347.5	\$486.2	\$600.5	\$699.5	\$795.8	32%
Construction	\$139.2	\$236.1	\$371.4	\$541.1	\$738.5	19%
Agriculture/food/forestry/fishing	\$82.5	\$141.2	\$227.0	\$336.9	\$458.5	21%
Chemicals and allied products	\$81.3	\$138.7	\$223.0	\$333.1	\$458.4	26%
Consumer goods	\$111.3	\$180.1	\$267.3	\$362.9	\$455.3	30%
Motor vehicles/transportation equipment	\$51.8	\$95.4	\$166.6	\$269.2	\$396.5	20%
Industrial equipment and machinery	\$70.8	\$121.0	\$189.4	\$269.6	\$351.5	35%
Mining	\$45.2	\$79.9	\$133.1	\$205.1	\$289.5	28%
Telecom equipment and services	\$23.1	\$45.0	\$82.1	\$137.0	\$205.1	21%
Paper and allied products	\$32.7	\$56.1	\$90.2	\$133.3	\$180.2	24%
Petroleum/oil and gas extraction	\$36.8	\$55.6	\$76.9	\$97.5	\$115.0	28%
Aerospace and defense	\$5.0	\$9.1	\$15.8	\$25.5	\$37.6	16%
<b>Total goods</b>	<b>\$1,347.9</b>	<b>\$2,072.3</b>	<b>\$3,014.0</b>	<b>\$4,163.7</b>	<b>\$5,515.9</b>	<b>28%</b>

Source: Forrester Research, November 2001

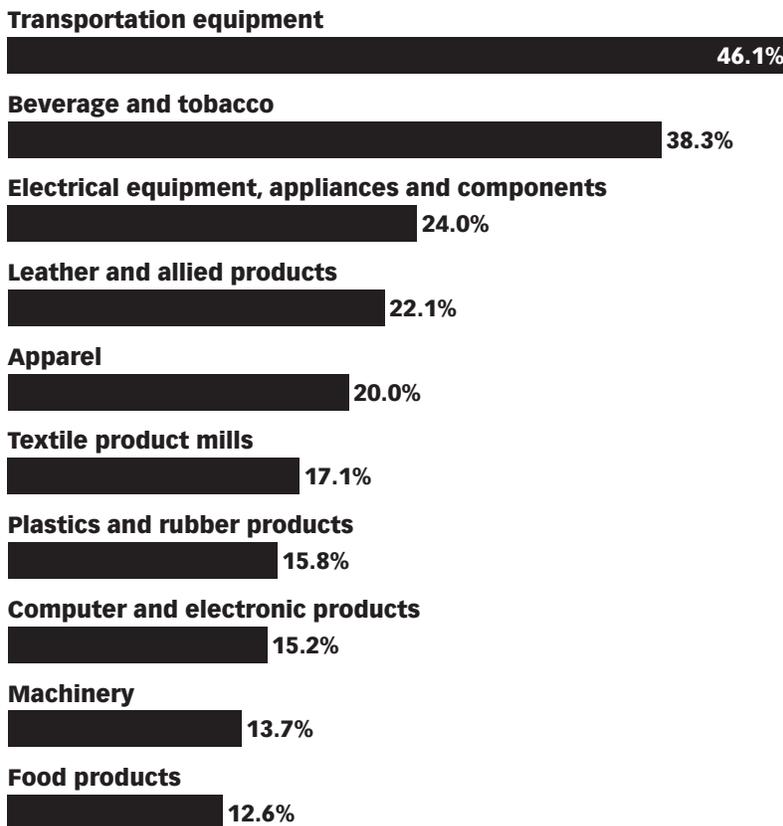
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It is worthwhile to note, however, that after more than 25 years of EDI, the US Census Bureau found that just 18.4% of all manufactured goods were traded electronically in 2000. The highest volume of electronic trade by any manufacturing industry segment was posted by the transportation equipment industry, at 46.1% of total trade.

### Top 10 US Manufacturing Industries' E-Commerce Activity\*, 2000 (as a % of total industry trade)

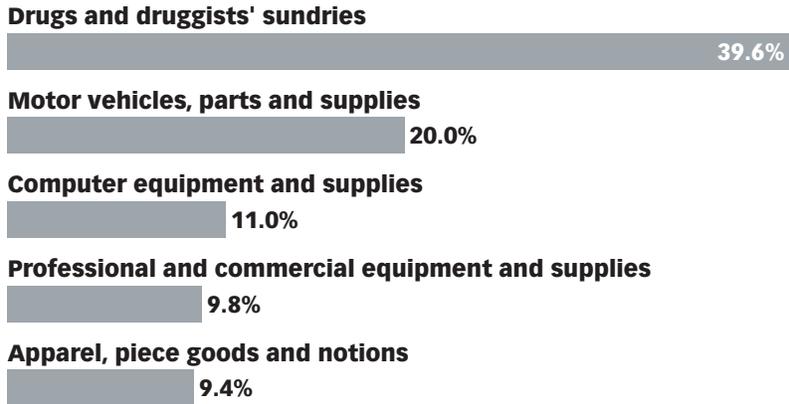


Note: including EDI  
 Source: US Census Bureau, March 2002

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Electronic trade in the wholesale sector averaged 7.7% of all trade, with wholesale trade in drugs and druggist sundries coming in at 39.6% of all industry trade – nearly double the next most-networked industry.

**Top Five US Merchant Wholesale Trade Industry Groups' E-Commerce Activity\*, 2000 (as a % of total industry group trade)**



*Note: Among reported industry groups; \*including EDI  
Source: US Census Bureau, March 2002*

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Although the internet will permit a considerable number of small and medium-size businesses to participate in electronic trade, there is still some uncertainty as to the amount of incremental trade that will eventually be brought online. Indeed, while the Giga Information Group believes that 35.3% of all goods and services will be traded electronically by 2004, Forrester Research believes that internet-based trade will account for 27% of all business-to-business trade by 2006.

By comparison, eMarketer's forecast remains the most conservative, estimating that internet-based trade in goods will account for 9.2% of all business-to-business trade in 2005. Although EDI-based trade will eventually be transferred to the internet, eMarketer believes that this migration may take as long as ten years in some industries, as large enterprises will prefer to maintain their EDI networks for some time.

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## B. Business Use of the Internet

### Business Demographics and Internet Use

In total, the US Census Bureau estimates that there were 5.6 million businesses in the United States in 1999. When separate divisions, subsidiaries, or manufacturing plants are included, the Census Bureau counts more than 7.0 million separate business establishments in the United States. By far, small office/home office (SOHO) companies accounted for the largest number of businesses, at more than 4.4 million establishments.

### Number of US Businesses and Business Establishments, by Size of Business, 1999

	Firms	Establishments
Small office/home office (1-9 employees)	4,402,115	4,424,990
Small businesses (10-100 employees)	1,107,541	1,313,928
Medium-size businesses (100-499 employees)	81,347	309,211
Large businesses (500+ employees)	16,740	960,315
<b>Total</b>	<b>5,607,743</b>	<b>7,008,444</b>

Source: US Census Bureau, 2001

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In March of 2002, the US Census Bureau released additional findings from the Computer Network Use Supplement to its 2000 Annual Survey of Manufacturers, which includes detailed responses from a total of 38,985 manufacturing plants. While the results of this survey provide considerable details about American companies' preparedness for e-commerce, it should be noted that this study was focused upon the manufacturing sector, and did not include businesses in the retail, wholesale, or services sectors of the US economy.

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The study discovered that the majority of US manufacturing plants operated more than one type of computer network, with 73.8% having access to the internet and 68% operating a local area network. Just under one quarter of respondents, at 22.4% of manufacturers, used an EDI network.

**US Manufacturing Plants' Computer Network Use, by Business Size, 2000 (in number of plants)**

# of employees	Internet	Intranet	EDI Network	Extranet
1 to 4	218	110	40	9
5 to 9	574	154	51	21
10 to 19	1,661	436	171	42
20 to 49	4,642	1,585	752	164
50 to 99	5,398	2,416	1,259	258
100 to 249	8,369	5,004	2,817	635
250 to 499	4,394	3,097	1,886	512
500 to 999	2,203	1,734	1,110	365
1,000 to 2,499	807	725	434	222
2,500+	189	188	132	86
Employment unknown	322	160	77	31
<b>Total</b>	<b>28,777</b>	<b>15,609</b>	<b>8,729</b>	<b>2,345</b>

Note: Total sample of 38,985 manufacturing plants  
 Source: US Census Bureau, March 2002

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In a more recent survey, called the Net Impact Study, a total of 2,065 American organizations were interviewed, as a means of gauging the impact of the internet on business productivity. It was found that more than half of all companies in the United States, regardless of size, had adopted internet business solutions of some kind by 2001.

**US Businesses that Have Adopted Internet Business Solutions, by Business Size, 2001 (as a % of respondents)**



Source: Net Impact Study, January 2002

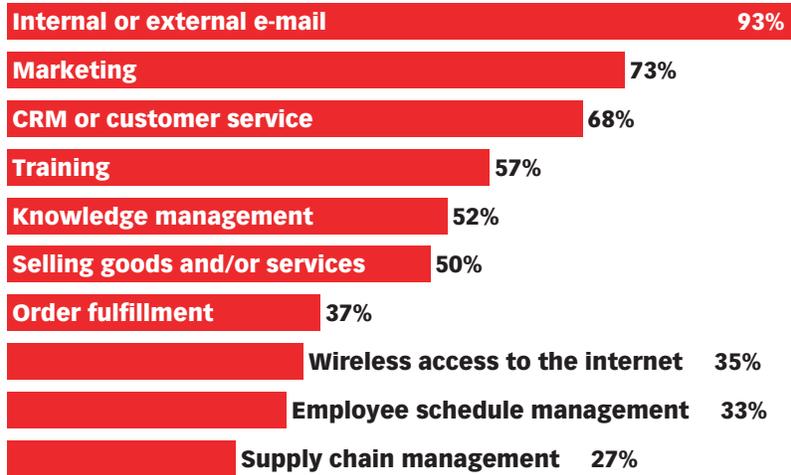
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A mid-2001 Taylor Nelson Sofres survey of more than 500 IT managers from six different countries found that marketing and customer service were among the top three internet features that businesses used in the United States. Similar patterns of business internet use were found in other countries, with most companies prioritizing the implementation of customer-facing internet solutions, over supply chain solutions.

### US Businesses' Use of the Internet, 2001 (as a % of respondents)



Note: n=555 IT decision makers  
 Source: Taylor Nelson Sofres, February 2002

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Customer service features were also the leading category of internet-based solutions adopted by 71% of respondents to the Net Impact Study. Online marketing capabilities, typically in the form of a company website, were also widely deployed among 68% of US businesses, while e-commerce solutions had only been adopted by 52% of respondents.

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## US Businesses that Have Adopted Internet Business Solutions, by Solution, 2001 (as a % of respondents)

### Customer service and support

71%

### Customer development / e-marketing

68%

### E-Commerce

52%

### Human resources

37%

### Finance and accounting

36%

### Procurement and MRO

33%

### Sales Force Automation (SFA)

30%

### Supply Chain Management (SCM)

30%

Source: *Net Impact Study, January 2002*

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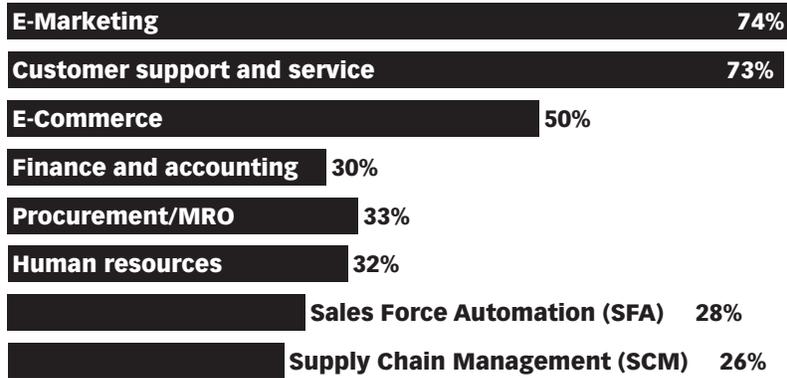
Broken down by business size, small businesses were likely to have adopted online marketing solutions, while a greater number of large companies had deployed e-commerce solutions than their smaller counterparts. The survey found that more than two thirds of large enterprises, at 69% of respondents, had deployed e-commerce solutions, compared to 50% of small businesses.

Although most small businesses are able to afford the cost of developing “brochure ware” websites, fewer small companies have the financial or technological resources to develop and maintain a website with more complex e-commerce capabilities.

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Indeed, for many small businesses, e-commerce features are an unnecessary expense – especially for companies that serve a local community, or for those businesses whose products or services are not readily sold online. Small accounting firms, real estate agents, or local restaurants may choose to develop websites that offer basic information about their company, but beyond these features, such businesses will find it to be more cost-effective to transact business through other channels.

**US Small Business\* Adoption of Internet Business Solutions, 2001 (as a % of respondents)**



*Note: \*Small business defined as less than 100 employees  
Source: Net Impact Study, January 2002*

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**For an additional 5 charts that break down US organizations' adoption of internet solutions by business size, please see the eStat Database at <http://www.emarketer.com>**

Dun & Bradstreet's survey of small business internet use found that an increasing number of small businesses – defined as having less than 25 employees - were relying upon the internet for a wide range of communication and information needs. Almost three quarters of small businesses used e-mail, while 69% of respondents used the internet for business research.



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Because businesses of all sizes can make online purchases by simply using their internet connection, a web browser and a corporate credit card, it is reasonable to expect that over time, more companies will regularly make purchases online, rather than sell online. Office supplies, computer equipment, or market research are all easily accessible to large and small businesses via the internet.

However, regular use of the internet for making business-related purchases is only now becoming more common, as the Dun & Bradstreet survey shows. By comparison, the US Census Bureau found that 10,141, or 26.0% of the 38,985 manufacturers it surveyed in 2000 used the internet most frequently for placing electronic orders.

**US Manufacturers' Most Frequently Used Network for Placing Electronic Orders, by Business Size, 2000**

# of employees	Internet	EDI Network	Intranet	Extranet
1 to 4	68	11	15	N/A
5 to 9	197	6	20	0
10 to 19	590	20	51	N/A
20 to 49	1,605	113	123	15
50 to 99	1,919	193	173	17
100 to 249	3,126	520	247	44
250 to 499	1,521	447	148	29
500 to 999	727	358	86	22
1,000 to 2,499	224	186	51	12
2,500+	35	84	13	4
Employment unknown	129	25	11	0
<b>Total</b>	<b>10,141</b>	<b>1,963</b>	<b>938</b>	<b>146</b>

*Note: Total sample of 38,985 manufacturing plants; N/A: withheld to avoid disclosing data of individual companies; data are included in totals*  
*Source: US Census Bureau, March 2002*

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The US Census Bureau went on to find that 10.7% of manufacturing plants relied most heavily upon the internet for receiving electronic orders in 2000, with small manufacturers being the most internet capable. As might be expected, mid-size firms that sell to larger, enterprise trading partners were more likely to receive most of their orders via EDI networks.

**US Manufacturers' Most Frequently Used Network for Accepting Electronic Orders, by Business Size, 2000**

# of employees	EDI Network	Internet	Intranet	Extranet
1 to 4	14	31	N/A	N/A
5 to 9	25	146	N/A	N/A
10 to 19	116	441	N/A	N/A
20 to 49	524	1,076	97	10
50 to 99	976	852	150	10
100 to 249	2,283	969	268	49
250 to 499	1,479	400	150	30
500 to 999	810	145	85	30
1,000 to 2,499	281	54	42	16
2,500+	58	17	6	5
Employment unknown	55	54	12	4
<b>Total</b>	<b>6,621</b>	<b>4,185</b>	<b>865</b>	<b>159</b>

*Note: Total sample of 38,985 manufacturing plants; N/A: withheld to avoid disclosing data of individual companies; data are included in totals*  
*Source: US Census Bureau, March 2002*

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The Net Impact Study found that large enterprises were the most likely to have deployed some kind of internet-based e-commerce solution in 2001, be it a buy-side or sell-side solution. Exactly half of the small business respondents to this survey had deployed e-commerce solutions of some kind.

**US Businesses that Have Deployed Internet E-Commerce Solutions, by Business Size, 2001 (as a % of respondents)**



*Source: Net Impact Study, January 2002*

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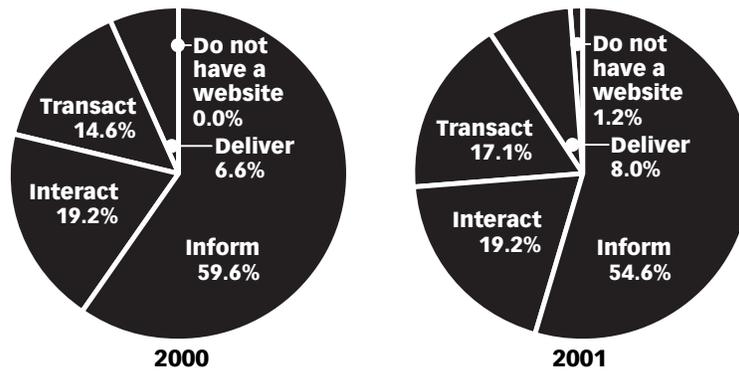
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By contrast, according to a Computer Sciences Corporation (CSC) study of more than 800 IT professionals worldwide, only a few large North American firms had advanced website features such as interactive or transaction capabilities in late 2001.

Although more than half of North American respondents to the survey provided company or product information on their websites, less than one fifth of respondents had the ability to interact with their customers or sell their products online.

**North American Companies' Website Operating Capabilities, 2000 & 2001 (as a % of respondents)**



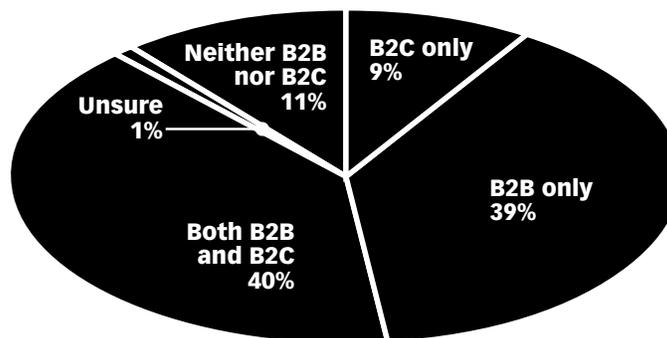
Source: Computer Sciences Corporation (CSC), 2001

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In a more recent Forrester Research study of 874 Global 3,500 companies, it was found that 40% of respondents were selling to both businesses and consumers online in early 2002, while an additional 39% of respondents said that they were conducting business-to-business e-commerce transactions.

**Percent of North American Companies Selling Online, 2002**



Source: Forrester Research, March 2002

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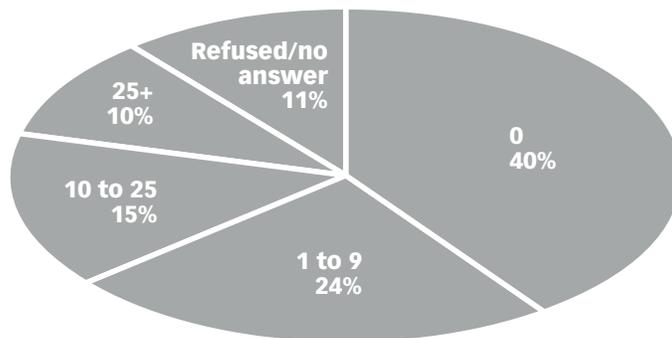
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About 20% of the companies in the Forrester survey reported that they were not receiving revenues from their e-commerce operations in early 2002, although they did anticipate that they would eventually see online revenues within the next five years. Manufacturing, distribution, and financial services firms were the most optimistic that their e-commerce activity would pick up, among those firms that were seeing lower levels of activity.

By comparison, almost half of the 178 small businesses that operated a website in the Dun & Bradstreet study said that they did not receive any online orders at all. As mentioned above, small businesses are less likely to have deployed e-commerce capabilities on their website, for a variety of reasons. For those small businesses that did have websites, 79% received less than 25 online orders on a monthly basis.

**Number of Monthly Online Orders Received by US Small Businesses\*, 2001 (as a % of respondents)**

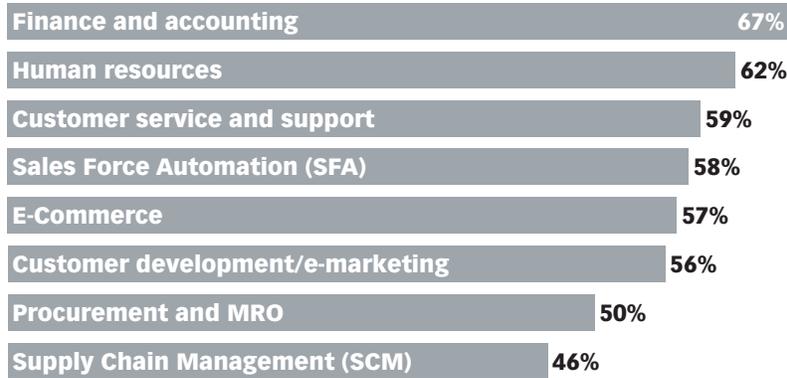


*Note: n=178 businesses with a website; \*Small business defined as 25 or fewer employees*  
 Source: Dun & Bradstreet, 2001

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It is worthwhile to note that, although several companies have deployed various internet business solutions, very few respondents to the Net Impact Study viewed their implementations as being complete. On average, the majority of US businesses regarded their implementations as being just more than half-completed in 2001.

**Average Completion Level of US Businesses' Implementation of Internet Business Solutions, 2001 (as a % of respondents)**



Source: Net Impact Study, January 2002

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The CSC study posted similar results, finding that 5.8% of North American IT professionals believed that their companies' e-business strategies had been fully implemented by late-2001. For the majority of respondents, their companies' e-business strategy was either in the process of being implemented, or still in the planning stage.

**E-Business Strategy Implementation among Leading North American Companies, 2001**



Source: Computer Sciences Corporation, 2001

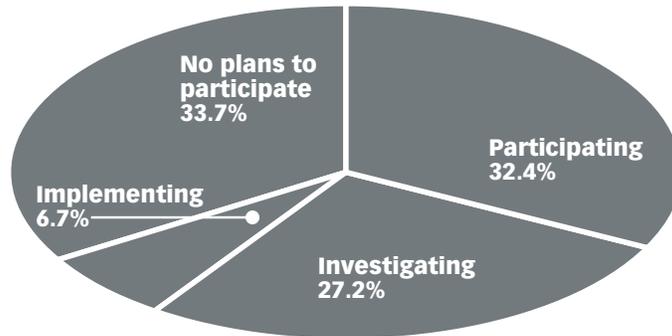
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As for North American companies' participation in online exchanges, about one third of respondents said that they were participating in an exchange in late-2001, while just 6.7% of businesses said that they were already implementing an exchange's technology. The majority of businesses have remained on the sidelines, however, choosing either to keep an eye on how exchanges in their industry may be developing, or not participate in an online exchange at all.

**Participation in Online Exchanges among Large North American Companies, 2001**



Source: Computer Sciences Corporation, 2001

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For further information about the development of B2B Exchanges, please see eMarketer's E-Commerce Trade and B2B Exchanges report.

**Broadband Internet Access**

In 2001, significant numbers of small and medium-size businesses began to make the transition from dial-up internet connections to broadband access. While most large companies are able to afford the higher cost of T1 internet connections or better, small businesses have found that digital subscriber line (DSL) internet connections adequately meet their needs in terms of access speed, price, and security.

According to Cahner's In-Stat, US companies are making use of multiple internet connections at various workplace locations. T1 lines were the most common means of internet access used by 52% of businesses in early 2001, followed closely by DSL access at 51% of respondents.

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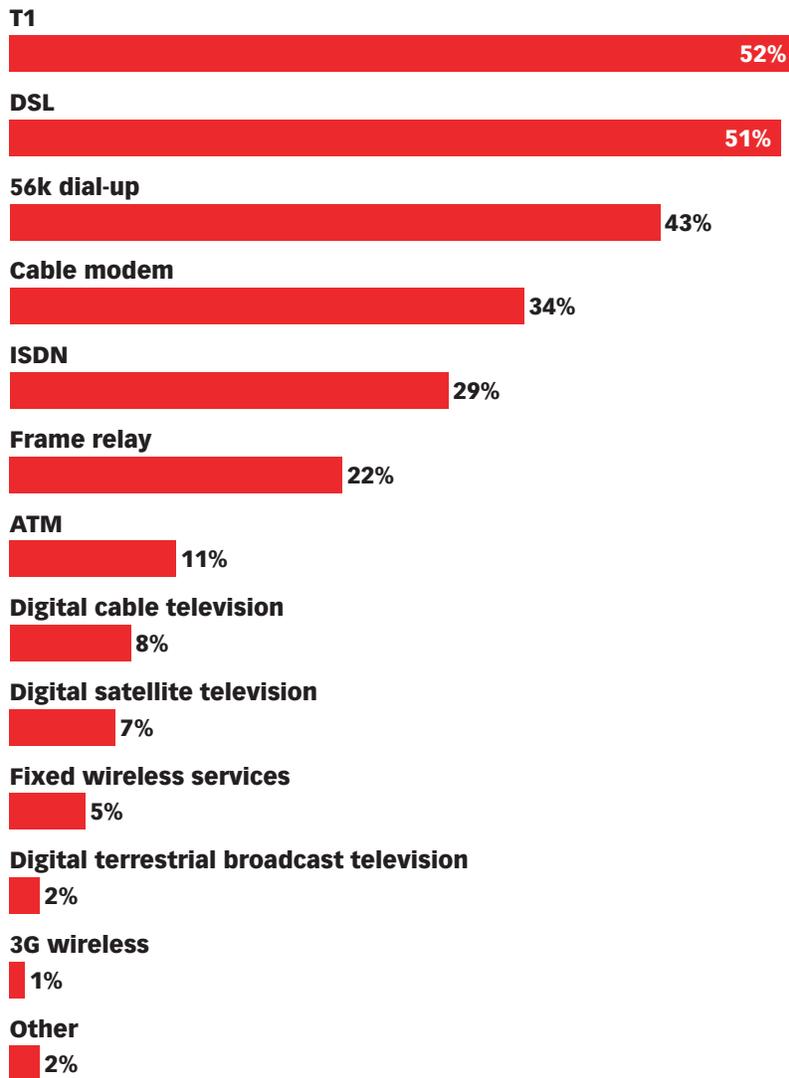
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## US Businesses' Broadband Usage, by Access Technology, 2001 (as a % of respondents)



Note: n=322

Source: Cahners In-Stat Group, 2001

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In an October 2001 study of 500 small businesses with DSL access, the Yankee Group found that 68% of respondents believed they had already seen a positive return on investment thanks to the use of their broadband connections, while 56% said that DSL access was indispensable to their business.

**Change in Internet Use by US Small Businesses with a DSL Connection, 2001 (as a % of respondents)**

	<b>Prior to DSL internet</b>	<b>With DSL internet</b>	<b>% change</b>
Sending/receiving e-mail with large attachments	52%	89%	70%
Conducting research and reading news online	65%	87%	34%
Purchasing goods and services online	48%	74%	54%
Providing customer service or support	28%	46%	65%
Enabling telecommuters to work from home	15%	30%	105%
Online scheduling/calendaring	11%	26%	128%
Virtual Private Networks	8%	21%	169%
Distance learning	5%	17%	222%
Using outsourced applications	6%	12%	94%

Source: Yankee Group, October 2001

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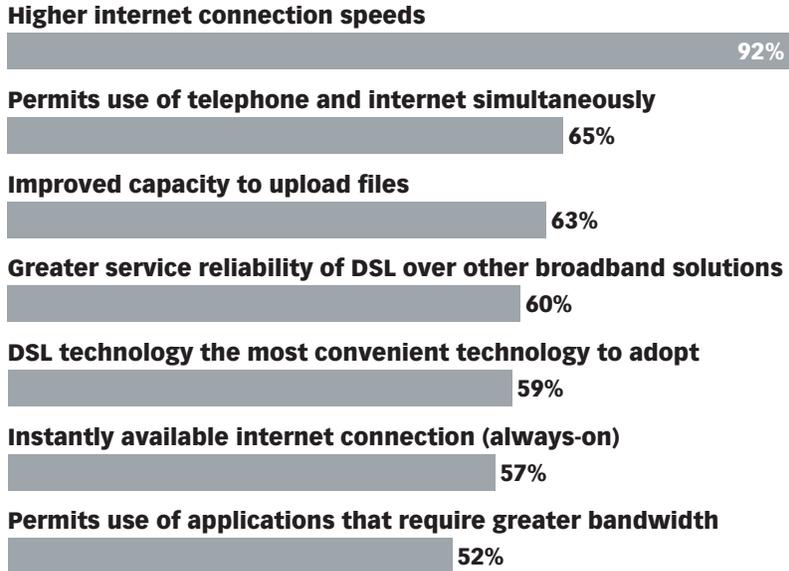
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As for the motivation behind their adoption of DSL solutions, the greatest proportion of small businesses cited their general need for higher internet connection speeds. More detailed reasons included the need for simultaneous internet and telephone use, improved capacity for moving data, and a sense of greater reliability for DSL over other broadband connections.

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An overwhelming 94% of respondents believed that their DSL connection had impacted positively upon their businesses' productivity.

### Reasons For US Small Business Adoption of DSL Internet Connections, 2001 (as a % of respondents)



Source: Yankee Group, October 2001

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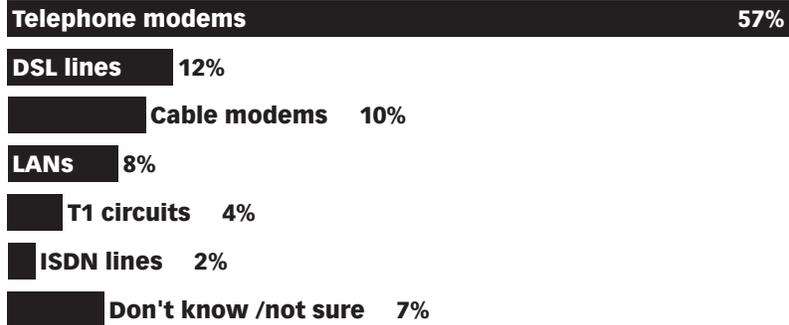
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Among the internet-based applications that the Yankee Group believes will be opened up to small businesses include next-generation CRM tools and customized intranets, as well as the ability to permit more employees to work from home.

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According to Dun & Bradstreet's survey of small businesses, more than half of respondents relied upon telephone modems for internet access, as of the second quarter of 2001. DSL lines were the second most common means of internet access, while very few small businesses seemed to be able to afford a T1 line.

**Primary Means of Internet Access Used by US Small Businesses\*, 2001 (as a % of respondents)**



*Note: n=336 businesses with internet access; \*Small business defined as 25 or fewer employees*  
*Source: Dun & Bradstreet, 2001*

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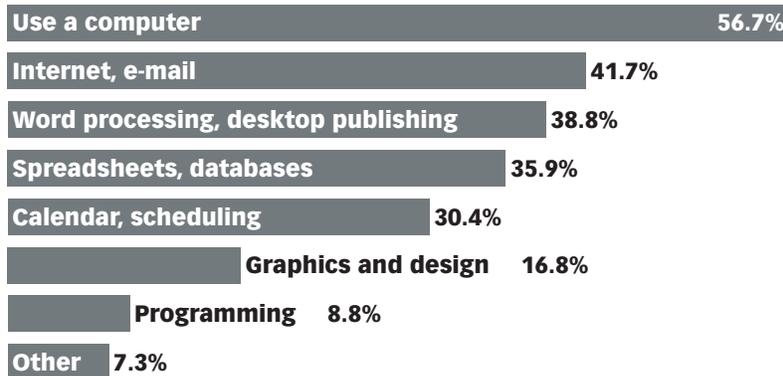
**For further information about major trends in Broadband, please see eMarketer's July 2002 Broadband Report.**

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## Employee Internet Access

Using data from the National Telecommunications and Information Administration (NTIA), the US Commerce Department estimates that more than 65 million American workers, or 56.7% of the entire workforce, had access to a computer at work in 2001. Internet use - be it basic e-mail or access to the world wide web - was the single most popular use of computers at work, available to almost 42% of all workers.

### At-Work Computer Use by US Workers, 2001 (as a % of all employed persons age 25 and over)



Source: National Telecommunications and Information Administration (NTIA), US Department of Commerce, February 2002

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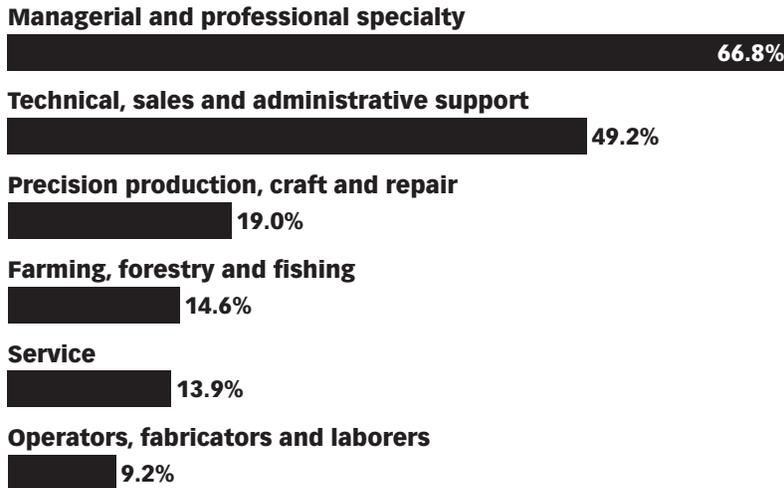
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Broken down by occupation, it was found that internet use was most common among managerial and professional workers, while operators of machinery or other laborers were least likely to have internet access.

### Breakdown of Internet Access among US Workers, by Occupation, 2001 (as a % of all employed persons age 25 and over)



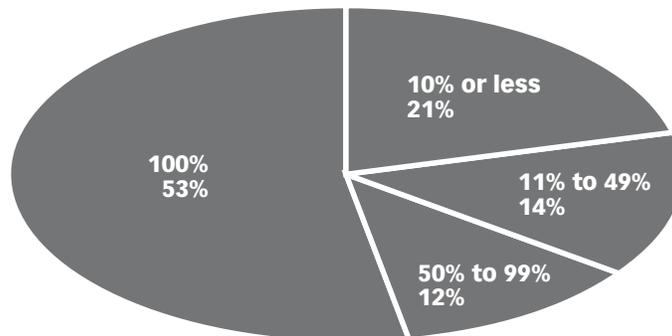
Source: National Telecommunications and Information Administration (NTIA) - US, US Department of Commerce, February 2002

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Dun & Bradstreet found in its survey of small businesses that more than half of all respondents provided internet access to all of their employees. Among those companies that did not provide internet access for all of their employees, several indicated that those employees who needed access did receive it, while not all members of their staff required internet access.

### Percent of US Small Business\* Employees with Internet Access, 2001



Note: n=336 businesses with internet access; \*Small business defined as 25 or fewer employees

Source: Dun & Bradstreet, 2001

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## A. E-Commerce Trade in Canada

In the spring of 2001, Statistics Canada released its second annual survey of Canadian e-commerce activity, finding that internet-based sales for the manufacturing sector had increased from CAD \$900.0 million in 1999 to CAD \$1.30 billion in 2000. While internet sales for the manufacturing sector grew at a rate of 45%, online sales for the wholesale sector increased by a much larger 566%, from CAD \$156.3 million in 1999 to CAD \$1.04 billion in 2000.

As a portion of total operating revenue, internet-based sales accounted for 0.2% of manufacturing sector revenues and 0.3% of wholesale sector revenues in 2000.

### Canadian Manufacturing and Wholesale Sector E-Commerce Revenues, 1999 & 2000 (in CAD billions)

#### Manufacturing



#### Wholesale



■ 1999

■ 2000

Source: Statistics Canada, 2001

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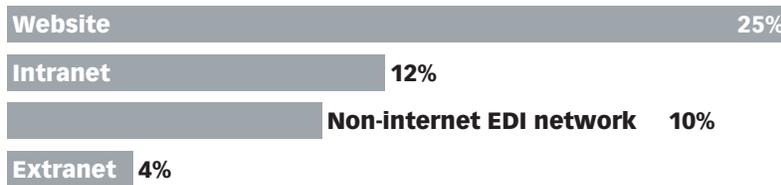
Unlike the US Census Bureau's surveys of manufacturing and wholesale sector e-commerce activity, Statistics Canada does not include e-commerce sales that are conducted through private or value added EDI networks in its e-commerce survey, although it does include web-enabled EDI. The Canadian survey focused upon enterprise-wide e-commerce sales rather than e-commerce sales by individual manufacturing plants, and therefore does not include intra-company e-commerce trade via the internet. As a result, Statistics Canada's figures provide a much narrower picture of internet-based business-to-business e-commerce activity in Canada than those of the US Census Bureau.

Furthermore, Statistics Canada did not publish the amount of e-commerce activity conducted by individual industry segments within the manufacturing sector, nor did it estimate the amount of e-commerce activity that is conducted through different electronic channels.

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As a rough indication of Canadian businesses' ability to conduct e-commerce by various channels, Statistics Canada has noted that an average 10% of all private sector firms in Canada are using non-internet based EDI networks, while 25% of the 21,000 Canadian enterprises surveyed had their own websites. It should be noted, however, that not all websites had transaction capabilities, and that a significant number were likely used for marketing purposes only.

**E-Commerce Channels Operated by Canadian Businesses, 2000 (as a % of Canadian businesses)**



Source: Statistics Canada, April 2001

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Although 10% of Canadian companies said that they used non-internet based EDI networks, this small portion of businesses accounted for a substantial 50% of all private sector economic activity. In both the manufacturing and wholesale sectors, 14% of firms said that they used EDI networks, accounting for 62% and 64% of their sectors' total economic activity, respectively.

In light of the data from Statistics Canada, prior comparative estimates for the size of e-commerce in Canada by eMarketer and Forrester Research appear to have overstated the volume of business-to-business e-commerce in the Canadian economy. However, it should be noted that both forecasts include estimates of e-commerce activity in the forestry, mining, agriculture, utilities and energy industries, which are not included in the Statistics Canada survey.

**Comparative Estimates: B2B E-Commerce in Canada, 2000–2004 (in billions)**

	2000	2001	2002	2003	2004
<b>eMarketer</b>	<b>\$18.16</b>	<b>\$36.15</b>	<b>\$64.34</b>	<b>\$110.02</b>	<b>\$182.64</b>
Forrester Research	\$16.00	\$35.40	\$63.40	\$102.20	\$149.80

Source: Forrester Research, eMarketer, 2000

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On the other hand, some of the results from the Statistics Canada survey are contrary to anticipated trends, and may have undergone changes due to respondents' inexperience in reporting e-commerce activity. For example, the percent of businesses selling via the internet reportedly declined from 10% of businesses in 1999 to 6% in 2000, while online sales by the public healthcare sector were almost entirely eliminated, as they decreased from CAD \$20.1 billion in 1999 to just CAD \$100 million in 2000.

IDC estimates that Canadian business-to-business e-commerce will grow at a compound annual rate of 64.3% between 2000 and 2005, to surpass USD \$100 billion in online trade by 2005. By comparison, IDC predicts business-to-business e-commerce will grow by a CAGR of 68% in the United States during that same period.

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## B. Business Use of the Internet

### Business Demographics and Internet Use

According to data from Statistics Canada, there were just over 2 million business establishments in Canada as of the year 2000. More than three quarters of these establishments were small office/home office businesses, with less than 5 employees.

### Number of Canadian Business Establishments, 2000

Small office/home office (0-4 employees)	1,586,749
Small businesses (5-49 employees)	383,062
Small businesses (50-99 employees)	31,081
Medium and large businesses (100+ employees)	23,616
<b>Total</b>	<b>2,024,508</b>

Source: Statistics Canada, 2001

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When it comes to assessing Canadian businesses' preparedness for internet commerce, Statistics Canada found that 82% of Canadian companies used personal computers, while just 22% had a website in 1999.

### Internet Penetration of Canadian Businesses, 1999

#### Use internet

52.8%

#### Have website

21.7%

#### Buy online

13.8%

#### Sell online

10.1%

Source: Statistics Canada, 2000

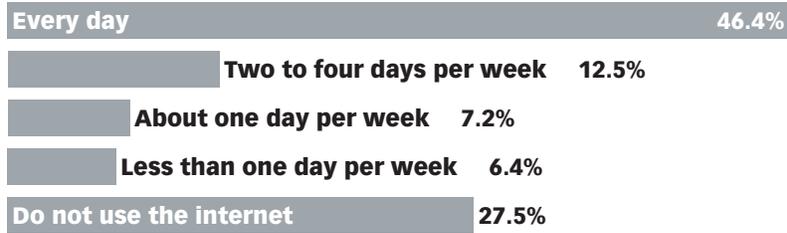
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As of late 2001, a Canadian Federation of Independent Business (CFIB) study of more than 22,000 of its members found that 27.5% of Canadian small and medium enterprises (SMEs) did not use the internet at all. However, 46.4% of respondents said that they used the internet on a daily basis, while about two thirds of companies used the internet at least once per week.

### Frequency of Internet Use among Canadian SMEs, 2001 (as a % of respondents)



Note: SMEs defined as businesses with between 1 and 500 employees  
 Source: Canadian Federation of Independent Business (CFIB), 2002

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Of the more populous provinces, Ontario saw the highest frequency of daily internet use among small and medium businesses, followed by Alberta and British Columbia. SMEs in Quebec lagged their counterparts in all other provinces and territories in the country.

Due in part to a small sample size, the Yukon Territory reported the highest daily internet usage at 54.9% of respondents, followed by the Northwest Territories at 53.8%.

### Percent of Canadian SMEs Using the Internet Every Day, by Province, 2001



Note: SMEs defined as businesses with between 1 and 500 employees  
 Source: Canadian Federation of Independent Business (CFIB), 2002

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Because internet usage patterns have been found to remain constant over the past two years, survey data from an Angus Reid study of 800 small businesses is relevant here. It was found in this study that 72% of Canadian small businesses used the internet primarily for following industry news and trends that related to their business.

### Canadian SMEs' Use of the Internet, 2000 (as a % of respondents)

**Keep up to date on the latest news and trends affecting the business**



**Review competitors' websites**



**Search for information or products off the web**



**Look up tax and accounting information**



**Make business purchases over the internet**



**Do credit checks on new customers**



*Note: n=706; SMEs defined as businesses with between 10 and 100 employees*  
*Source: Angus Reid, 2001*

Canadian small businesses primarily used e-mail for internal communication and customer service, according to about one-third of respondents. A further 28% of small businesses from the Angus Reid study used e-mail to communicate with their suppliers, while 14% of small businesses took customer orders via e-mail.

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In a wider survey of 532 Canadian businesses of all sizes, the Canadian Manufacturers and Exporters Association found that most of their members had internet access, operated a company website, or used the internet as an information resource. However, fewer than half of Canadian companies had taken the next step in e-business to interact with their trading partners online, or engage in other forms of e-commerce.

## How Canadian Companies Use the Internet for E-Business, 2001 (as a % of respondents)

### Internet access

88%

### Communication

87%

### Company website

73%

### Information

73%

### Interaction with other businesses

44%

### Marketing

31%

### Sales

29%

### Purchasing

27%

### Product catalog

25%

### Product development

9%

### Product testing

6%

*Note: n=532*

*Source: Canadian Manufacturers & Exporters, 2001*

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It is worthwhile to note that, as with their American counterparts, not all Canadian businesses will find it necessary to implement e-commerce capabilities, especially if their business serves a local community, or their business model is not readily adaptable to the internet. This is confirmed by Statistics Canada, which found in its 2000 e-commerce survey that 56.4% of Canadian businesses did not believe that their company's product or service was readily sold online.

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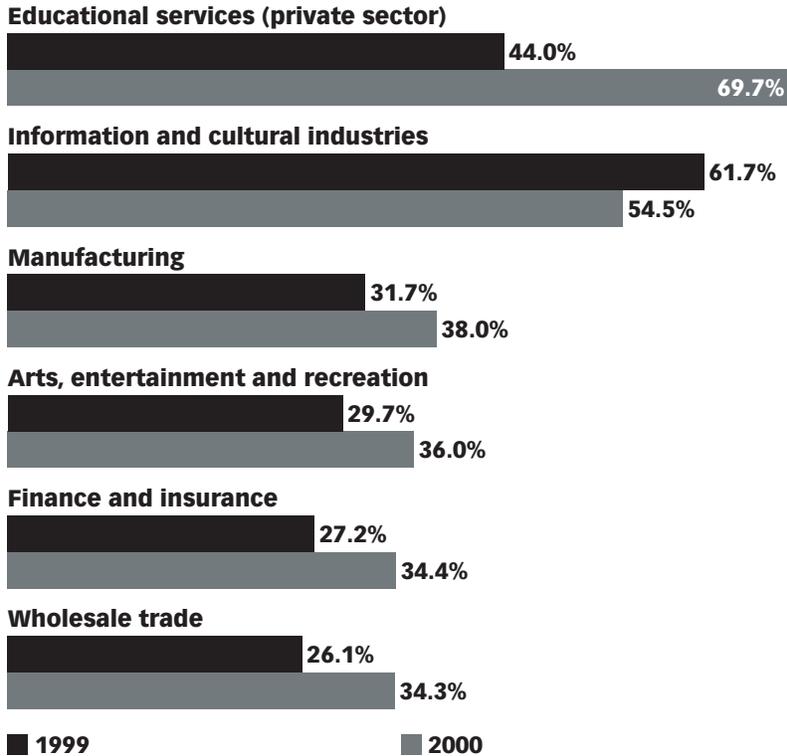
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Nonetheless, the use of websites for basic marketing or customer service capabilities is relevant to the majority of Canadian companies. Statistics Canada found that 25.7% of all private sector businesses in Canada had a website in 2000, with services sector firms leading the way.

### Percent of Canadian Businesses with a Website, by Industry, 1999 & 2000



Source: Statistics Canada, April 2001

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A mid-2000 Angus Reid survey of 800 small businesses in Canada – defined as having between 10 and 100 employees, and more than CAD \$1 million in revenues – found that 77% of respondents expected to have a website within two years.

Nearly one-third of the small businesses that did not have a website in 2000, at 30% of respondents, said they had no intention of developing online sell-side capabilities, while 55% of companies planned to have such capabilities within three years.

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The majority of companies that did have a website cited the need to provide product or company information as their primary reason for having developed a website. Interestingly, 73% of respondents said that they had a website just to have an online presence, while 50% of companies used their websites for expanding into new markets.

### Reasons Why Canadian SMEs Developed a Website, 2000 (as a % of respondents)



*Note: n=486; SMEs defined as businesses with between 10 and 100 employees*  
*Source: Angus Reid, 2001*

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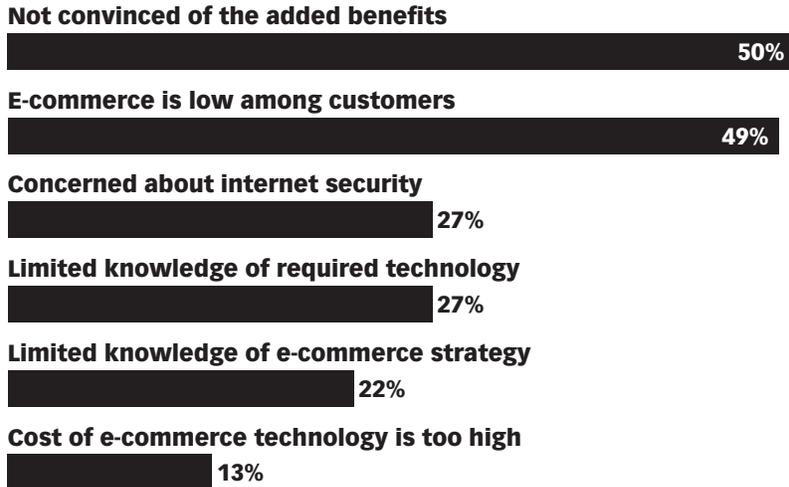
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As for those Canadian businesses that do not sell online, the CFIB found that most were either not convinced of the added benefits of becoming e-commerce ready, or they did believe that enough of their customers were online. Security was a concern among 27% of respondents.

### Reasons for Canadian SMEs Not Participating in E-Commerce, 2001 (as a % of businesses not online)



*Note: SMEs defined as businesses with between 1 and 500 employees  
Source: Canadian Federation of Independent Business (CFIB), 2002*

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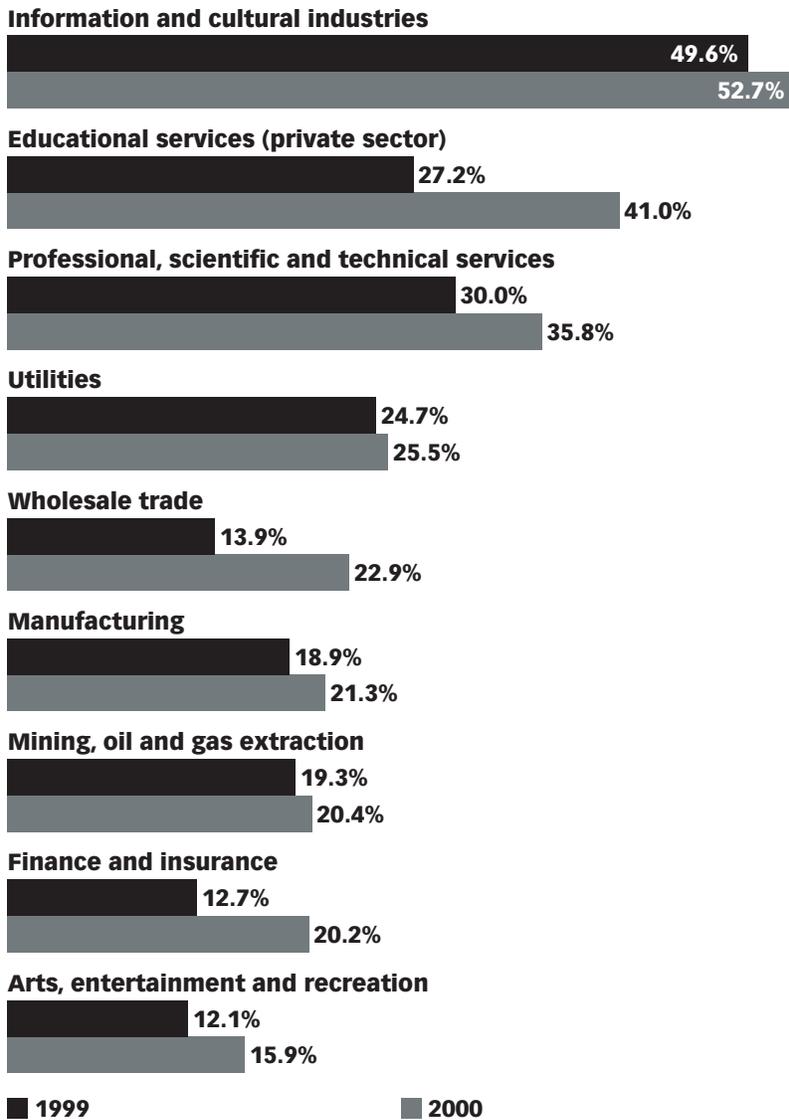
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According to data from Statistics Canada, 18.2% of Canadian businesses went online to do some kind of internet-based buying in 2000, up from 13.8% of Canadian businesses that did so in 1999. Once again, service sector firms were more likely to use the internet for commercial transactions than other industry segments.

### Percent of Canadian Businesses that use the Internet to Buy Goods or Services, by Industry, 1999 & 2000



Source: Statistics Canada, April 2001

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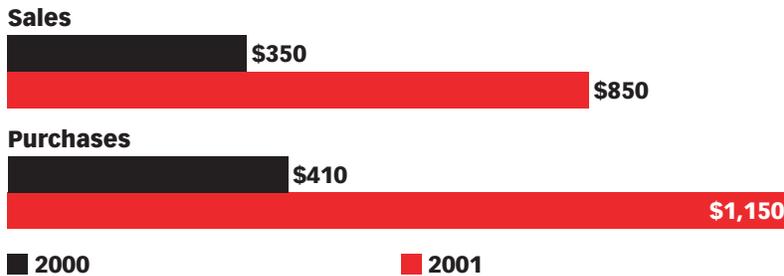
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Breaking out e-commerce spending by small and medium-size businesses alone, SES Research estimates that Canadian SMEs increased their online spending by 180% in 2001, buying more than CAD \$1 billion worth of goods and services last year. Online sales by small businesses also saw significant growth of 143% in 2001, reaching CAD \$350 million.

**Value of Internet Sales and Purchases for Canadian SMEs\*, 2000 & 2001 (in millions of CAD)**



Note: \*small- to medium-sized enterprises  
Source: SES Research, September 2001

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**Canadian SMEs\* that Have Bought or Sold over the Internet, 1999-2001 (as a % of businesses surveyed)**



Note: \*small- to medium-sized enterprises  
Source: SES Research, September 2001

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Comparative estimates from IDC found that of the 341 Canadian businesses it surveyed in mid-2001, 22% of large companies in Canada used the internet for purchasing, compared with 35% of large companies in the United States. Small businesses in Canada were furthest behind their American counterparts in the IDC study, with just 15% of respondents going online for purchasing.

### Percent of US and Canadian Businesses Buying Online, 2001

#### US businesses



#### Canadian businesses



Note: Canada n=341; US n=758

Source: International Data Corporation (IDC), June 2001

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This disparity was further evident in terms of online sales, as small businesses in Canada did not expect more than an average 3% of company revenues to come via the internet. By comparison, American small businesses expected to see 17% of their revenues coming via internet sales by the end of 2001 – albeit an overly-optimistic outlook for e-commerce, by most other accounts.

### Average Amount of US and Canadian Company Revenues Estimated to be from Internet Sales, 2001

#### US businesses



#### Canadian businesses



Note: Canada n=358; US n=630

Source: International Data Corporation (IDC), 2001

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IDC's Canadian findings were confirmed by Evans Research, which discovered that, as of mid-2001, most small and medium-size businesses in Canada derived less than 5% of total company revenues from online sales.

Evans Research also found that approximately three quarters of the 500 respondents to its survey had a website in 2001, while 40% of companies indicated that they were disappointed with e-commerce in general.

According to an early 2001 survey by the Institut de la Statistique du Quebec, 28.0% of small and medium businesses in Quebec engaged in e-commerce of some kind, including EDI. Not unexpectedly, the majority of respondents used the internet to buy or sell online, as internet-based connections are considerably less expensive than EDI-based networks.

Service industry firms were the most likely to trade online, at 44.5% of respondents for that sector. The majority of enterprises went online to purchase goods or services.

---

### Quebec SMEs' E-Commerce Trade, by Channel, 2001

---

#### Electronic data interchange (EDI)

8.3%

#### Purchase via the internet

19.1%

#### Sell via the internet

12.1%

*Note: SMEs defined as businesses with less than 200 employees  
Source: Institut de la Statistique du Quebec, 2001*

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Just under half of all SMEs in Quebec were connected to the internet in 2001, at 47.9% of respondents to the ISQ study, while 17.0% of SMEs in Quebec operated a website. Service industry firms were most likely to have a website at 22.2% of companies, compared to 14.6% of manufacturing firms.

Similar data were posted by the CFIB, which found that in late 2000, 23% of all businesses in Quebec were operating a website, while 60% of all companies were connected to the internet in some way.

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As for those firms that did not operate a website, a higher proportion of companies in Quebec believed that their companies' goods or services were not readily sold online, compared to other Canadian companies. In Quebec, 79.9% of respondents shared this belief, compared to 56.4% of all businesses throughout Canada.

### Reasons for Quebec SMEs Not Selling Online, 2001

#### Goods or services not suitable for internet trade

79.9%

#### Not enough customers online

32.4%

#### Lack of time, money or expertise

26.5%

*Note: SMEs defined as businesses with less than 200 employees  
Source: Institut de la Statistique du Quebec, 2001*

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In a study conducted by Athabasca University on behalf of *CIO Magazine*, researchers found that 47% of Canadian IT professionals believed that their company or organization was at an advanced level of e-business development, compared to other Canadian organizations. However, several Canadian respondents felt that they were behind their American counterparts, with 35% of respondents saying that they believed that Canada was behind the United States when it comes to e-business development.

As another gauge of e-business capabilities, just under one quarter of Canadian businesses believed that their companies' e-procurement systems had been fully deployed.

### Canadian Businesses' Stage of Deployment for E-Procurement Systems, November 2001 (as a % of respondents)

#### Mature adoption/substantially implemented

23%

#### Started implementation

24%

#### Considering/not considering

53%

*Note: n=2,823  
Source: Athabasca University - Canada, 2002*

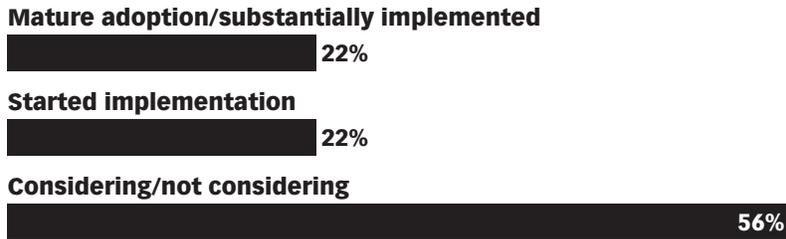
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Canadian companies are just as likely to participate in B2B exchanges as their American counterparts, according to the Athabasca University study. Just as other surveys show that about 40% to 50% of American companies are in the process of implementing exchange technology, 44% of respondents to the Canadian survey said that they were either implementing or beginning to implement technologies that enabled their participation in online exchanges.

### Canadian Businesses' Stage of Participation in Online Exchanges, November 2001 (as a % of respondents)



Note: n=2,823  
Source: Athabasca University - Canada, 2002

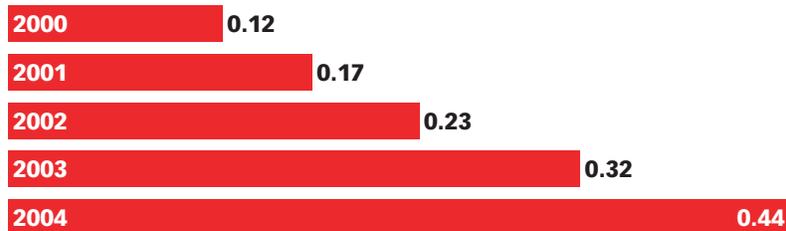
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In a separate Forrester Research study of 874 Global 3,500 firms in North America, it was found that in early 2002, Canadian companies did lag their US-based counterparts in their level of adoption of most technology product categories. Canadian companies did lead in three areas, however, including the adoption of PDAs, supply chain software, and enterprise portal technologies.

### Broadband Internet Access

When it comes to broadband connectivity, Canadian small businesses have begun to sign up for faster internet access in significant numbers during the closing months of 2001. In late 2000, UK-based research firm Ovum predicted that the number of Canadian business broadband connections would reach 230,000 by the end of 2002, and grow to 440,000 by 2004.

### Broadband-Connected Businesses in Canada, 2000-2004 (in millions of lines)



Source: Ovum, year-end 2000

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A separate study conducted by Gartner Dataquest found that 70% of mid-size businesses in Canada still relied upon dial-up connections to access the internet in mid-2001, while a further 26% of mid-size Canadian businesses were said to use DSL connections for internet access. Gartner forecasts that, in the year following the survey, business DSL use will grow at a rate of 15%, and increase at an even faster rate from there.

Ipsos-Reid has found that 51% of Canadian small office/home office businesses rely upon a dial-up internet connection of 56 Kbps or less in 2001, while 47% of SOHO's reported that they had high speed internet access. Interestingly, 55% of the 308 SOHO operators surveyed said that their business computer was also used by other family members, and was therefore not dedicated for business use.

Because digital subscriber lines (DSL) are considered to be a more reliable and secure alternative to cable internet access, it is assumed that the majority of SMEs in Canada will move from dial-up to DSL connections as they obtain broadband internet access. Although telecommunications service providers do not break-out the number of home-based versus business subscribers, it is likely that a significant portion of DSL subscribers are businesses.

Both Bell Canada and Telus have seen substantial year-over-year growth in their total number of DSL subscribers, with Bell's Sympatico division increasing the number of its DSL subscribers by 125% in 2001, to 757,000 users at year-end. By comparison, Telus saw its high-speed internet subscribers increase 157% in 2001, to 214,800 users. Telus had a further 455,100 residential and business dial-up subscribers at the end of 2001.

**Number of Telus Communications' Internet Access Subscribers, 2000 & 2001**

	Dial-up	High-speed
2000	413,200	83,600
2001	455,100	214,800

Source: company data, 2002

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As an example of the cost for a business broadband connection, one-year contracts for Bell Canada's high-speed internet access in Quebec range from CAD \$80/month for unlimited access at 1.5 Mbps, to CAD \$130/month for unlimited access at 3.0 Mbps. Both contracts include CAD \$10/month modem rental, plus five e-mail accounts.

Pricing for Telus Communications' business ADSL access in British Columbia ranges from CAD \$40 per month to CAD \$165 per month, with the low-end package offering downstream speed of 1.5 Mbps and upstream speed of 512 Kbps. The high-end package provides upstream access speeds of 4.0 Mbps, in addition to 15 e-mail accounts and web hosting services. By contrast, a basic small business dial-up connection and hosted web page costs CAD \$50 per month with Telus.

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## Employee Internet Access

According to a January 2002 survey of more than 4,000 Canadians, NFO CFgroup found that 35% of Canadians were connected to the internet at work. The province of Ontario had the highest proportion of at-work internet connections, at 38% of respondents, followed closely by the prairie provinces with a 37% connection rate.

### Percent of Canadians with Workplace Internet Access, by Province/Region, 2002



Source: NFO CFgroup, February 2002

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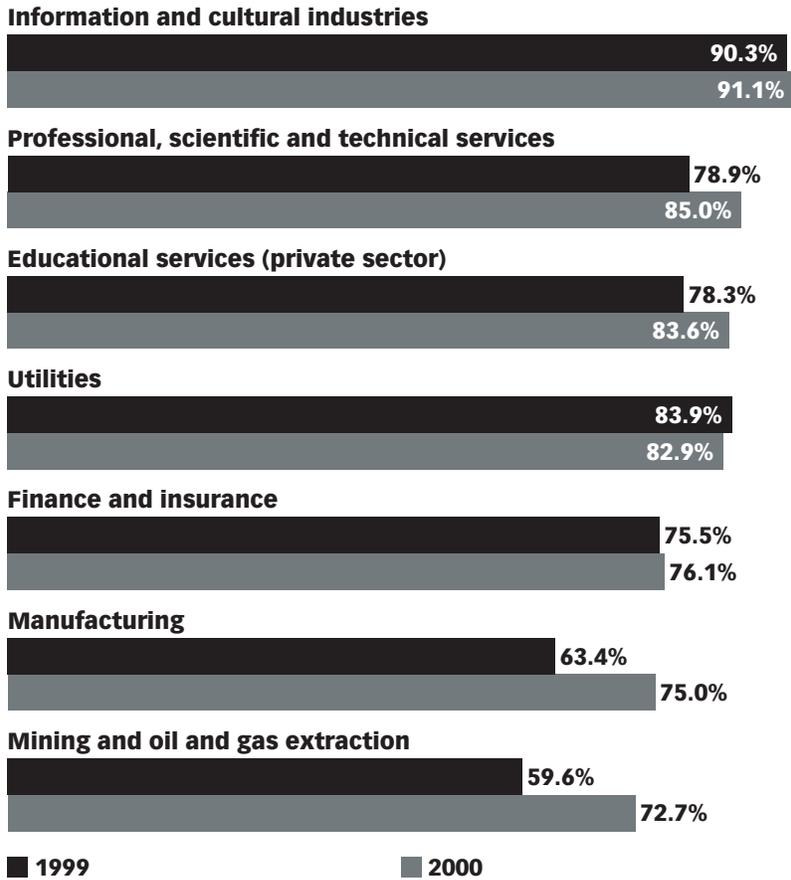
[B2B E-Commerce in the United States](#)

**[B2B E-Commerce in Canada](#)**

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Broken down by industry, Statistics Canada found that information-based industries had the most employees with access to e-mail, with more than 60% of all private-sector enterprises providing e-mail access to employees in 2000.

### Percent of Canadian Businesses with Employee Access to E-Mail, by Industry, 1999 & 2000



Source: Statistics Canada, April 2001

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As might be expected, e-mail based communication has become a valuable tool for many small businesses in Canada. In a late-2001 survey conducted by the Canadian Wireless Telecommunications Association (CWTA), 74% of the 508 small businesses surveyed listed e-mail as their most important communications technology.

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